Chapter 1
Business Environment

Business - Economic activities catering to the material needs of society and pursued primarily with the purpose of earning profits e.g. manufacturing, trading, mining, banking, transport, insurance, etc. It includes exchange of goods and services on a regular basis & carry an element of risk and uncertainty.

Objectives of a Business - Profitability, Growth, Efficiency, Survival, & Stability.

Business Environment - Collection of all internal & external forces that affect the functioning of a business .

Features/ Characteristics - Complexity, Dynamism, Multi-facet, Far reaching Impact & Pervasiveness.

Components - Internal /Micro (organisation, employees, customers, suppliers, intermediaries, competitors, community, market) & External/Macro(demographic, economic, government, legal, political, cultural, technological & global)

Environmental scanning/monitoring
The process of gathering information regarding company's environment, analyzing it and forecasting the impact of all predictable environmental changes.
Environment analysis has three **goals** :- to achieve its objectives of profitability, survival, growth & stability by understanding changes. ; to provide inputs for decision making ; to facilitate & foster strategic thinking

Problems in understanding environment are Uncertainty/Unpredictability, Complexity & Diversity.

How are organizations related to their environment ?
1. Exchange of Information 2. Exchange of resources 3. Exchange of influence & power

STRATEGIC RESPONSES OF AN ORGANIZATION TO ITS ENVIRONMENT
1. Least resistance 2. Proceed with caution 3. Dynamic response

Demographic Environment
(i) Population Size (ii) Geographic Distribution (iii) Ethnic Mix (iv) Income Distribution .

Economic Environment
The economic environment refers to the general economic situation in the region and the factors like conditions in resource markets (money market, manpower market, raw material components, services, supply markets and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

Political-Legal Environment (i) Government (ii) Legal (iii) Political

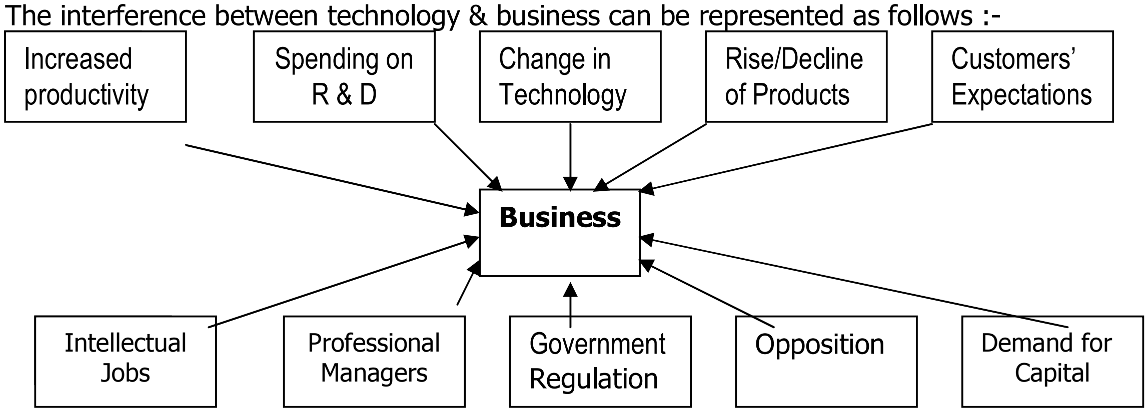
Socio-Cultural Environment
a) Social concerns, such as the role of business in society, environmental pollution, corruption, use of mass media, and consumerism.

b) Social attitudes and values, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism.
c) Family structure and changes in it, attitude towards and within the family, and family values.
d) Role of women in society, position of children and adolescents in family and society.
e) Educational levels, awareness and consciousness of rights, and work ethics of members of society.

Technological Environment

a) The pull of technological change. ; Opportunities arising out of technological innovation.
b) Risk and uncertainty of technological development.
c) Role of R&D in a country and government's R&D budget.

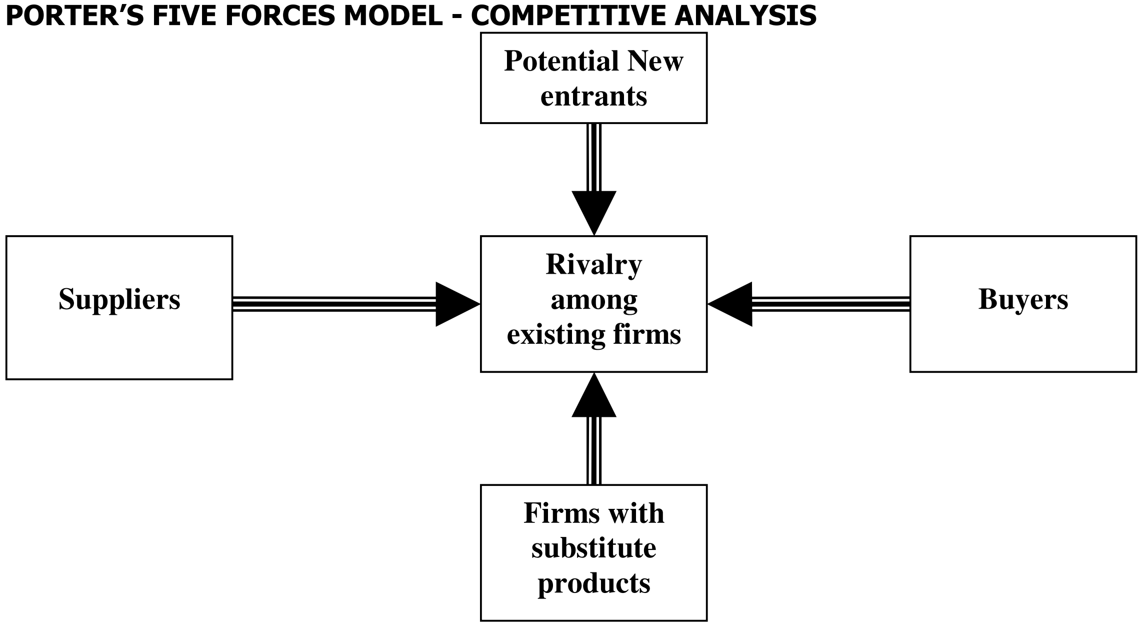
The interference between technology & business can be represented as follows :-



