STRATEGIC MANAGEMENT

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Business Environment

Each business organization operates in its unique environment. Environment influence businesses and also gets influenced by it. No business can function free of interacting and influencing forces that are outside its periphery.

Business

A **Business**, also known as an **enterprise** or a **firm**, is an organization involved in the trade of goods, services, or both to consumers. The etymology of "business" stems from the idea of being busy, and implies socially valuable and rewarding work.

It is said that a business exists for profits. Profit, as a surplus of business, accrues to the owners. It is their share, just as wages are the share of workers. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. As a motive, profit serves as a stimulant for business effort. For business enterprises, profit is often regarded as the overall measure of performance.

It is treated as a financial yardstick for measuring business efficiency and for evaluating managerial competence − how well the decisions and actions of managers turn out to be effective; how well they are able to combine and utilize resources and to sustain the enterprise as a going and a growing concern.

Other things being equal, the higher the efficiency the greater is the level and volume of profit. Business efficiency is often expressed in terms of percentage of profit to sales volume, to capital employed, to market value of corporate shares and so on.

Objectives of a Business

A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. Business is society's organ of economic expansion, growth and change. Some of the important objectives of a business are:

1. **Survival:** Survival is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on. However, business and other enterprises are interested in more than mere survival.

2. **Stability:** One of the most important of objectives of business enterprises is stability. It is a cautious, conservative objective. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance in a hostile external environment.

3. **Growth:** Growth is planned based on historical data and future projections. Growth requires the careful use of company resources such as finances and personnel. This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profits and market share, increase in manpower employment,

acquisition of other enterprises and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

4. **Profitability:** Profit is the lifeblood of business, without which no business can survive in a competitive market. Infact profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits.

In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

1. Creation of Customers
2. Regular Innovations
3. Best possible use of Resources.

<u>Environmental Influences on Business</u>

<u>Problems in understanding the environmental influences:</u>

- The environment encapsulates many different influences; the difficulty is in **making sense of this diversity** in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization.

- The second difficulty is that of **uncertainty**. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before.

- Managers are no different from other individuals in the way they cope with **complexity**.

<u>Framework to understand the environmental influences:</u>

- **Understand the Nature of the Organisation**: Firstly, it is useful to take an initial view of the nature of the organizations environment in terms of how uncertain it is. Is it relatively static or does it show signs of change.

- **Auditing of Environmental influences:** Here the aim is to identify which of the environmental influences are likely to affect the organization's development. This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations.

- **Study of Immediate Environment:** The final step is to focus more towards an explicit consideration of the immediate environment of the organization.

<u>Goals of Environmental Analysis:</u>

- *First,* the analysis should provide an **understanding** of current and potential changes taking place in the environment. It is important that one must be aware of the existing environment.

- *Second,* environmental analysis should **provide inputs** for strategic decision making. Mere collection of data is not enough. The information collected must be useful for and used in strategic decision making.

- *Third,* environment analysis should facilitate and foster **strategic thinking** in organizations-typically a rich source of ideas and understanding of the context within which a firm operates.

Characteristics of Business Environment

Business environment exhibits many characteristics. Some of the important and obvious – characteristics are briefly described here.

- **Environment is complex:** the environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences.

- **Environment is dynamic:** the environment is constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to ontinuously change its shape and character.

- **Environment is multi-faceted:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

- **Environment has a far reaching impact:** The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.

Components of Business Environment

The environment in which an organization exists could be broadly divided into two parts *the external* and *the internal* environment. The *external environment* includes all the factors outside the organization which provide opportunity or pose threats to the organization.

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

- ***An opportunity*** is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position.
  An example of an opportunity is growing demand for the products or services that a company provides.

- ***A threat*** is an unfavourable condition in the organization's environment which creates a risk for, or causes damage to, the organization.
  An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.

- ***A strength*** is an inherent capacity which an organization can use to gain strategic advantage over its competitors.

