

UNDERSTANDING

Strategic Management

A Self-study Module

[For CA-Intermediate (IPC) Course]

SECOND EDITION

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Preface

Welcome to this new edition of '*Understanding Strategic Management: A Self-study Module*', *Second Edition*! As an author, I am sensitive to your learning needs. I believe that presentation is an effective tool that determines the success of an author. For this very reason, I have taken your point of view into consideration. In writing each chapter, I have taken every care to make the content informative as well as easy and interesting to read.

This course can have a major impact on your career direction and future success. It provides the comprehensive knowledge of strategic management that would help you to utilize your talent in the dynamic 21st century business world.

The aim of '*Understanding Strategic Management: A Self-study Module*' is to help CA Intermediate (IPC) students by clearly explaining, analyzing, and evaluating important strategy concepts. My approach in writing this book was essentially twofold: to write an accessible textbook that students feel comfortable with but without compromising on the academic rigour.

The case-studies, herein, have been taken from contemporary world and leading brands around us. These help to bridge the gap between theory to practice; aiming not only at a comprehensive learning experience but also offering an interesting reading. To supplement this, I have tried to adopt a user-friendly writing style that gives clear and concise explanations to help students engage readily with the content and grasp complex strategic concepts easily.

The book '*Understanding Strategic Management: A Self-study Module*' has been divided into seven chapters. The chapter organization provides a student-friendly approach to the study of strategic management. Structure of this book has been shown in this diagram.



I would be happy to get your feedback, comments and queries. You can get in touch with me at om.trivedi@carvinowledge.in, www.facebook.com/strategyclasses or call me at 9953922272 (between 8 pm – 10 pm).

Good luck for a challenging and successful learning experience!

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Strategic Snapshots

(Summary for Quick Revision)

Chapter 1 — Business Environment

Business: The term business refers to all economic activities pursued mainly to satisfy the material needs of the society, with the purpose of earning profits.

Objectives of Business: Survival, Stability, Efficiency, Growth and Profitability.

Environment: Our Environment is our surroundings. This includes living and non-living things around us.

Business Environment: A business environment represents all external forces, factors or conditions that exert some degree of impact on the business decisions, strategies and actions taken by the firm.

Characteristics of Business Environment

- i. Environment is complex
- ii. Environment is dynamic
- iii. Environment is multi-faceted
- iv. Environment has far reaching impact

Environmental Analysis: Environmental analysis is a systematic process that begins with the identification of environmental factors, assessing their nature and impact, auditing them to find their impact on the business, and making various profiles for positioning.

Steps in Environmental Analysis

Step 1: Monitoring or identifying environmental factors.

Step 2: Scanning and selecting the relevant factors and grouping them.

Step 3: Defining variables for analysis.

Step 4: Using different methods, tools, and techniques for analysis.

Step 5: Analyzing environmental factors and forecasting.

Step 6: Designing profiles.

Step 7: Strategic positioning and writing a report.

Environmental Scanning: Environmental scanning is the process of continually acquiring information on events occurring outside the organization to identify and interpret potential trends.

Environmental Influence on Business

Figure 1.11—refer to page 12

Step I: It is useful to take an initial view of the nature of the organization's environment in terms of **how uncertain it is**.

Step II: The **auditing of environmental influences** is done to identify which of the many different environmental influences are likely to affect the organization's development or performance. This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations.

Step III: The organisation focuses more on an explicit consideration of its immediate environment - for example, the competitive arena in which the organization operates.

Relationship between Organization and Its Environment

- i. Exchange of Information
- ii. Exchange of resources
- iii. Exchange of influence and power

Organization's Response to Its Environment

- i. Administrative Response
- ii. Competitive Response
- iii. Collective Response

Organization's Strategic Response to Its Environment

- i. Conservative Approach - Least resistance approach
- ii. Cautious Approach - Proceed with caution approach
- iii. Dynamic Response - Confidant approach

Components of Business Environment

Figure 1.13—refer to page 16

Internal Environment: Internal environment is the conditions, people, events and factors within an organization that influence its activities and choices.

External Environment: The external environment comprises of all the entities that exist outside the boundaries of a business, but have significant influence on its growth and survival.

Micro Environment: Micro-Environment is the immediate environment which has a direct impact on the business operations and their success.

Macro Environment: Macro environment is the major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies.

Demographics: Demographics describe a population according to selected characteristics such as age, gender, ethnicity, income, and occupation.

Demographic factors of interest to a business

- i. Population Size
- ii. Geographic Distribution
- iii. Ethnic Mix
- iv. Income Distribution

Economic environment: 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.

Political Environment: Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

Legal Environment: Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— centre, state or local.

Social Environment: Social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc.

Factors and influences operating in socio-cultural environment

- Social concerns
- Social attitudes and values
- Family structure
- Role of women in society
- Educational levels

Technological environment: It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Global Environment: Global environment represents the process of liberalisation.

Globalization: Globalization refers to the linkage between markets that exist across national borders. These linkages may be economic, financial, social or political.

The reasons why companies go global:

- i. Domestic markets are no longer enough to absorb whatever is produced.
- ii. Foreign markets have grown enough to justify foreign investment.
- iii. Availability of cheaper and reliable resources in other countries.
- iv. Reduction in transportation cost for export to remote countries.
- v. Rapid shrinking of time and distance across the globe due to faster communication, quicker transportation, growing financial flows and rapid technological changes.

Factors that influence globalization

- ▣ Sports Meets
- ▣ Natural Disasters
- ▣ The culture and attributes towards change
- ▣ Terrorist Attacks
- ▣ Emerging new market

Importance of Globalization

- a. Proper use of Resources
- b. Multiple choices
- c. Foreign Exchange
- d. Creates Employment
- e. Government incentives
- f. Technology
- g. Spreading of Risk of Loss

Competitive environment: The immediate economic factors—customers, competitors, suppliers, buyers, and potential substitutes—of direct relevance to a firm in a given industry (also known as industry environment).

How to Deal with Competition?

- i. Who are the competitors?
- ii. What are their product and services?
- iii. What are their market shares?
- iv. What are their financial positions?
- v. What gives them cost and price advantage?
- vi. What are they likely to do next?
- vii. How strong is their distribution network?
- viii. What are their manpower strengths?

Cooperation in a Competitive Environment

Collusion: Collusion is an agreement between two or more persons to limit open competition by deceiving, misleading, or defrauding others of their legal rights, or to obtain an objective forbidden by law typically by defrauding or gaining an unfair advantage.

Cartel: A cartel is a formal agreement among competing firms. The aim of such collusion (also called the cartel agreement) is to increase individual members' profits by reducing competition.

Keiretsu: It is a complex arrangement in which firms take equity stakes in one another as a long standing strategic alliance.

Conglomerate: It is a strategy that expands the firm's operations into industries and markets that are not similar or related to firm's initial base.