Competitive Environment

Competitive environment refer to a collection of various firm with same, similar or substitute products/services/customers/resources or any other common area.

PORTER'S FIVE FORCES MODEL - COMPETITIVE ANALYSIS



COOPERATION IN A COMPETITIVE ENVIRONMENT

Cooperation in a Competitive Environment can be ensured through -

a) **Cartels** is an term from economics used to define the groups of some firms in oligopoly.
b) E**xplicit contracts** is the second option for cooperation between firms
c) **Kieretsus** refers group of companies, usually in related industries who join for cooperation on specific terms.
d) **Family Ownership:** Cooperation generates automatically in businesses owned by a same family like HUF.

GLOBALIZATION

Globalization refers to the process of spreading out of one country to other parts of the world by removing political, geographical & other barriers among countries e.g. a company committing itself with several manufacturing locations around the world and offers products in several diversified industries.

A company which has gone global is called a multinational (MNC) or a transnational (TNC). An MNC is, therefore, one that, by operating in more than one country gains *R&D,* production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. The global company views the world as one market, minimises the importance of national boundaries, sources, raises capital and markets wherever it can do the job best.

There are several **reasons** why companies go global. These are discussed as follows:

a) Rapid shrinking of time and distance across the globe due to faster communication, speedier transportation, growing financial flows and rapid technological changes.
b) Domestic markets are no longer enough to absorb whatever was produced.
c) Foreign markets have become large enough to justify foreign investment.
d) Reliable or cheaper resources available in other countries e.g. cheap labour in India attracts foreign investors.
e) To reduce high transportation costs in case of exports to remote countries.
f) To improve sales volume to support high overhead or R & D expenses like in electronics & technology products.

Globalization **manifests** itself in many ways like :-

a) Configuring anywhere in the world
b) Interlinked and interdependent economies
c) Lowering of trade and tariff barriers
d) Infrastructural resources and inputs at International prices
e) Increasing trend towards privatization
f) Entrepreneur and his unit have a central economic role
g) Mobility of skilled resources
h) Market-side efficiency
i) Formation of regional blocks

Chapter 2
Business Policy & Strategic Management

BUSINESS POLICY

The term Business Policy can be defined as a type of plan or as a subject/discipline.

As a type of plan, Policy refers to the *set of guidelines to decision making & action*. The management of any organization has to comply with organizational policies just as with the Law of the land.

However, as a discipline, Business Policy is defined as *"the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future."*

STRATEGY

Strategy refers to a specific plan developed to respond to a dynamic and often hostile environment for achieving stated mission.

> "Strategy is a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved". William F. Glueck

In general, a corporate strategy has the following **characteristics** :-

Generally long-range in nature; Action oriented ; More specific than objectives. ; Multi-dimensional ; Integrated. ; Flexible ; Dynamic. ; Formulated at the top management level, ; Meant to cope with a competitive and complex setting. ; Flows out of the goals and objectives ; Concerned with perceiving opportunities and threats

STRATEGIC DECISION MAKING

The major dimensions of strategic decisions are given below:

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

STRATEGIC MANAGEMENT

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 as required.

STRATEGIC MANAGEMENT MODEL

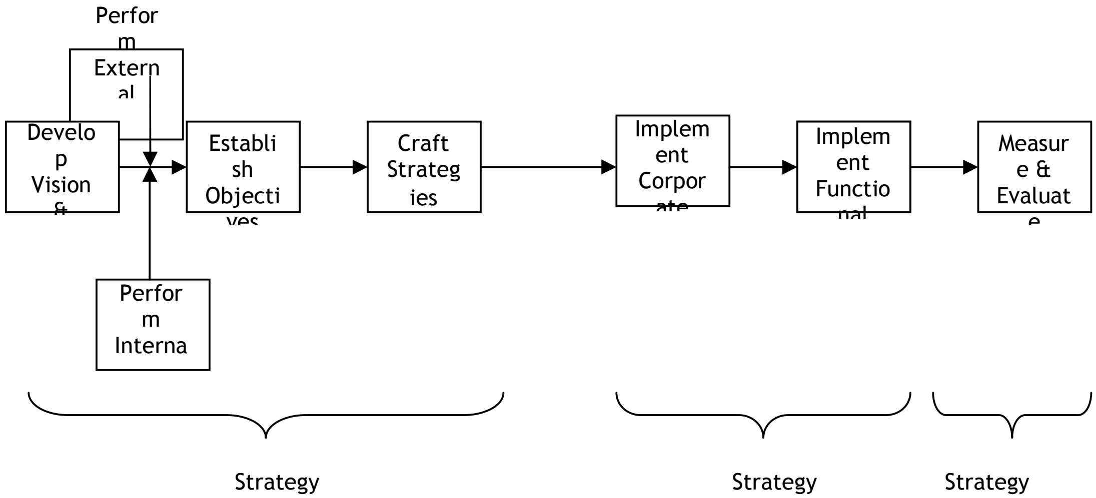
Strategic management model is a diagrammatic representation of the entire process of strategic management covering strategy formulation, strategy implementation as well as strategy evaluation.