An example of strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.

- ***A weakness*** is an inherent limitation or constraint which creates a strategic disadvantage.
  An example of a weakness is over dependence on a single product line, which is potentially risky for a company in times of crisis.

Relationship between Organization and its Environment

The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas which are outlined below:

- **Exchange of information:** The organization scans the external environmental variables, their behavior and changes, generates important information and uses it for its planning, decision-making and control purposes. Information is to be generated on economic activity and market conditions, technological developments, social and demographic factors political-governmental policies and postures and so on.

- **Exchange of resources:** The organization is dependent on the external environment for disposal of its output of products and services to a wide range of customers. This is also an interaction process, understanding the needs of the external environment and catering to them, satisfying the expectations and demands of the stakeholders.

- **Exchange of influence and power:** The external environment holds considerable power over the. Governmental control over the organization is one such power relationship. In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information.

Environmental Scanning

Environmental analysis will help the firm to understand what is happening both inside and outside the organization.

The factors *which need to be considered for environmental scanning are events, trends, issues and expectations of the different interest groups. These factors are explained below:*

- **Events** are important and specific occurrences taking place in different environmental sectors. Events are certain happening in the internal or external organisational environment which can be observed and tracked.

- **Trends** are grouping of similar or related events that tends to move in a given direction, increasing or decreasing in strength of frequency of observation;usually suggests a pattern of (for eg., consumer behaviour, technology use).

- **Issues** are the current concerns that arise in response to events and trends. Identifying an emerging issue is more difficult. Emerging issues start with a value shift, or a change in how an issue is viewed.

- **Expectations** are the demands made by interested groups in the light of their concern for issues.

The Micro and Macro Environment

Elements of Micro Environment:

- **Consumers/Customers**
  According to Peter Drucker the aim of business is to create and retain customer. Customers are the people who pay money to acquire an organization's products. The organizations cannot survive without customers. Customers may or may not be a consumer. Consumer is the one who ultimately consumes or uses the product or service. A father may buy a product as a customer for his daughter who will be a consumer.

- **Competitors**
  Competitors are the other business entities that compete for resources as well as markets. Competition may be direct or indirect. Direct competition is between organizations, which are in same business activity. At the same time competition can also be indirect. For example, competition between a holiday resort and car manufacturing company for available discretionary income of affluent customers is indirect competition.

- **Organization**
  Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. These are:

  - ✓ *Owners:*
  - ✓ *Board of directors*.
  - ✓ *Employees*

- **Market**
  The marketer should study the trends and development and the key success factors of the market he is operating. Important issues are :

  - ✓ Cost Structure
  - ✓ Price Sensitivity
  - ✓ Technological Structure
  - ✓ Existing Distribution System

- **Suppliers**
  Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Large companies rely on hundreds of suppliers to maintain their production. Suppliers with their own bargaining power affect the cost structure of the industry. Also organizations have to take a major decision on "outsourcing" or "in-house" production depending on this supplier environment.

- **Intermediaries**
  Intermediaries can be considered as the major determining force in the business. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores such as Big bazaars, Wal-mart etc that are increasingly becoming popular in some big cities.

Elements of Macro-Environment

- **Demographic Environment**

The term demographics denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership, home ownership, employment status and location.

India has relatively younger population as compared to some countries. China on the other hand is having an aging population. Many multinationals are interested in India considering its population size.

- **Economic Environment**

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability.

Few Economic Factors are:

  - ✓ Level of disposable income
  - ✓ Consumption patterns
  - ✓ Income differences by region and Consumer groups

- **Political-Legal Environment**

There are three important elements in political-legal environment.
(i) **Government**: Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business. Taxes and duties are other critical area that may be levied and affect the business

(ii) **Legal:** Business Organizations prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations.

(iii) **Political:** Political pressure groups influence and limit organizations. Also special interest groups and political action committees put pressure on business organizations to pay more attention to consumer's rights, minority rights, and women rights.