Consortium: A consortium is an association of two or more individuals, companies, organizations or governments (or any combination of these entities) with the objective of participating in a common activity or pooling their resources for achieving a common goal.

Porter's Five Forces Model of Industry Attractiveness

- i. Threat of new entrants
- ii. Bargaining power of customers
- iii. Bargaining power of suppliers
- iv. Rivalry among current players
- v. Threat from substitutes

Chapter 2 — Business Policy and Strategic Management

Business Policy: Business Policy tends to emphasise 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 preparations for handling general management responsibilities.

Strategy: Strategy is the overall plan of a firm deploying its resources to establish a favourable position and compete successfully against its rivals. Strategy describes a framework for charting a course of action.

Strategic Levels in Organisations

- ▣ Corporate Level
- ▣ Functional Level
- ▣ Business Level

Levels of Strategy

- ▣ Corporate Level Strategy
- ▣ Functional Level Strategy
- ▣ Business Level Strategy

Corporate Strategy: Corporate strategy is the growth design of the firm as it spells out the growth objective – the direction, extent, pace and timing of the firm's growth.

Business Strategy: Plans and actions that firms devise to compete in a given product/market scope or setting; addresses the question—"How do we compete within an industry?"

Functional Strategy: Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination among them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Competitive Strategy: The competitive strategy evolves out of consideration of several factors that are external to the firm. The external environment affects the internal environment of the firm. The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also as closing threats.

Strategy is partly proactive and partly reactive

Proactive Strategy

- ▣ It is an approach where organization takes the initiative or acts as first mover.
- ▣ It is an approach to a business situation that involves anticipating market and competition changes in advance of their actual occurrence and making appropriate organizational shifts in response.
- ▣ Many high technology business operators need to take a more proactive strategy to deal with the rapidly changing marketplace for their company's products.

Example: Steve Job's initiative to develop smart phones in Apple.

Reactive Strategy

- ▣ It is an approach where organizations react to their competitor's actions.

- It is a slow response to changes in a firm's environment and undertaken only when a management is forced to take rear guard action.

Example: Samsung/Sony/Nokia's smart phones developed in reaction to Steve Job's initiative to develop smart phones in Apple.

Strategic Management: Strategic management is a process to determine mission, vision, values, goals, objectives, roles and responsibilities, timelines, etc.

Objectives of strategic management

- To create competitive advantage.
- To guide the company successfully through all changes in the environment.

Strategic Management Framework

Stage One – (Planning and Analysis) Where are we Now?

Stage Two – (Strategy Formulation) Where do we Want to Be?

Stage Three – (Alternative Selection) How Might we Get There?

Stage Four – (Evaluation) Which Way is the Best?

Stage Five – (Implementation and Control) How Can we Ensure Arrival?

Strategic Decision Making

Strategic decision making, or strategic planning, describes the process of creating a company's mission and objectives and choosing the course of action a company should pursue to achieve those goals.

Strategic Management Model

Strategic planning is part of the strategic management process. Strategic management entails both strategic planning and implementation, and is the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment.

Figure 2.12—refer to page 61

Strategic Management Process: The strategic management process begins with careful analysis of a firm's internal strengths and weakness and external opportunities and threats.

- | | |
|----------------|-------------|
| Analysis | Formulation |
| Implementation | Evaluation |

Vision, Mission, Objectives and Goals

Strategic 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.

How to develop a strategic vision

- To think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- Organizations need to change direction not in order to survive but in order to maintain their success.
- Creates enthusiasm for the course that the management has charted and engages members of the organization.
- The best-worded vision statement clearly and crisply illuminates the direction in which organization is headed.

Mission Statement: 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.

Components of a mission statement

- | | |
|---|---------------------------|
| i. Customers | ii. Products or Services |
| iii. Markets | iv. Technology |
| v. Concern for survival, growth and profitability | |
| vi. Philosophy | vii. Self-concept |
| viii. Concern for public image | ix. Concern for employees |

Objectives: Objectives are organizations' performance targets – the results and outcomes it wants to achieve. They function as a yardstick for tracking an organization's performance and progress.

Chapter 3 — Strategic Analysis

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

Strategic analysis tries to find out the answers to three basic questions:

- How effective has the present strategy been?
- How effective will that strategy be in the future?
- How effective will the selected alternative strategy be in the future?

Issues to be Considered for Strategic Analysis

- Strategy evolves over a period of time
- Balance between the internal and external factors
- Analyzing risk involved and consequences thereon

Classification of Strategic Risks

Figure 3.2—refer to page 73

Situational Analysis: This is an extremely complex process, which demands a systematic approach for identifying and analyzing macro-environmental factors external to the organization and matching them with the firm's capabilities

Important factors to be taken into account while doing a situation analysis:

- | | |
|-----------------------------------|---------------------------|
| i. Product situation | ii. Competitive situation |
| iii. Distribution situation | iv. Environmental factors |
| v. Opportunity and issue analysis | |

Strategic Analysis Framework

Figure 3.4—refer to page 75

The Methods of Industry and Competitive Analysis

Figure 3.5—refer to page 76

SWOT Analysis

Shorthand for strengths, weaknesses, opportunities, and threats; a fundamental step in assessing the firm's external environment; required as a first step of strategy formulation and typically carried out at the business level of the firm.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

Significance of SWOT Analysis

- It provides a Logical Framework
- It presents a Comparative Analysis
- It guides the strategist in Strategy Identification

TOWS Matrix

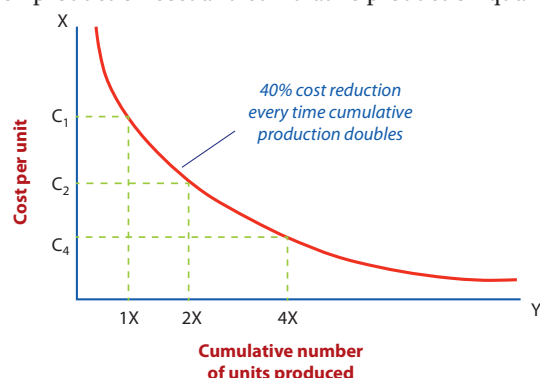
Figure 3.9—refer to page 84

Business Portfolio: A business portfolio is a collection of businesses and products that make up the company.