The five task of strategic management process

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

a. Setting vision and mission .
b. Setting objectives
c. Crafting a strategy
d. Implementing and executing the chosen strategy

e. Evaluating performance and initiating corrective adjustments



Strategic Management Model

The Vision

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

The Mission

Mission refers to a special task one wishes to assign to oneself ultimately in the long run. It expresses the growth ambition of the firm & justifies the very existence of the firm.

Mckinsey & Co - "To help business corporations and governments to be more successful".

Why organization should have mission?

a) To ensure unanimity of purpose within the organization.
b) To provide a basis for motivating the use of the organization's resources.
c) To develop a basis, or standard, for allocating organizational resources.
d) To establish a general tone or organizational climate,
e) To serve as a focal point
f) To facilitate the translation of objective and goals into a work
g) To specify organizational purposes and the translation of these purposes into goals .

Objectives and Goals

Objectives are organizations' performance targets – the results and outcomes it wants to achieve. Objectives are different from goals in the sense that goals are close-ended, precise and expressed in specific terms. Objective to be meaningful must possess following characteristics:-

a) Objectives should define the organization's relationship with its environment.
b) They should be facilitative towards achievement of mission and purpose.
c) They should provide the basis for strategic decision-making
d) They should provide standards for performance appraisal.
e) Objectives should be understandable.
f) Objectives should be concrete and specific
g) Objectives should be related to a time frame
h) Objectives should be measurable and controllable

i) Objectives should be challenging
j) Different objectives should correlate with each other
k) Objectives should be set within constraints

Strategic Levels in organizations

Various strategic levels in organizations & their respective responsibilities are :-

Strategic Level			Responsibility
Corporate Level CEO,BoD, Senior Mgrs	**Head Office**		▪ Define the vision, mission, objectives and goals of an organization, ▪ Allocate resources among the different businesses to achieve objectives, ▪ Formulate and implementing generic strategies ▪ Provide leadership for the organization. ▪ Be responsible for the overall performance of the company ▪ Maximize shareholder wealth
Business Level Divisional or SBU Mgrs	**Division A**	**Division B**	▪ Develop business strategies based on corporate mission, objectives & strategies for competing in the individual business areas ▪ Build and manage the corporate portfolio of businesses to maximize corporate profitability. ▪ Contribute toward the maximization of Corporate level long-run profitability.
Functional Level Prodn Mgrs, Mktg Mgrs, HR Mgrs	**Deptts** **1** **2** **3**	**Deptts** **1** **2** **3**	▪ Develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level general managers. ▪ Be responsible for supervising a particular function, task, activity, or operation. ▪ Cooperate & coordinate with other functions so as to ensure achievement of corporate goals & efficiency.

3.
Strategic Analysis

STRATEGIC ANALYSIS

Strategic Analysis is thinking strategically about company's external environment to identify opportunities and threats & about company's internal environment to study strengths and weaknesses, with the objective of deciding as to what strategy should the company develop & implement to ensure success.

Strategic Analysis

External Analysis
- ♦ Customer Analysis
- ♦ Competitor Analysis
- ♦ Market Analysis
- ♦ Environmental Analysis

↓

Opportunities & Threats

Internal Analysis
- ♦ Performance Analysis
- ♦ Determinates Analysis

↓

Strengths & Weaknesses

↓

Strategy Identification, Selection, Implementation & Review

ISSUES TO CONSIDER FOR STRATEGIC ANALYSIS

a) Strategy evolves over a period of time b) Balance c) Risk

SITUATIONAL ANALYSIS

Situational Analysis is the scanning of the external environment, for potentially important environmental forces, to assess their impact and influence, and adapt the company's direction and strategy as needed.

The main elements or factors worth considering while performing situational analysis include :-

♦ Product situation: ♦ Competitive situation: ♦ Distribution situation: ♦ Environmental factors: ♦ Opportunity and issue analysis:

ISSUES INVOLVED IN INDUSTRY & COMPETITIVE ANALYSIS

Industry & Competitive Analysis is the examination of an organisation's industry and competitive situation to know whether the industry represents an attractive investment for a company. It involves following main issues :-

1. Dominant economic features of the industry
2. Nature and strength of competition in the industry.
3. Triggers of change also called driving forces.
4. Identifying the companies that are in the strongest/weakest positions
5. Likely strategic moves of rivals.
6. Key factors for competitive success.
7. Prospects and financial attractiveness of industry.

INDUSTRY & ITS DOMINANT ECONOMIC FEATURES

Industry is a group of firms whose products have same and/or similar features such that they compete for the same buyers. The factors to consider in profiling an industry's economic features are as follows :-

a. Market size.
b. Scope of competitive rivalry (local, regional, national or global).
c. Market growth rate and position in the business life cycle(early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline).
d. Number of rivals and their relative sizes.
e. Small companies & dominant companies in the industry.
f. The number of buyers and their relative sizes.
g. Whether and to what extent industry rivals have integrated backward and/or forward.
h. The types of distribution channels used to access consumers.
i. The pace of technological change in both production process innovation and new product introductions.
j. Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical.
k. Whether companies can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising.
l. Whether key industry participants are clustered in a particular location.
m. Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as *cumulative* output grows.
n. Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency.
o. Capital requirements and the ease of entry and exit.
p. Whether industry profitability is above/below par.