- **Socio-Cultural Environment**

Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization.
The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

Some of the important factors and influences operating in this environment are:

  - ✓ Social Concerns
  - ✓ Social Attitudes
  - ✓ Family Structure
  - ✓ Role of Women in Society
  - ✓ Educational levels, awareness and consciousness of rights.

- **Technological Environment**

The most important factor, which is controlling and changing people's life, is technology. This is leading to many new business opportunities as well as making obsolete many existing systems. Technology can act as both opportunity and threat to a business.

- **Global Environment**

Due to economic reforms, Indian companies are acquiring business in different countries. The companies are increasingly interested in globalising.

• **Nature of Globalization:** In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries.

• **Why do companies go global?**
There are several reasons why companies go global. These are discussed as follows:

1. One reason could be the rapid **shrinking of time and distance** across the globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.

2. **Inadequate Home Market:** It is being realised that the domestic markets are no longer adequate and rich. Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced. Some European companies have gone global for similar reason.

3. **Industrial Advantage:** Another reason for going overseas may also vary by industry. Petroleum and mining companies often go global to secure a reliable or cheaper source of raw-materials. Some manufacturing companies, by contrast, have often ventured overseas to protect old markets or to seek new ones. For example cheap labour in India lure foreign investors.

• **Manifestation of Globalization:**

1. **Increasing trend towards privatization:** Governments are everywhere withdrawing from owning and running business enterprises. Private entrepreneurs are given greater access and freedom to run business units.

2. **Mobility of skilled resources:** Skilled labour is highly mobile. Modern factories use highly skilled labour which is freely mobile. Where labour is unskilled, managements are spending vast sums of money to train workers become skilled in their jobs.

3. **Market-side efficiency:** Integration of global markets implies that costs, quality processing time, and terms of business become dominant competition drivers. Customers can make a genuine choice of products and services on the basis of maximum value for money.

4. **Entrepreneur and his unit have a central economic role:** In the emerging world order, the entrepreneur and his unit become central figures in the process of economic growth and development of a nation.

PESTLE Analysis
PESTLE is an acronym for:
- ✓ P- political
- ✓ E- economic
- ✓ S- socio-cultural
- ✓ T- technological
- ✓ L- legal
- ✓ E- environmental

Strategic Responses to the Environment
It is also difficult to determine exactly what business should do in response to a particular situation in the environment. In this context following approaches may be noted:

- **Least resistance:** Some businesses just manage to survive by way of coping with their changing external environments. They are not ambitious but are content with taking simple paths of least resistance in achieving the goals.

- **Proceed with caution:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment.

- **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They convert threats into opportunities.

Competitive Environment

organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Even large public sector monopolies are gradually getting privatised and facing competition. The monopolies enjoyed by the Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd have faded away after entry of private players.

- **Cooperation in a Competitive Environment:** In economics we study oligopoly, wherein a small number of only manufactures/sellers of a product may join together to have monopolistic behaviour. An example of oligopoly can be Organization of the Oil Exporting Countries (OPEC), which is collective group of nations extracting and exporting oil.

- **Cooperation on account of family ownership:** Theoretically, cooperation generates automatically in businesses owned by a same family. Commonly, the ownership group is nothing but a family and its kith and kin. In India, a very large number of business enterprises, big, medium and small, are family-managed enterprises. These include large business houses such as Tata, Birla, Godrej, Reliance, Modi, Escorts and *etc.*

Porter's Five Forces Model - Competitive Analysis

Named after Michael E. Porter, this model identifies and analyzes 5 competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths:

1) **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure.

2) **Bargaining power of customers:** If the bargaining power of customers is high, they influence the profitability of the market by imposing their requirements in terms of price, service, quality etc. Choosing clients is crucial because a firm should avoid to be in a situation of dependence.