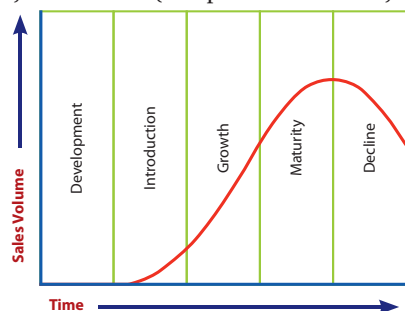
Portfolio Analysis: A set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

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

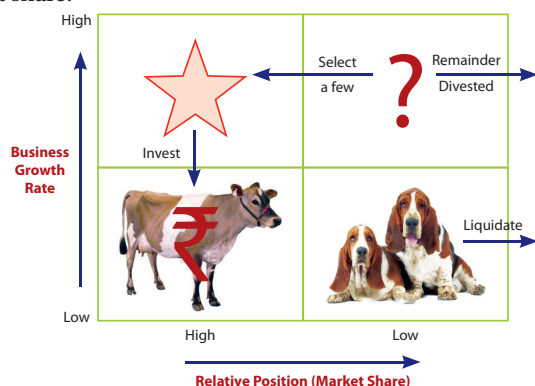
Experience curve: Experience curve shows the relationship between production cost and cumulative production quantity.



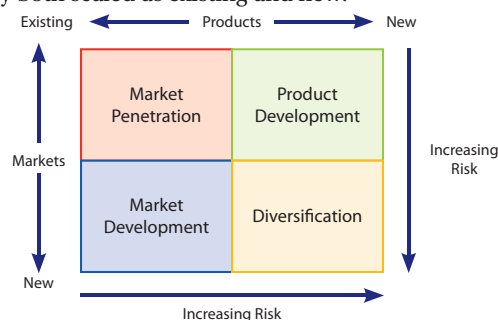
Product Life Cycle: PLC is an S-shaped curve which shows the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slow-down in growth rate) and decline (sharp downward drift).



Boston Consulting Group (BCG) Matrix: This is the simplest way to portray a corporation's portfolio of investments in the form of different types of products classified as stars, wildcats, cows and dogs on the basis of their market growth rate and relative market share.



Ansoff's Product Market Growth Matrix: It is a portfolio analysis technique representing several strategies available to firms in the form of 2*2 matrix with products shown horizontally and markets vertically both scaled as existing and new.



ADL Matrix: The ADL Matrix is a two dimensional 4*5 matrix stating several strategies for a firm, based on stage of industry maturity and firm's competitive position.

GE Matrix: GE Matrix is a two dimensional matrix stating several strategies like invest, protect, harvest and divest to choose from on the basis of firm's business position and market attractiveness.

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

The criteria used to rate market attractiveness and business position are assigned in different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors is calculated for each SBU. Based on these ratings, each SBU is labelled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Chapter 4 — Strategic Planning

Planning: it is a systematic activity which determines when, how and who is going to perform a specific job.

Strategic Planning: Strategic planning is a disciplined process of making key decisions and agreeing on actions that will shape and guide what an organisation is, what it does, and why it does it.

Approaches for Strategic Planning

- Top down
- Bottom up

Strategic Uncertainty: The strategic uncertainty is represented by a future trend or event that has inherent unpredictability.

The Stages of Corporate Strategy Formulation Implementation Process

Stage I: Developing a strategic vision

Stage II: Setting objectives

Stage III: Crafting a strategy to achieve the objectives and vision

Stage IV: Implementing and executing the strategy

Stage V: Monitoring developments, evaluating performance and making corrective adjustments

Glueck and Jauch Generic Strategic Alternative

- Stability Strategies
- Expansion Strategies
- Retrenchment and Strategies
- Combinations Strategies

Generic Business Strategy: A generic business strategy is one that can be adopted by any firm, regardless of the product or industry involved, to achieve a competitive advantage.

Porter's Strategy: According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- Cost Leadership Strategy:** It is a strategy which emphasises on being a cost leader by producing standardised products at a very low per-unit cost for the consumers who are price sensitive.

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

Focus Strategies: Competitive strategies based on targeting a specific niche within an industry. Focus strategies can occur in two forms: cost-based focus and differentiation-based focus.

It offers more value for the money to the customer by either lower prices than rival brands with comparable features or matches the price of rivals and provides better features.

In this framework the **columns** and **rows** identify the four fundamental alternatives firms can use in seeking competitive advantage:

- i.** Low cost provider
- ii.** Broad Differentiation
- iii.** Focussed low cost
- iv.** Focussed Differentiation

Stability Strategy

In stability strategy, the firm -

- Stays with its current businesses and product-market, postures and functions
- Maintains the existing level of effort, and
- Remains satisfied with incremental growth.

Expansion Strategy: It is one in which we are growing significantly faster than the market or market segment is growing overall. It implies that the company is willing to take on competitors in order to take market share from them, in addition to absorbing the growth in the market place itself.

Expansion through Intensification

- a. Market Penetration
- b. Market Development
- c. Product Development

Expansion through Diversification

- i.** Innovation
- ii.** Capacity Utilisation
- iii.** Synergy

Related and Unrelated Diversification

Types of Related Diversification

- a. Vertical Integration Diversification:** The expansion of the firm's value chain to include activities performed by suppliers and buyers; the degree of control that a firm exerts over the supply of its inputs and the purchase of its outputs. Vertical integration strategies and decisions enlarge the scope of the firm's activities in one industry.

Forward Integration: It is a strategy that moves the firm downstream into an activity currently performed by a buyer.

Backward Integration: It is a strategy that moves the firm up-stream into an activity currently conducted by a supplier.

- b. Horizontal Integration Diversification:** This involves addition or acquisition of one or more similar businesses at the same stage of the production marketing chain.
- c. Concentric Diversification:** It is a strategy that expands the firm's operation into similar industries and markets; extends the firm's distinctive competence to the other lines of business that are similar to the firm's initial base.
- d. Conglomerate Diversification:** It is a strategy that expands the firm's operation into industries and markets that are not similar or related to the firm's initial base; does not involve sharing the firm's distinctive competence across different lines of business.

Expansion through Mergers and Acquisitions: Expansion through Mergers and Acquisitions (i.e. takeover/absorption/amalgamation) is an attractive method of Diversification.

Retrenchment Strategy: A strategy used by corporations to reduce the diversity or the overall size of the operations of the company. This strategy is often used in order to cut expenses with the goal of becoming a more financial stable business. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.

Turnaround Strategy: The financial recovery of a company that has been performing poorly for an extended time. It is a rapid change of corporate strategy that is needed to deal with issues such as falling profitability, lower return on investment or loss of market share.

Divestment Strategy: Divestment Strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.

Liquidation Strategy: A liquidation strategy involves closing down a firm and selling off all its assets and paying off its liabilities.

Combination Strategy: Here, we adopt different strategies for different units or products of an organization.

Combination = Stability + Expansion + Retrenchment

Chapter 5 — Formulation of Functional Strategy

Functional Strategy: It relates to a single functional operation and the activities related therein. In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies.

Roles of Functional Strategy

- i. They provide support to the overall business strategy.
- ii. They spell out how functional managers will work so as to ensure better performance in their respective functional areas.

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

Marketing Strategy: Marketing strategy refers to actions for developing, pricing, distributing, and promoting products that meet the needs of specific customer groups.