DRIVING FORCES OR TRIGGERS OF CHANGE IN AN INDUSTRY

The most dominant forces in an industry that have the biggest influence on what kinds of changes will take place in the industry's structure, profitability, competitiveness etc are called *driving forces or triggers of change*. For instance, privatization of telecom sector triggered the growth of Indian telecom industry.

To succeed in any business, an organization must identify what the driving forces are and assess the impact they will have on the industry. Some of the categories/examples of drivers are follows:-

1. Introduction of Internet and e-commerce services in any industry, say banking.
2. Globalization in any industry.
3. Sudden change in the long-term industry growth rate.
4. New Technology affecting the industry.
5. Major product innovations by firms.
6. Major marketing innovations by firms.
7. Entry or exit of major firms.
8. Big changes in cost and efficiency.

STRATEGIC GROUP

A **strategic group** consists of those rival firms with similar competitive approaches and positions in the market such as comparable product line, similar price/quality range, similar distribution channels, similar product attributes to appeal to similar types of buyers, identical technological approaches, or similar services and technical assistance.

One can identify the companies that are in the strongest/weakest positions in an industry by a tool called **strategic group mapping**. It is a 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.

KEY FACTORS IN AN INDUSTRY FOR COMPETITIVE SUCCESS (KSF)

Key Success Factors (KSFs) in an industry are those things that determine the ability of members of an industry to prosper in the industry such as low cost, best quality, good product features, resources available, competitive capabilities & so on. For example -

a. In Mobile & Computer industry, the reliability of technology, after sale service & new innovative features.
b. In Automobile industry, the reliability of technology, after sale service, safety & fuel efficiency.
c. In apparel manufacturing, appealing designs and colour combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and good profit margins).

FACTORS THAT DETERMINE THE PROSPECTS AND FINANCIAL ATTRACTIVENESS OF AN INDUSTRY

A company would enter any industry if it has a vision that the industry would be prospective & financially attractive. The factors that determine prospects and financial attractiveness of an industry are :-

1. Whether competition currently permits adequate profitability?
2. Whether competitive forces will become stronger or weaker?
3. The industry's growth potential.
4. The degrees of risk and uncertainty in the industry's future.
5. The company's competitive position in the industry and whether its position is likely to grow stronger or weaker.
6. Whether the company' can take benefit of weaknesses of the rivals?
7. Whether the company can defend against factors that make industry unattractive?
8. The severity of problems confronting the industry as a whole.
9. Whether participation in this industry adds to the firm's ability to be successful in other industries in which it may have business interests?

SWOT ANALYSIS

SWOT analysis is the comparison of an organisation’s strengths & weaknesses, with environmental opportunities and threats SWOT analysis to help managers to craft a business strategy that will allow the organization to gain a competitive advantage in its industry.

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

The **significance** of SWOT analysis lies in the following points:

a) It guides the strategist in Strategy Identification
b) It provides a Logical Framework
c) It presents a Comparative Account

TOWS matrix

TOWS refers to a matrix developed by Heinz Weihrich that provides strategic choices to an organization by comparing its strengths and weaknesses with environmental opportunities and threats. SWOT Analysis enlists only strengths, weaknesses, opportunities & threats hence managers frequently fail to define the strategic choices that the outcomes demand. TOWS Matrix also uses the same inputs (Threats, Opportunities, Weakness and Strengths) but integrates them into the strategic planning process to come up with respective strategies. The matrix is outlined below:

Internal Elements	**Organisational Strengths**	**Organisational Weaknesses**
External Elements	**Strategic Options**	
Environmental Opportunities	**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

PORTFOLIO ANALYSIS

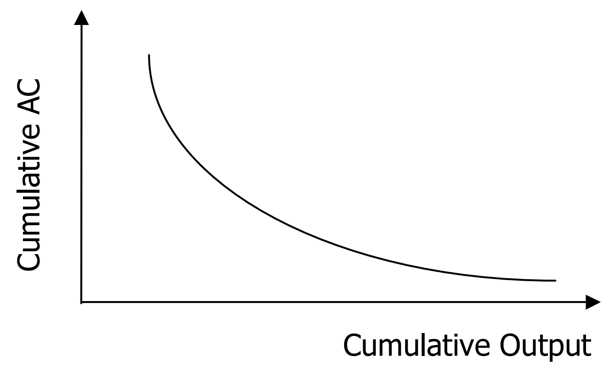
Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

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.

EXPERIENCE CURVE

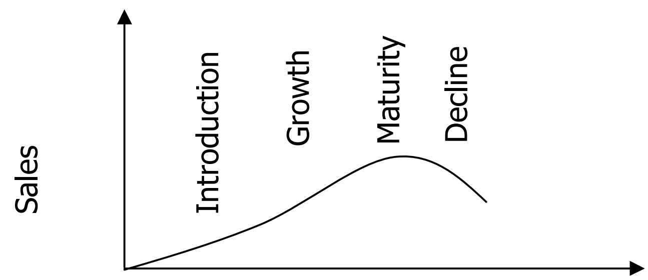
Experience curve or learning curve is a curve which explains the efficiency increase gained by workers through repetition. It is commonly observed that per units cost declines as a firm gains experience in terms of a cumulative volume of production.