3) **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The bargaining power of suppliers is very important in a market. Powerful suppliers can impose their conditions in terms of price, quality and quantity. On the other hand if there are a lot of suppliers their influence is weaker. One has to analyze the number of realized orders, the cost of changing the supplier, the presence of raw materials etc.

4) **Rivalry among current players:** The rivalry among existing players is an idea that can be easily understood. This is what is normally understood as competition. And it is obvious that for any player, the competitors influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

5) **Threats from substitutes:** The substitute products can be considered as an alternative compared to supply on the market. These products are due to changes in the state of technology or to the innovation. The companies see their products be replaced by different products. These products often have a better price/quality report and come from sectors with higher profits. These substitute products can be dangerous and the company should anticipate to cope with this threat.

   The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability.

Business Policy and Strategic Management

Business Policy*:*

Business Policy is "the study of the functions and responsibilities of senior management. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Without a strategy the organization is like a ship without a rudder.- Joel Ross and Michael Kami

What is Management?

The term 'management' can be used in two major contexts[1]. One, It is used with reference to a key group in an organisation in-charge of its affairs. Two, The term is also used with reference to a set of interrelated functions and processes.

What is a Strategy?

A typical dictionary will define the word strategy as something that has to do with war and ways to win over enemy. In business sense, It can be defined as a plan of action designed to achieve a long-term or overall aim.

Corporate Strategy

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

A corporate strategy has the following characteristics:

- It is generally long-range in nature
- It is flexible and dynamic.
- It is generally meant to cope with a competitive and complex setting.
- It provides unified criteria for managers in function of decision making.

Purpose of a Corporate Strategy:

It serves as the design in achieving the long-term objectives of the organization. Basically the purpose of corporate strategy is to **harness[2] the opportunities** available in the environment, countering the threats hidden therein.

It is obvious that responding to environment is part and parcel of a firm's existence. The question is how good is the response.

Strategic Management

The present organizational operations are highly influenced by the increasing rate of change in the environment and the ripple-effect created on the organization. No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer.

Framework of a Strategic Process:

The basic framework of strategic process can be described in a sequence of five stages, as explained below:

1) **Stage one -** Where are we Now? (Beginning): This is the starting point of strategic planning. Here the firm must find out its relative market position, corporate image, its

strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis.

2) **Stage two -** Where are we Want to Be? (Ends): This is a process of goal setting. A roadmap is to be created for the company's future –

   The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

   providing specifics about technology and customer focus, the geographic and product markets to be pursued.

3) **Stage three** - How Might we Get There? (Means): Here the organization deals with the various strategic alternatives it has.

4) **Stage four** - Which Way is Best? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable.

5) **Stage five** - How Can we Ensure Arrival? (Control): This is an implementation and control stage of a suitable strategy.

Importance of Strategic Management

'Survival of fittest 'as propagated by Darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organization but those who can change and adapt successfully to the changes in business environment.

The major benefits of strategic management are:

1) Strategic management helps organisations to be more proactive instead of reactive. Organisations are able to analyse and take actions instead of being mere spectators.

2) Strategic management serves as a corporate defence mechanism against mistakes and pitfalls.

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

4) Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities etc.

Strategic Decision Making

Decision making is a managerial process and function of choosing a particular course of action. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations.

The major dimensions of strategic decisions are given below:

- ***Strategic issues require top-management decisions*: ** Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.

- ***Strategic issues involve the allocation of large amounts of company resources*:** It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.

- ***Strategic issues are likely to have a significant impact on the long term prosperity of the firm*:** Generally the results of strategic implementation are seen on a long term basis and not immediately.

- ***Strategic issues are future oriented*:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

- ***Strategic issues usually have major multifunctional or multi-business consequences:*** As they involve organization in totality they affect different sections of the organization with varying degree.

- ***Strategic issues necessitate consideration of factors in the firm's external environment:*** Strategic focus in organization involves orienting its internal environment to the changes of external environment.

The Vision:
The three elements of a strategic vision:

1) Coming up with a **mission statement** that defines what business the company is presently.