Marketing Strategy Issues

- a. Distribution network
- b. Advertising
- c. Customers
- d. Pricing
- e. Warranty
- f. Remuneration and incentives

Delivering Value to Customers: Understanding your customers' values will lead you to develop products and services that can provide high profit-potential for your business.

Value delivery network

Figure 5.3—refer to page 133

The Marketing Process

Market Segmentation, Market Targeting & Market Positioning

Marketing Mix: A mixture of several ideas and plans followed by a marketing representative to promote a particular product or brand is called marketing mix. It is also known as the 4 P's of Marketing, is the combination of product, price, place (distribution), and promotion.

Figure 5.5—refer to page 134

Expanded Marketing Mix

- People
- Process
- Physical evidence

Marketing Analysis

- Marketing Planning
- Marketing Control
- Implementation

Marketing Planning: Marketing planning involves decisions on marketing strategies that will help the company attain its overall strategic objectives.

Marketing Plan: A marketing plan is a roadmap for how to promote a business. It can increase brand awareness, generate revenue, build lead generation or retain customers.

Components of a Marketing Plan

- Executive Summary and Table of Contents
- Mission Statement
- Summary of Performance till Date
- Summary of Financial Projections
- Market Overview
- SWOT Analysis for Major SBUs
- Portfolio Summary of all the SBUs
- Market Assumptions
- Marketing Objectives and Goals
- Financial Projections for at least Three Years
- Marketing Strategy

Marketing Strategy Techniques

- Social Marketing Augmented Marketing
- Direct Marketing Relationship Marketing
- Services Marketing
- Person Marketing
- Organisation Marketing
- Place Marketing: Differential Marketing
- Synchro Marketing
- Concentrated Marketing
- De-marketing

Financial Strategy: The strategies related to several financial aspects of a business like acquiring capital, sources of fund, developing projected financial statements/budgets, management and usage of funds and evaluating the worth of a business etc. are called financial strategies.

Evaluating the Worth of a Business

- a. Net Worth Method
- b. Capitalisation of Earnings
- c. Market Price Method

Production Strategy Formulation: The strategies related to various aspects of production system, operational planning and control are called Production strategy.

Logistics Strategy: Logistics is a process which integrates the flow of supplies into, through and out of an organisation 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.

Research and Development Strategy: Research and development (R&D) strategies are the strategies related to development of new products and processes and improvement the old ones. R&D people perform tasks like simplifying technology, changing processes and raw materials, adapting products/processes to local markets, and altering products to particular tastes and specifications.

Three Major R&D Approaches

- a. Market New Technological Products
- b. Imitate others
- c. Cost Leadership

Human Resource Strategy Formulation: Human Resource Strategies are related to areas like assessing the staffing needs, their recruitment, selection, training, development, compensation, motivation, employees' healthcare etc.

Prominent Areas where the Human Resource Manager can play Strategic Role in Managing Human Resources

- Providing purposeful direction
- Creating competitive atmosphere
- Facilitation of change
- Diversity of workforce
- Empowerment of human resources
- Building core competency
- Development of work ethics and culture

Chapter 6 — Strategy Implementation and Control

Strategic management entails both strategic planning and implementation, and is "the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment."

The basic elements of strategic management

Figure 6.2—refer to page 153

- Strategic Analysis
- Strategic Choice
- Strategic Evaluation
- Strategic Formulation
- Strategic Implementation

Strategy Formulation and Implementation Matrix

Figure 6.3—refer to page 154

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

Figure 6.4—refer to page 155

Steps in the process of Strategy Implementation

- i. Formulation of plans, programmes and projects.
- ii. Design of appropriate organisational structure.
- iii. Installation of suitable systems.
- iv. Determination of functional policies.
- v. Decision making on resource allocation.
- vi. Providing various behavioural inputs, so that the plans work.

Issues in Strategy Implementation

- i. Project implementation
- ii. Procedural implementation
- iii. Resource allocation
- iv. Structural implementation
- v. Functional implementation
- vi. Behavioural implementation

Organisational Structure: Organisational structure is typically hierarchical arrangement of lines of authority, communications, rights and duties of an organization.

Figure 6.6—refer to page 159

Functional Structure: The organization is divided into various specific departments; e.g. human resource, marketing, finance and operations etc.

Divisional Structure: It is composed of divisions. Each one represents a separate business to which the top corporate office delegates responsibilities for performance and day-to-day operations to division managers. By such delegating the corporate office is responsible for formulating and implementing strategies for division and their control.

A divisional structure may consist of the following divisions:

- i.** Divisional by geographic area
- ii.** Divisional by product
- iii.** Divisional by customer
- iv.** Divisional by process

Strategic Business Unit (SBU): SBU Structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a head senior executive, who reports directly to the top management/CEO.

Matrix Structure: This is another type of structure which aims at combining the advantages of vertical and horizontal flows of authority and communication.

The Value Chain Framework of Porter (1990)



Core Competencies: Core Competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. It also refers to the strengths of an organization that provide competitive advantage and value to it.

Identification Test

Leverage Test, Value Enhancement Test, Imitability Test

Value Chain Analysis (VCA) and Core Competencies

- a. Validate core competencies in current businesses
- b. Export or leverage core competencies to the Value Chains of other existing businesses
- c. Use Core Competencies to reconfigure the Value Chains of existing businesses
- d. Use core competencies to create new Value Chains

Strategic leaders: Strategic leaders are those at the top of the company (in particular, the CEO), but other commonly recognized strategic leaders include members of the board of directors, the top management team, and division general managers.

Responsibilities of Strategic Leader

- a. Managing human capital (perhaps the most critical of the strategic leader's skills), effectively managing the company's operations.

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

Leadership Roles to be Played by Managers

- a.** Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.
- b.** 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.
- c.** 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.
- d.** Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
- e.** Pushing corrective actions to improve strategy execution and overall strategic performance.

Leadership Style

- Transformational Leadership Style
- Transactional Leadership Style

Strategic change: Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to Initiate Strategic Change

Step-I: Recognize the need for change:

Step-II: Create a shared vision to manage change

Step-III: Institutionalize the change

Strategic Control

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

Strategic Control

“Strategic control focuses on the dual questions of whether:

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

Types of Strategic Control

- Premise control
- Strategic surveillance
- Special alert control
- Implementation control

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

How Culture can promote better strategy execution of culture?

- i.** Identify the supportive and non-supportive elements of the culture.
- ii.** Hold candid discussions with all concerned about those aspects of the culture that have to be changed.
- iii.** Communicate to employees the basis for cultural change and its benefits to all concerned.
- iv.** Altering incentive compensation (to reward the desired cultural behaviour), visibly praising and recognizing people who display the new cultural traits.
- v.** Recruiting and hiring new managers and employees who have the desired cultural values.