Learning Curve

PRODUCT LIFE CYCLE

PLC is an *S-shaped curve* which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of Introduction (slow sales growth), Growth (rapid market acceptance) , Maturity (slow down in growth rate) and Decline (sharp downward drift



Product Life Cycle

BCG GROWTH-SHARE MATRIX - The **Boston Consulting Group Growth-Share Matrix** is a 2 x 2 matrix portraying a company's portfolio of investments in different types of products, classified as Stars, Wildcats, Cows & Dogs on the basis of their market growth rate & relative market share.

BCG Growth-Share Matrix

Market Growth Rate	**Relative Market Share: High**	**Relative Market Share: Low**
High	**Stars**	**Question Marks**
Low	**Cash Cows**	**Dogs**

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

The Ansoff's product market growth matrix proposed by **Igor Ansoff** is a portfolio analysis technique representing several strategies available to firms in the form of a 2 x 2 matrix with products shown horizontally & markets vertically both scaled as existing & new.

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

Ansoff's Product Market Growth Matrix

ADL MATRIX

The ADL matrix proposed by **Arthur D. Little** is a two dimensional 4 x 5 matrix stating several strategies for a firm, based on stage of industry maturity and the firm's competitive position.

	Stage of industry maturity			
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost-leadership Act offensively	Defend position Attend cost-leadership	Defend position Focus Consider withdrawal
Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate	Find niche Hold niche Harvest
Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find/Hold niche Turnaround	Harvest Turnaround
Tenable	Focus Grow	Hold niche Focus	Turnaround Retrench	Divest Retrench
Weak	Find niche Grow with industry	Find Niche or withdraw	Withdraw Divest	Withdraw

Arthur D. Little Strategic Condition Matrix

GE MATRIX

The General Electric Matrix developed by General Electric Company with the assistance of the consulting firm McKinsey & Company is a two-dimensional matrix representing various strategies like Invest, Protect, Harvest & Divest to choose from on the basis of Firm's Business Position & Market Attractiveness.

		Business Position		
		High	*Medium*	*Low*
Market Attractiveness	*High*	**Invest**	**Invest**	**Protect**
	Medium	**Invest**	**Protect**	**Harvest**
	Low	**Protect**	**Harvest**	**Divest**

The GE Matrix

4.

Strategic Planning

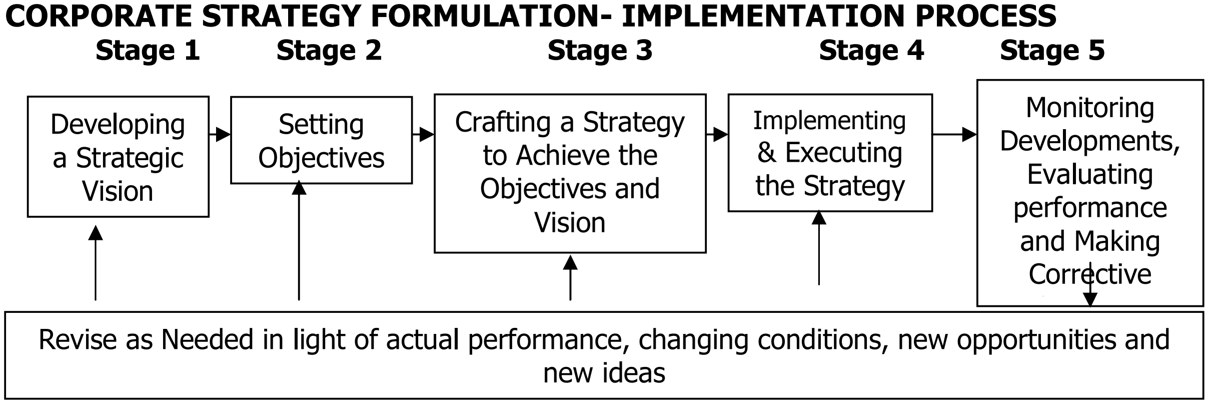
STRATEGY IS PARTLY PROACTIVE AND PARTLY REACTIVE

Formulation of a strategy for an organization starts with making the intended plan in advance, based on assumptions about the future & how the organization wish to respond i.e. proactive approach. However the future may not respond as expected. Hence a modification in plan is highly desirable to make the best use of the situation i.e. reactive approach. Hence we can say that a company's strategy is typically a blend of:-

(1) Proactive actions on the part of managers i.e. creating a proactive, intended or planned strategy, and

(2) Reactive actions i.e. adapting it as circumstances change or better options emerge to form a reactive or adaptive strategy as a response to unanticipated changes.

CORPORATE STRATEGY FORMULATION- IMPLEMENTATION PROCESS



MAIN ASPECTS OF STRATEGY-EXECUTION PROCESS

In most situations, managing the strategy-execution process includes the following principal aspects:

a) **Staffing** the organization with the people having the needed skills and expertise.
b) **Developing budgets** to provide sufficient resources fro strategy implementation.
c) Developing **policies and procedures** to facilitate rather than impede effective execution.
d) **Modifying strategies** if the organization encounters problems, adverse changes or weaknesses.
e) **Installing information systems(MIS)** that enable people to get information needed to carry out their strategic roles.
f) **Motivating** people to pursue the target objectives energetically.
g) **Fixing rewards** and incentives directly to the achievement of performance objectives and good strategy execution.

h) Creating a company **culture** and work climate conducive to successful strategy implementation and execution.
i) Exerting the internal **leadership** needed to drive implementation forward and keep improving strategy execution.