2) Using the mission statement for **making choices** about "Where we are going?"

3) **Communicating** the strategic vision in clear terms that inspire organization wide commitment.

Examples of Vision are**:**
ICAI: "*World's leading accounting body, a regulator and developer of trusted and independent professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services."*

TATA Motors: "*To be a world class corporate constantly furthering the interest of all its stakeholders."*

Mission:
A **mission** statement is a statement of the purpose of a company, organization, its reason for existing. It's like a goal for what the company wants to do for the world.

A 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.

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

Why organization should have mission?

1. To ensure unanimity of purpose within the organization.
2. To provide a basis for motivating the use of the organization's resources.
3. To develop a basis, or standard, for allocating organizational resources.

4. The Mission Statement will help measure whether the strategic plan aligns with the overall goals of the agency.

Examples of Mission Statements:
Ford : "The Ford Motor Company has one mission, one team, one play and one goal that has led it to be the #1 car company in America and one of the great American brands."

Ebay: "eBay's mission is to provide a global trading platform where practically anyone can trade practically anything."

Objectives and Goals
All organizations have objectives. Objective to be meaningful to serve the intended role must possess following characteristics:

1) Objectives should define the organization's relationship with its environment.
2) Objectives should be understandable.
3) Objectives should be challenging
4) Objectives should be related to a time frame
5) They should be facilitative towards achievement of mission and purpose.

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

Strategic Analysis

However beautiful the strategy, you should occasionally look at the results.
Sir Winston Churchill

Situational Analysis

Situational Analysis is a systematic collection and evaluation of past and present economical, political and social data, and studying internal and external forces that influence the organization.

Some of the important factors to be considered here are:

1) ***Environmental factors*****:** What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors.

2) ***Opportunity and issue analysis*****:** What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.

3) ***Competitive situation*****:** Analyze main competitors of organisation: Who are they what are they up to - how do they compare. What are their competitive advantages? Analyse their strength and weaknesses.

4) ***Product situation*****:** The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell.

The methods of Industry and Competitive Analysis

1. Dominant economic features of the industry:

Industry is "a group of firms whose products have same and similar attributes such that they compete for the same buyers." The factors to consider in estimating the industry's economic features are:

1) Market growth rate and **position** in the business life (early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline).

2) Whether the **products and services** of rival firms are highly **differentiated**, weakly differentiated, or essentially identical.

3) Whether industry **profitability** is above/below par.

4) Whether organisation can realize **economies of scale** in purchasing, manufacturing, transportation, marketing, or advertising.

2. Triggers of change:

All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from the businesses. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.anges in the overall industry growth rate.

3. The most common driving forces are:

1) Increasing globalization.
2) Product innovation.
3) Marketing innovation.
4) The internet and the new e-commerce opportunities and threats it breeds in the industry.

4. Identifying the companies that are in the strongest/weakest positions:

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is **strategic group mapping.**

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

1) Identify the competitive characteristics that differentiate firms in the industry.
2) Plot the firms on a two-variable map using pairs of these differentiating characteristics.
3) Assign firms that fall in about the same strategy space to the same strategic group.
4) Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

5. Key factors for competitive success:

An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace. To put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

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

1) On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?

2) What resources and competitive capabilities does a seller need to have to be competitively successful?

3) What does it take for sellers to achieve a sustainable competitive advantage?

Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.

Strategic Planning

Strategic Alternatives

1. **Michael Porter's Generic Strategies**

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus.

Porter calls these base generic strategies. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are pricesensitive.

Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively priceinsensitive. Focus means producing products and services that fulfill the needs of small groups of consumers.

2. **Cost Leadership Strategies:** A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation.

While reducing costs, The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. Companies that are successful in achieving Cost Leadership usually have:

- Access to the capital needed to invest in technology that will bring costs down.
- Very efficient logistics.
- A low cost base (labor, materials, facilities), and a way of sustainably cutting costs below those of other competitors.