Chapter 7 — Reaching Strategic Edge

Business Process Reengineering

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

Reengineering: The complete rethinking, reinventing and redesigning of how a business or set of activities operate.

BPR: Business Process Reengineering (BPR) involves fundamental rethinking and radical redesigning of a business process so that a company can create best value for the customer by eliminating barriers that create distance between employees and customers.

Business processes of a firm that need redesigning

- i. Processes pertaining to development and delivery of product(s) and/or services
- ii. Process involving interface(s) with customers
- iii. Process comprising management activities

Steps Involved in Implementing Business Process Reengineering (BPR)

Step 1: Determining objectives and framework of the organization.

Step 2: Identify customers- their profile, their steps in acquiring, using and disposing a product and determine their needs.

Step 3: Develop a flowchart of the existing total business processes.

Step 4: Try to simplify the process by eliminating tasks and steps where possible.

Step 5: Determine which parts of the process can be automated through introduction of advanced technologies.

Step 6: Evaluate each activity in the process to determine whether it is strategically critical or not.

Step 7: Design a new structure for performing the activities and reorganize the personnel who perform these activities into the new structure.

Step 8: Implement the redesign.

The Role of Information Technology in BPR

The impact of IT -systems on BPR can be identified with respect to following:

- a. Operational speed, drastic reduction in time,
- b. Global village, i.e. overcoming restrictions of geography and/or distance,
- c. Restructuring of relationships,
- d. Information systems that provide timely, reliable and accurate information, and
- e. Business Values - IT-initiatives, thus, provide business values in three distinct areas:
 - ⌚ **Efficiency** - by way of increased productivity,
 - ⌚ **Effectiveness** - by way of better management,
 - ⌚ **Innovation** - by way of improved products and services.

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

Benchmarking: In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices.

The Benchmarking Process

- i. Identifying the need for benchmarking and planning
- ii. Understanding existing business processes

- iii. Identifying best processes
- iv. Comparing own processes and performance with that of others
- v. Preparing a report and Implementing the steps necessary to close the performance gap
- vi. Evaluation

What is 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

- a. Commitment
- b. Culture
- c. Continuous Improvement
- d. Co-operation
 - i. Employee Involvement
 - ii. Employee Empowerment
- e. Customer focus
- f. Control
- g. Cross-functional
- h. Cause Analysis
- i. Change
- j. Concept of Teams

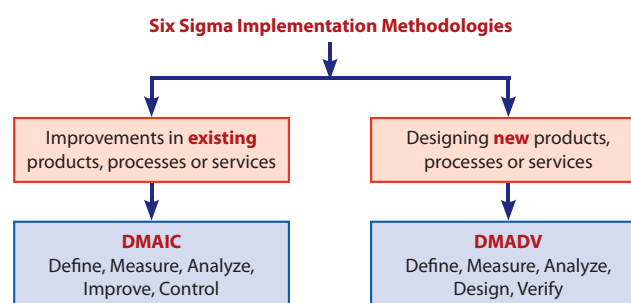
Operational Principles of TQM

- a. Universal Quality Responsibility
- b. Quality Measurement
- c. Inventory Reduction
- d. Value Improvement
- e. Supplier Teaming
- f. Training

What is Six Sigma?

Six Sigma is a business strategy developed by Motorola in 1986 to achieve process improvement. Six Sigma is a highly disciplined process that helps us focus on developing and delivering near-perfect products and services.

Six Sigma Methodology



What's Makes Six Sigma Different?

- i. Six Sigma is customer focused
- ii. Six Sigma projects produce major returns on investments
- iii. Six Sigma changes how management operates

Six Themes of Six Sigma

Theme I: Genuine Focus on the Customer

Theme II: Data and Fact Driven Management

Theme III: Process Focus, Management, and Improvement

Theme IV: Proactive Management

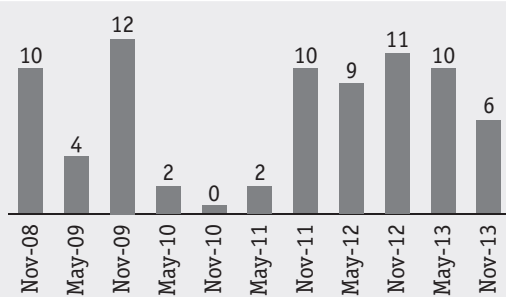
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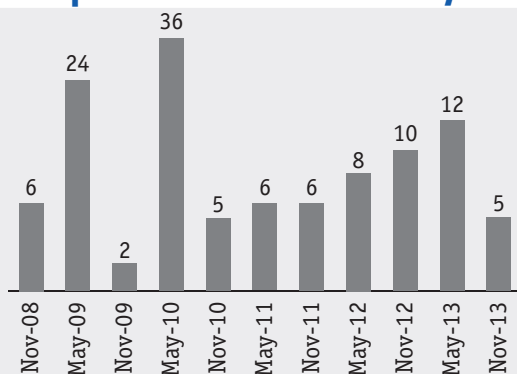
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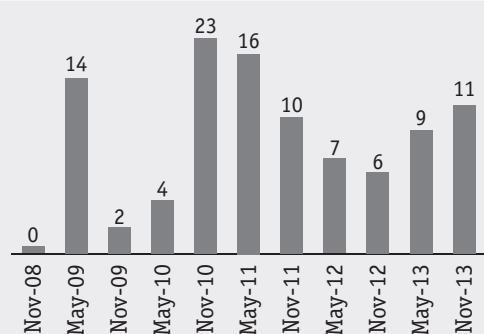
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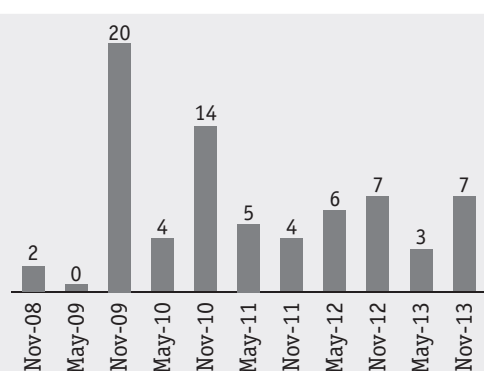
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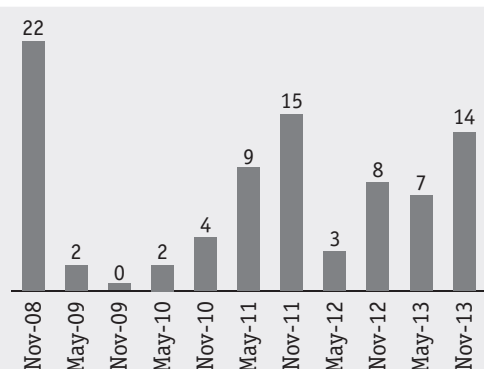
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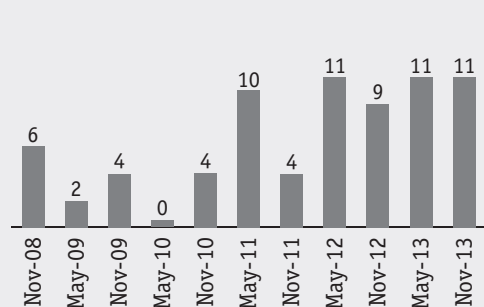
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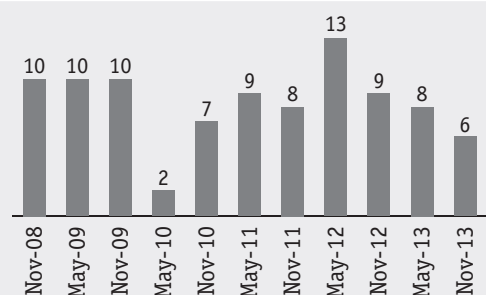
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GLOSSARY