MICHAEL PORTER'S GENERIC STRATEGIES

Michael Porter's three generic strategies that allow organizations to gain competitive advantage are :-

a. **Cost leadership** – It emphasizes on being a cost leader by producing standardized products at a very low per-unit cost for consumers who are price-sensitive.

b. **Differentiation** – It is a strategy aimed at producing products and services considered unique and directed at consumers who want something unique or different and are relatively price-insensitive.

c. **Focus** – It means focusing or concentrating on a particular group of customers, geographic markets or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

		STRATEGIC ADVANTAGE	
		Uniqueness perceived By customer	**Low Cost Position**
STRATEGIC TARGET	**Industry Wide**	Differentiation	Cost Leadership
	Particular Segment Only	Focus	

Grand Strategies

Strategies are required at corporate, business/SBU and functional levels. The strategies developed by an organization at corporate level are called grand or master strategies. These include broad strategies like stability, expansion, retrenchment etc.

Stability

Stability refers to the strategy of staying in the current businesses, products, markets etc to maintain the existing objectives & efforts. These are pursued by a firm when it continues to serve in the same or similar markets and deals in same products and services & focus on incremental improvement of functional performance.

Expansion

Expansion strategy refers to redefining the business by adding the scope of business substantially through major reformulation of objectives & goals, involving new investments, introduction of new products, new technology and new markets, innovative decisions and so on.

Expansion includes the terms intensification, diversification, amalgamation and mergers of businesses etc. The strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Expansion through acquisitions and mergers of an existing concern is an instant means of achieving the expansion. Acquisitions and mergers are resorted to grow & for purposes of achieving a measure of synergy between the parent and the acquired enterprises in respect of physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

Expansion through Intensification

1. Market Penetration
2. Market Development
3. Product Development

Expansion through Diversification

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. It involves expansion into new businesses that are outside the current businesses and markets. Diversification strategies have been classified into four broad categories:

1. Vertically integrated diversification
2. Horizontally integrated diversification
3. Concentric diversification
4. Conglomerate diversification

Retrenchment Strategies

Retrenchment is a strategy involving retreat, to discontinuance or withdrawl.
Retrenchment can be divided into :-

1. Turnaround Strategies

Turnaround means backing out, withdrawing or retreating from a decision wrongly taken earlier in order to reverse the process of decline.

2. Divestment Strategies

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

3. Liquidation Strategies

Liquidation strategy means closing down the entire firm and selling its assets. It is considered the most extreme & the last resort because it leads to serious consequences such as loss of employment for employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

Combination Strategies

Combination means adopting different strategies for different units or products of an organization for instance a firm may seek **stability** in some areas which are doing good, **expansion** in areas which are very promising in future and **retrenchment** in the others which are obsolete or into continuous losses.

Chapter 5 .
Formulation of Functional Strategy

Functional Strategies
The strategies based on the various functions or operations of an organization are called functional strategies. These include :-

1. Production Strategies
2. Financial Strategies
3. Marketing Strategies
4. Personnel Strategies
5. R & D Strategies
6. Logistics Strategies & so on.

The **reasons** why functional strategies are needed:

1. Basis for controlling activities in different functional areas.
2. The time spent by functional managers in decision-making is reduced .
3. Consistency in operations .
4. Coordination across the different functions .
5. The strategic decisions are implemented by all the parts of an organization.

Marketing Strategy
The Marketing Process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. It involves

1. Dividing the total market into various segments based on different natures called (**market segmentation**),
2. Choose the best segments called **market targeting**, and
3. Designing strategies for profitably serving chosen segments better than the competitors called **market positioning**.

Marketing mix
These variables are often referred to as the "four Ps."

1. **Product** stands for the "goods-and-service"
2. **Price** stands for the amount of money customers have to pay for the product/service.
3. **Place** stands making the product/service available to consumers.
4. **Promotion** stands for advertising to communicate merits of the product and persuade target consumers to buy it.

Perhaps a better classification would be the 4 Cs: a. Product = Customer Solution. b. Price = Customer Cost. c. Place = Convenience. d. Promotion = Communication.

Expanded Marketing Mix
1. People, 2. Physical Evidence, 3. Process

Marketing strategy techniques

1. Social Marketing	8. Place Marketing
2. Augmented Marketing	9. Enlightened Marketing
3. Direct Marketing	10. Differential Marketing
4. Relationship Marketing	11. Synchromaketing
5. Services Marketing	12. Concentrated Marketing
6. Person Marketing	13. Demarketing
7. Organization Marketing	

Financial Strategy

Three main approaches of evaluating the worth of a business -

1. Net worth = Sum of common stock, additional paid-in capital, and retained earnings. add or subtract an goodwill and overvalued or undervalued assets.
2. Value of a firm based on the future benefits say five times the firm's current annual profit. .
3. Let market determine a business's worth, as (a) Selling price of a similar company. (b) Divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. (c) Multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the other company.

Production Strategy

- The production strategy is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors.
- Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment.

Logistics Strategy

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

1. Sources of raw materials , 2. Manufacturing locations 3. Products are being made at each location 4. Modes of transportation	5. Nature of distribution facilities 6. Nature of materials handling equipment 7. Ownership of transport vehicles.

Logistics can help a business in –

1. Cost savings 2. Reduced inventory 3. Improved delivery time	4. Customer satisfaction 5. Competitive advantage

R & D Strategy

R&D strategy basically involves choosing between in-house research or getting technology from outside. R & D policies can enhance strategy implementation efforts to:

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

There are at least **three major R&D approaches** for implementing strategies.

1. Be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one.

2. Be an innovative imitator of successful products, thus minimizing the risks and costs of start up.
3. Be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced.

Human Resource Strategy

1. Recruitment and selection
2. Training
3. Appraisal of Performance
4. Compensation

Strategic Role of Human Resource Management

1. Providing purposeful direction
2. Creating competitive atmosphere
3. Facilitation of change
4. Diversion of workforce
5. Empowerment of human resources
6. Building core competency.
7. Development of works ethics and culture

6.
Strategic Implementation

Strategic implementation deals is the managerial exercise of translating a formulated strategy into action. The points to note are

- Translation of strategic thought into strategic action.
- Requires support of all managers & employees of the business.
- Affects an organization from top to bottom & all the functional & divisional areas
- Concerned with ensuring proper allocation of resources to new courses of action.
- Involves adapting the organization's structure .
- Involves training personnel.

Strategy formulation & implementation matrix

The matrix showing various combination of strategy formulation & implementation is called Strategy formulation & implementation matrix.

Strategy formulation	Weak	Excellent
Sound	A	B (Success)
Flawed	C	D

Strategy implementation

Principal Combinations of Efficiency & Effectiveness of Operational & Strategic Management :-

Operational Management	Strategic Management Effective	Strategic Management Ineffective
Efficient	1 Thrive	2 Die Slowly
Inefficient	3 Survive	4 Die Quickly

Strategy formulation vs implementation:

Strategy formulation	Strategy implementation
Positioning forces before the action.	Managing forces during the action.
Focuses on effectiveness.	Focuses on efficiency.
Primarily an intellectual process.	Primarily an operational process.
Requires good intuitive & analytical skills.	Requires special motivation & leadership skills
Needs coordination among a few individuals	Needs combination among many individuals.

Forward Vs Backward Linkages between Strategy formulation &implementation
The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

Issues in Strategy Implementation
1. Strategies should lead to plans
2. Programmes lead to the formulation of projects
3. Projects create the needed infrastructure for the day-to-day operations in an organization
4. Project implementation
5. Procedural implementation
6. Resource allocation
7. Structural implementation
8. Functional implementation
9. Behavioural implementation
10. Managers & employees throughout an organization should participate early & directly in strategy-implementation decisions.
11. Strategists' genuine personal commitment to implementation is a necessary & powerful motivational force for managers & employees.

The relationship between the Organization Structure & 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 & policies will be established.
2. Structure dictates how resources will be allocated.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure.

Chandler's Strategy-Structure Relationship
- New strategy is formed
- New administrative problems emerge
- Organizational performance declines
- A new organizational structure is established
- Organizational performance improves

Different Types of Organizational Structure
1. The Functional Structure
2. M-Form Structure
3. The Divisional Structure
4. Divisional Structure By Product (Or Services)
5. Divisional Structure by Customer
6. The Strategic Business Unit (SBU) Structure
7. The Matrix Structure
8. Network Structure

The Value Chain Analysis by Michael Porter
Five main areas of primary activities of the organization –
1. Inbound Logistics,
2. Operations,
3. Outbound Logistics,

4. Marketing & Sales, &
5. Service.

Four main areas of support activities of an organisation

1. Procurement,
2. Technology development,
3. Human resource management,
4. Infrastructure

Leadership & Strategic Implementation

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

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

What is Corporate Culture ?

Corporate culture refers to a collection of factors to internal work environment including company’s values, beliefs, business principles, traditions, ways of operating, philosophy, ways of approaching problems & making decisions, work climate, behaviour & thought patterns, & personality of an organization.

Where Does Corporate Culture Come From?

An organization’s culture is an outcome of

1. Management Practices,
2. Ethical Standards &
3. Official Policies,
4. Stakeholder Relationships
5. Dealings With Employees, Unions, Stockholders, Vendors, &
6. The Communities In Which It Operates),
7. The Traditions The Organization Maintains,
8. Employees' Attitudes & Behaviour,
9. Legends people repeat about happenings in the organization,
10. Peer pressures that exist, in the organization's politics,
11. "Chemistry" & the "vibrations" of work environment.

Culture: ally or obstacle to strategy execution?

If company's strategy is compatible with its culture the culture becomes a valuable ally in strategy implementation & execution. But, when the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a big obstacle in strat*egy* implementation & execution.

How culture can promote better strategy execution a culture

1. Diagnose which supportive & non- supportive elements of the culture.
2. Talk openly to all concerned about those aspects of the culture that have to be changed.
3. Communicate to employees the basis for cultural change & its benefits to all concerned.

4. Altering incentive compensation (to reward the desired cultural behaviour), visibly praising & recognizing people who display the new cultural traits,
5. Recruiting & hiring new managers & employees who have the desired cultural values

Chapter 7
Reaching Strategic Edge

BPR refers to the analysis & redesign of workflows & processes both within & between the organizations based on total reconstruction & rethinking of a business process in its entirety, unconstrained by its existing structure & pattern to obtain dramatic improvement in the performance of the process in terms of time, cost, output, quality, & responsiveness to customers.

3 broad categories of generic business processes -

- Processes pertaining to **development & delivery of product(s) and/or services**.
- Process involving **interface(s) with customers**.
- Process comprising **management activities**: including strategy formulation, planning & budgeting, performance measurement & reporting, human resource management, & building infrastructure.