A

Accounting Profit: Measures the difference between the total revenue generated by the organization and its total cost.

Acquisition: When one organization seeks to acquire another, often smaller, organization.

Area Structures: An organizational form that divides and organizes the firm's activities according to where operations and people are located (also known as *place structures*, *geographic divisions*).

B

Backward Integration: A strategy that moves the firm upstream into an activity currently conducted by a supplier (see vertical integration; forward integration).

Barriers to Entry: Economic forces that slow down or prevent entry into an industry.

Benchmarking: A firm's process of searching, identifying, and using ideas, techniques, and improvements of other companies in its own activities.

Boundary less Organization: An organization design in which people can easily share information, resources, and skills across departments and divisions.

Bureaucratization: The gradual process by which information flow becomes steadily slower within the firm.

Business Managers: People in charge of managing and operating a single line of business.

Business Strategy: Plans and actions that firms devise to compete in a given product/market scope or setting; addresses the question- "How do we compete within an industry?"

Business System: The subset of value chain activities that a firm actually performs.

C

Centralization: The degrees to which senior managers have the authority to make decisions for the entire organization.

Chaebol: A complex arrangement in which Korean firms (*often family-owned*) assume equity stakes and other ownership positions to maintain a web of companies.

Collaboration: Cooperation between partners that is often short-term or limited in scope. Collaboration is actually another form of competition between partners seeking to learn and absorb skills from one another.

Competencies: It can be defined as the attributes that firms require in able to compete in the market place.

Competing on Time: Speeding up the time needed to innovate new products and get them to market faster than competitors.

Competitive Advantage: Allows a firm to gain an edge over rivals when competing. Competitive advantage comes from a firm's ability to perform activities more distinctively or more effectively than rivals.

Competitive Environment: The immediate economic factors- customers, competitors, suppliers, and potential substitutes- of direct relevance to a firm in a given industry (also known as *industry environment*).

Competitor Intelligence Gathering: Scanning specifically targeted or directed toward a firm's rivals; often focuses on a competitor's products, technologies, and other important information.

Conglomerates: Firms that practice unrelated diversification.

Continuous Quality Improvement: The deliberate and methodical search for better way of impressing products and processes.

Core Processes and Technologies: The key levers or drivers that form the basis of a firm's distinctive competence and critical value-adding activities.

Corporate Culture: The system of unwritten rules that guide how people perform and interrelate with one another.

Corporate Restructurings: Steps designed to change the corporate portfolio of businesses to achieve greater focus and efficiency among businesses; often involve selling off businesses that do not fit a core technology or are a drag on earnings.

Corporate Strategy: Plans and actions that firms need to formulate and implement when managing a portfolio of businesses can especially critical issue when firm, seek to diversify from their initial activities or operations into new areas. Corporate strategy issues are keys to extending the firm's competitive advantage from one business to another.

Critical Success Factor: The factor in an industry that are necessary for a business to gain competitive advantage.

Customer-Defined Quality: The best value a firm can put into its products and service for the market segments it serves. Customer-defined quality is more important to competitive strategy than what the firm thinks its quality should be.

D

De-Integration: The process by which a firm becomes less vertically integrated, often by selling off those activities that it once performed in-house.

Development Policies: The training and skill improvement guidelines or practices used by a firm to cultivate its people.

Differentiation: Competitive strategy based on providing buyers with something special or unique that makes the firm's product or service distinctive.

Distinctive Competence: The special skills, capabilities, or resources that enable a firm to stand out from its competitors; what a firm can do especially well to compete or serve its customers.

Diversification: A strategy that takes the firm into new industries and markets (see related diversification: till diversification).

Diversified Firm: A firm that operates more than one line of business. Diversified firms are often across several industries or markets, each with a separate set of customers competitive requirements (also known as a *multibusiness firm*). Firms can differ in the degree or extent of their diversification.

Downscoping: The reduction of a firm's wide-spanning, corporate diversification by shrinking the scope of activities it performs.

Downstream Activities: Economic activities that occur close to the customer but far away from the firm's suppliers. Examples include outbound logistics, distribution, marketing, sales and service (see also upstream activities).

E

e-Business: The use of Internet-based technologies to transform how a business interacts with its customers and suppliers.

Economic Value Added: An attempt for organizations to include a more realistic profit figure. It is worked out by taking the difference

between a company's operating profit after tax and its annual cost of capital, and discounting this to find out its present value.

Economies of Scale: The declines in per-unit cost of production or any activity as volume grows.

Empowerment: Delegation of decision-making authority and responsibility to those people most directly involved with a given project or task.

Environment: All external forces, factors, or conditions that exert some degree of impact on the strategies, decisions, and actions taken by the firm.

Environmental Scanning: The gathering of information about external conditions for use in formulating strategies.

Ethical Dilemmas: Difficult choices involving moral, legal or other highly delicate issues that managers must weight and balance when considering the needs of various stakeholders. Ethical dilemmas work to shape and sometimes constrain a firm's ability to take certain actions.

Exit Barriers: Economic forces that slow down or prevent exit from an industry.

Experience Curve Effects: cost reductions that occur from continuous repetition of activities that allow for improvement with each successive act (also known as *economies of experience or learning curve effects*).

F

First-Mover Advantages: The benefits that firms enjoy from being the first or earliest to compete in an industry.

Five-force Framework: A tool of analysis to assess the attractiveness of the industry based on the strengths of five competitive forces.

Focus Strategies: Competitive strategies based on targeting a specific niche within an industry. Focus strategies can occur in two forms: cost-based focus and differentiation-based focus.

Forward Integration: A strategy that moves the firm downstream into an activity currently performed by a buyer (see vertical integration; backward integration).