Steps in BPR are as follows:

1. Determining objectives & Framework:
2. Identify Customers & Determine their Needs:
3. Study the Existing Process:
4. Formulate a redesign process plan:
5. Implement the redesign:

Benchmarking

Benchmarking is an approach of setting standards or benchmarks & measuring productivity based on best industry practices to achieve improvement in diverse range of management function like: Maintenance operations , Assessment of total manufacturing costs, Product development, Product distribution, Customer services, Plant utilization levels, Human resource management

Common Elements In Benchmarking Process

1. Identifying the need for benchmarking & planning:
2. Clearly understanding existing business processes:
3. Identify best processes:
4. Compare own processes & performance with that of others:
5. Prepare a report & Implement the steps necessary to close the performance gap:
6. Evaluation:

TQM

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

Principles guiding TQM

1. A sustained management commitment to quality:
2. Focusing on the customer:
3. Preventing rather than detecting defects:
4. Universal quality responsibility:
5. Quality measurement:
6. Continuous improvement & learning:
7. Root cause corrective action:
8. Employee involvement & empowerment:

9. The synergy of teams:
10. Thinking statistically:
11. Inventory reduction:
12. Value improvement:
13. Supplier teaming:
14. Training:

Key differences in TQM & traditional management practices
1. Strategic Planning & Management:
2. Relationships with Customers & Suppliers:
3. Organizational Structure:
4. Organizational Change:
5. Teamwork:
6. Motivation & Job Design:

Six Sigma
Six Sigma efforts target three main areas:
1. Improving customer satisfaction 2. Reducing cycle time 3. Reducing defects

Six Themes of Six Sigma
The critical elements of Six Sigma can be put into six themes as follows:
Theme one – *genuine focus on the customer:*
Theme two – *data & fact-driven management:*
Theme three – *processes are where the action is:*
Theme four – *proactive management:*
Theme five – *boundaryless collaboration:*
Theme six – *drive for perfection; tolerate failure:*

Six sigma methodology
For implementing six sigma there are two separate key methodologies for existing & new processes -
I. **DMAIC**:
1. *Define*: the process improvement goals that are consistent with the strategy & customer demands.
2. *Measure*: The existing processes are measured to facilitate future comparison.
3. *Analyze*: Verify cause-and-effect relationship between the factors in the processes.
4. *Improve*: On the basis of the analysis experts make a detailed plan to improve.
5. *Control*: Initial trial or pilots are run to establish process capability & transition to production. Afterwards continuously measure the process to ensure that variances are identified & corrected before they result in defects.

II. **DMADV:**
1. *Define:* goals of the design activity that are consistent with strategy of the organization & the demands of the customer.
2. *Measure:* factors that are critical to quality such as product capabilities & production process , risks involved.
3. *Analyze:* Develop & design alternatives & evaluate to select the best design.
4. *Design:* the processes. It may require using techniques such as simulations.
5. *Verify:* Verify designs through simulations or pilot runs. Verified & implemented processes are handed over to the process owners or users.

Strategy-shaping characteristics of E-Com environment

1. The Internet makes it feasible for companies everywhere to compete in global markets:
2. Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals & by the entry of new, enterprising e-commerce rivals:
3. Entry barriers into the e-commerce world are relatively low:
4. Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, & shipping times of rival vendors:
5. 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 & cost savings:
6. Internet & PC technologies are advancing rapidly, often in uncertain & unexpected directions:
7. The internet results in much faster diffusion of new technology & new ide across the world:
8. The e-commerce environment demands that companies move swiftly:
9. E-commerce technology opens up a host of opportunities for reconfiguring industry & company value chains:
10. The Internet can be an economical means of delivering customer service*:*
11. The capital for funding potentially profitable e-commerce businesses is readily available:

Strategic management in non-profit & government organization

- The strategic-management process is being used effectively by many non-profit governmental organizations which even outperform private firms on innovativeness, motivation, productivity, & strategic management.
- Compared to for-profit firms, non-profit & governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, & are totally dependent on outside financing.
- Especially for these organizations, strategic management provides an excellent vehicle for developing & justifying requests for needed financial support.

Strategic management in Educational institutions

- Educational institutions are using strategic-management techniques & concepts more frequently.
- Some academic institutions have also joined hands with industries in order to deliver education to make graduates more employable.
- The educational delivery system has also undergone considerable changes with the introduction of computers & internet technologies.
- Online college degrees are becoming common & represent a threat to traditional Colleges & universities.

Strategic management in Medical organizations

Hospitals are creating new strategies today as -

- Advances in the diagnosis & treatment of diseases
- Bringing services to the patient like bringing the patient to the hospital.
- Collecting door-to-door samples.
- Electronic monitoring at home,
- Decentralized service networks
- Collaboration with physicians,
- Backward integration like acquiring ambulance services, waste disposal services, & diagnostic services.

- Intel recently began offering a new secure medical service whereby doctors & patients can conduct sensitive business on the Internet, such as sharing results of medical tests & prescribing medicine.
- Outpatient surgery & diagnostic centers, physical rehabilitation centers,
- Cardiac rehabilitation centers,
- industrial medicine services,
- Women’s medicine services,
- Skilled nursing units, &
- Psychiatric services.

Strategic management in Governmental agencies & departments

Central, state, municipal agencies, Public Sector Units, departments are formulating, implementing, & evaluating strategies like –

- Using taxpayers' money in the most cost-effective way to provide services & programs.
- Discussing, debating & involving Strategic issues in the media & legislatures.
- Involving their employees so that they get excited about the opportunity to participate in the strategic-management process & thereby have an effect on the organization's mission, objectives, strategies, & policies.
- In addition, government agencies are using a strategic management approach to develop & substantiate formal requests for additional funding.