Full Integration: Vertical integration that seeks to control every activity in the value chain. In full integration, firms bring all activities required to design, develop, produce, and market a product in-house (see partial integration).

Functional Structure: An organizational structure that groups managers and employees according to their areas of expertise and skills to perform their tasks.

G

General Environment: The broad collection of forces or conditions that affect every firm or organization in every industry (also known as *macro environment*).

Generic Strategies: The broad types of competitive strategies-low-cost leadership, differentiation, and focus-that firms use to build competitive advantage (see low-cost leadership, differentiation, focus strategies).

Geographic Division: An organizational form that divides and organizes the firm's activities according to where operations and people are located.

Globalization: Viewing the world as a single market for the firm; the process by which the firm expand across different regions and national markets. On an industry level, globalization refers to the changes in economic factors such as economies of scale, experience, and R&D that make competing on a worldwide basis a necessity.

Global Strategy: A strategy that seeks to achieve a high level of consistency and standardization of products, processes, and operations around the world; coordination of the firm's many subsidiaries to achieve high interdependence and mutual support.

Goals: The specific results to be achieved within a given time period (also known as *objectives*).

Group or Sector: A larger version of the SBU structure that often houses many different SBUs under one reporting relationship.

H

Harvesting: The systematic removal of cash and other assets from a slow-growth or declining business; may be thought of as "milking" a business before it loses all its value.

Horizontal Organization: An organization design in which teams and small units replace the strict separation of functional activities such as design, manufacturing, marketing, finance, distribution, sales, and service.

Hybrid (or Mixed) Structures: Combining different basic organizational structures to attain the benefits of more than one.

Hybrid Products: Products that result from combining or fusing together different sources of technologies.

Hybrid Strategy: This is where an organization is able to combine being a low cost producer with some form of differentiation.

I

Industrial Espionage: Systematic and deliberate attempts to learn about a competitor's technologies or new products through secretive, and often illegal ways.

Industry Attractiveness: The potential for profitability when competing in a given industry. An attractive industry has high profit potential; an unattractive industry has low profit potential.

Industry Environment: The immediate economic factors - customers, competitors, suppliers, buyers, and potential substitutes-of direct relevance to a firm in a given industry (also known as *competitive environment*).

Industry Initiative: The ability of a firm to shape, influence, or introduce new product ideas, standards, or technologies within an industry.

Industry Structure: The interrelationship among the factors in a firm's competitive or industry environment; configuration of economic forces and factors that interrelate to affect the behavior of firms competing in that industry.

International Division: A structure by which all of the firm's managers and employees in nondomestic activities report to a single senior manager who is separate from other domestic divisional managers; a structure traditionally used by firms that are starting to increase their overseas operations.

Internet: The enormous collection of interconnected networks that share the similar use of transmission and delivery protocols (TCP/IP). The internet evolved from early government-related programs to construct a huge network of research centers, universities, and government installations that would link up computer systems together.

Interrelationships: The sharing of activities, technologies, skills, and resources among a firm's subunits, particularly divisions or strategic business units (SBUs).

J

Joint Ventures: A form of strategic alliance in which partners work closely-usually through a third company that is set up by both partners-to pursue a mutually shared interest.

Just-in-Time: sophisticated approach to inventory management in which firms receive material from their suppliers when it is needed.

K

Keiretsu: A complex arrangement in which firms take equity stakes in one another as a long-standing strategic alliance; used in Japan to link up many different companies.

Knowledge-Based Competition: economic competition and competitive advantage derived from the creation and use of new forms of knowledge, skills, and technologies.

Knowledge Web: a collection or group of companies that work in tandem to shape the evolution of an industry.

L

Leadership: It is concerned with creating a shared vision of where the organization is trying to get to, and formulating strategies to bring about the changes needed to achieve this vision.

Linkages: The relationship between the way one value activity is performed and the cost of performance of another activity.

Liquidity: The ability of a firm or business to pay or meet its obligations (for example, debt payments, accounts payable) as they come due. The more liquid the firm, the easier its ability to meet these obligations.

Low-Cost Leadership: A competitive strategy based on the firm's ability to provide products or services at lower cost than its rivals.

M

Macroenvironment: The broad collection of forces or conditions that affect every firm or organization in every industry (also known as *general environment*).

Marketing Mix: It is a set of marketing tools commonly referred to as the 4 Ps: product, price, place and promotion.

Matrix Structure: An organizational form that divides and organizes activities along two or more lines of authority and reporting relationships.

Merger: It occurs when two organizations join together to share their combined resources.

Mission: Describes the firm or organization in terms of its business. Mission statements answer the questions "What business are we in?" and "What do we intend to do to succeed?" Mission statements are somewhat more concrete than vision statements but still do not specify the goals and objectives necessary to translate the mission into reality (see vision, goals; objectives).

Mixed Structures: Combining different basic organizational structures to attain the benefits of more than one (also known as *hybrid structures*).

Multibusiness Firm: A firm that operates more than one line of business. Multibusiness firms often operate across several industries or markets, each with a separate set of customers and competitive requirements (also known as a diversified firm). Firms can possess many business units in their corporate portfolio.

Multidomestic Strategy: A strategy that seeks to adjust a firm's products, processes, and operations for markets and regions around the world; allows subsidiaries to tailor their products, marketing, and other activities according to the needs of their specific markets.

Multipoint Competition: A form of economic competition in which a firm commits its entire product line against a similarly endowed competitor's array of products.

N

Network Effects: An economic condition in which the value of a product or service rises as more people utilize it.

Network Organization: organizational format in which firms try to balance their reliance on performing internal value-creating activities with the need to stay responsive and open to the environment.

O

Objectives: The specific results to be achieved within a given time period (also known as goals). Objectives guide the firm or organizations in achieving its mission (see vision; mission).

Off-Line Coordinators: Individuals and groups often experienced managers and staff personnel, outside the formal hierarchy who coordinate activities among subunits.

Option: The right but not the obligation to purchase or sell a company's stock at a pre-set price within a pre-defined time period.

Organization Design Practices: Support mechanisms that facilitate the implementation of a strategy within the framework of a given structure.

Outsource: The use of other firms to perform value-adding activities once conducted in-house.

P

Partial Integration: Vertical integration that is selective about which areas of activity the firm will choose to undertake. In partial integration, firms do not control every activity required to design, develop, produce, and market a product.

Positioning: A view that strategy is about how an organization positions itself to mitigate the prevailing industry structure (Five forces) that exists.

Primary Activities: Economic activities that relate directly to the actual creation, manufacture, distribution, and sale of a product or service to the firm's customer (see support activities).

Process Development: The design and use of new procedures, technologies, techniques, and other steps to improve value adding activities.

Product Development: The conception, design, and commercialization of new products.

Product Differentiation: The physical or perceptual differences that make a product special or unique in the eyes of the customer.

Product Divisions: The most basic form of product structure, in which each division houses all of the functions necessary for it to carry out its own strategy and mission.

Productivity Paradox: The economic trade-off that managers must make when using traditional manufacturing technology to achieve low-cost production: flexibility and variety of production are sacrificed.

Product Life Cycle: It is a concept that states that products follow a pattern during which they are introduced to the market, they grow, reach a maturity stage and eventually decline.

Product Realization: The product development process, beginning with product idea and concept and ending with production and distribution.

Product Structure: An organizational structure that divides the firm into self-contained units able to perform all of their own activities independently; examples include product divisions, strategic business units (SBUs), sectors or groups, and conglomerate/holding company formats.

Prospecting: An activity designed to help the firm search, understand, and accommodate environmental change; a proactive attempt by a firm to make an environmental change favorable to itself.

R

Reengineering: The complete rethinking, reinventing, and redesign of how a business or set of activities operates.

Related Diversification: A strategy that expands the firm's operations into similar industries and markets; extends the firm's distinctive competence to other lines of business that are similar to the firm's initial base (see related industry; unrelated diversification).

Related Industry: An industry that shares many of the same economic, technological, or market-based drivers or characteristics as another.

Resource-Based View of the Firm: An evolving set of strategic management ideas that place considerable emphasis on the firm's ability to distinguish itself from its rivals by means of investing in hard-to-imitate and specific resources (for example, technologies, skills, capabilities, assets, management approaches).

Resource Sharing: The transfer of skills, technologies, or knowledge from one business to another; vital to building synergy in related diversification.

Restructuring: Redesigning an organizational structure with the intent of emphasizing and enabling activities most critical to a firm's strategy to function at maximum effectiveness.

S

Shared Values: The basic norms and ideals that guide people's behaviors in the firm and form the underpinning of a firm's corporate culture.

Single-Business Firm: A firm that operates only one business in one industry or market (also known as an *undiversified firm*).

Six Sigma: A continuous improvement programme adopted by many companies in the last two decades that takes a very rigorous and analytical approach to quality and continuous improvement with an objective to improve profits through defect reduction, yield improvement, improved customer satisfaction, and best in class performance.

Socialization: The process by which shared values and ways of behaving are instilled in new managers and employees.

Special alert Control: Management actions undertaken thoroughly and more often very rapidly, reconsider a firm's strategy because of a sudden, unexpected event.

Specialization: The assignment of particular tasks and activities to those people who are best able to perform them.

Spin-Off: A form of corporate restructuring that sells businesses or parts of a company that no longer contribute to the firm's earnings or distinctive competence.

Standardization: The process of defining the organization's work practices and procedures so that people can repeatedly perform them at a given level or measure of performance.

Static Organizations: Firms that have adapted extremely well to a particular environment but lack the ability to respond quickly to change.

Strategic Alliances: Linkages between companies designed to achieve an economic objective faster or more efficiently than either company could do alone; take the basic forms of licensing arrangements, joint ventures, or multi partner consortia.

Strategic Business Unit: Form of organization that often represents larger product divisions or collections of smaller product divisions under one reporting relationship.

Strategic Groups: The distribution or grouping of firms that pursue similar strategies in response to environmental force, within an industry. Firms within the same strategic group will tend to compete more vigorously with one another than with firms from other strategic groups.

Strategic Management Process: The steps by which management converts a firm's values, mission, and goals objectives into a workable strategy; consists of four stages: analysis, formulation, implementation, and adjustment evaluation.

Strategic Surveillance: Management efforts to monitor a broad range of events inside and more often outside the firm that are likely to affect its course of action.

Strategy: Refers to the ideas, plans, and support that firms employ to compete successfully against their rivals. Strategy designed to help firms achieve competitive advantage.

Strategy Implementation: The process by which strategies are converted into desired actions.

Strategic Control: Management efforts to track a strategy as it is being implemented, detect problems and change in its underlying premises, and make necessary adjustments.

Structure: The formal definition of working relationships between people in an organization.

Support Activities: Economic activities that assist the firm primary activities (see primary activities).

Switching Costs: Costs that occur when buyers or supplier move from one competitor's products or services to another's.

SWOT Analysis: Shorthand for strengths, weaknesses, opportunities, and threats; a fundamental step in assessing the firm's external environment; required as a first step of strategy formulation and typically carried out at the business level of the firm.

Synergy: An economic effect in which the different parts of the company contribute a unique source of heightened value to the firm when managed as a single, unified entity.

System-wide Advantage: The building and sustaining competitive advantage across multiple business units to achieve corporate-wide strength.

T

Tactics: Specific action that need to be undertaken to achieve short-term objectives, usually by functional areas.

Terrain: The environment (or industry) in which competition occurs. In military sense, terrain is the type of environment or ground on which a battle takes place. From a business sense, terrain refers to markets segments, and products used to win over customers.

Threat: A major unfavourable situation in a firm's environment.

Total Quality Management: The cultivation and practice of quality in every person's tasks and activities throughout the organization.

Transaction Costs: Economic costs of finding, negotiating, selling, buying and resolving disputes with other firm (for example, suppliers and customers) in the open market.

U

Undiversified Firm: A firm that operate only one business in one industry or market (also known as single-business firm).

Unrelated Diversification: A strategy that *expands* the firm operations into industries and markets that are not similar or related to the firm's initial base; does not involve sharing the

firm's distinctive competence across different lines of business (see related diversification; related industry).

Upstream Activities: Economic activities that occur close to the firm's suppliers but far away from the consumer. Examples include inbound logistics, procurement, manufacturing and operations.

V

Value Chain: An analytical tool that describes all activities that make up the economic performance and capabilities of the firm; used to analyze and examine activities that create value for a given firm.

Value Chain Analysis: An analysis that attempts to understand how a business creates customer value by examining the contributions of different activities within the business to that value.

Value Engineering: Process by which each step in engineering and product development activities directly contribute to the value of the final product.

Value Proposition: The products and services that meet customer needs at a price that generates a positive economic return.

Vertical Integration: The expansion of the firm's value chain to include activities performed by suppliers and buyers; the degree

of control that a firm exerts over the supply of its inputs and the purchase of its outputs. Vertical integration strategies and decisions enlarge the scope of the firm's activities in one industry.

Virtual Advantage: A type of competitive advantage based on speed, fast turnaround and deep knowledge of customers' needs to create value faster than competitors can do, often by focusing on a few core value-adding activities.

Virtual Organization: An organizational format that coordinate and links up people and activities from different locations to communicate and act together often on a real-time basis.

Vision: The highest aspirations and ideals of a person or organization; what a firm wants to be. Vision statements often describe the firm or organization in lofty, even romantic or mystical tones (see mission: goals; objectives).

W

Weakness: A limitation or deficiency in or more resources or competencies relative to competitors that impedes a firm's effective performance.