The greatest risk in pursuing a Cost Leadership strategy is that these sources of cost reduction are not unique to you, and that other competitors copy your cost reduction strategies. This is why it's important to continuously find ways of reducing every cost.

3. **Differentiation Strategy:**

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

The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product.

Because of the product's unique attributes, if suppliers increase their prices. the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

Firms that succeed in a differentiation strategy often have the following internal strengths:

1) Access to leading scientific research.
2) Highly skilled and creative product development team.
3) Strong sales team with the ability to successfully communicate the perceived strengths of the product.

4) Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes.

Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

4. Focus Strategy:

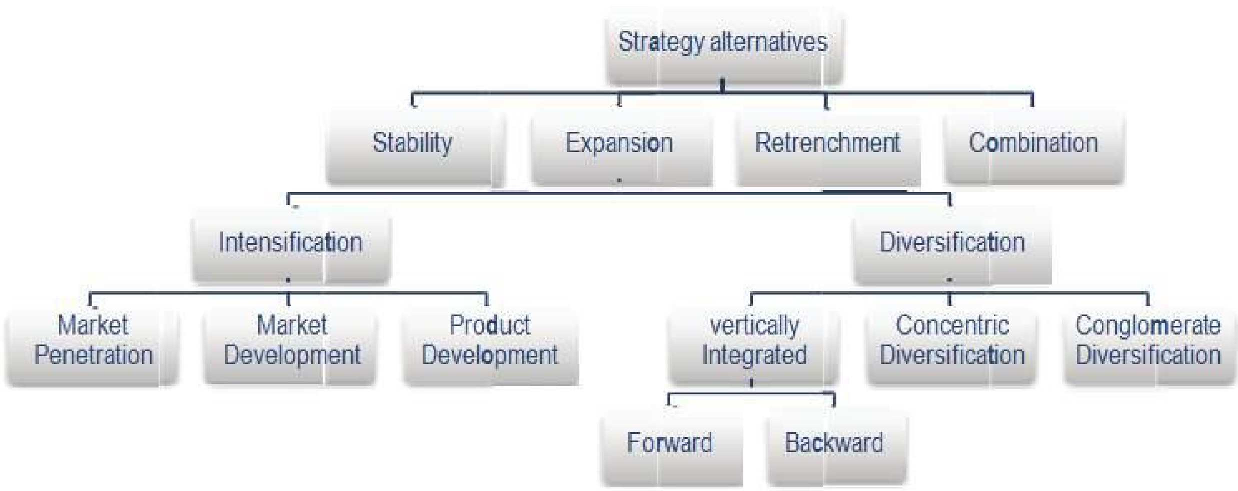
The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

5. Grand Strategies/Directional Strategies

Various strategy alternatives are available to a firm for achieving its growth objective. Here we shall see what these alternatives are:



Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
Retrenchment	The firm retrenches some of the activities in a given business (es), or drops the business as such through sell-out or liquidation.

Combination	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirement of the firm.

A. Stability strategy:

* A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
* Stability strategy does not involve a redefinition of the business of the corporation.
* It is basically a safety-oriented, status quo-oriented strategy.
* It does not warrant much of fresh investments.
* The risk is also less.
* It is a fairly frequently employed strategy.
* With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.

B. Expansion strategy:

Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.

Expansion strategy is the most frequently employed generic strategy.

Expansion or growth strategy can either be through intensification or diversification. **Igor Ansoff** gave a framework as shown which describe the intensification options available to a firm.

I. Growth in existing product markets Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users	II. Product development Add product features, product refinement Develop a new-generation product Develop new product for the same market
III. Market development Expand geographically Target new segments	IV. Diversification involving new products and new markets Related Unrelated

A. **Market Penetration:** The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

B. **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

C. **Product Development:** Product Development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

D. **Diversification Strategy:** Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

a. (i) Vertically integrated diversification: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.

Forward and Backward Integration:
Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying firms opt to engage in businesses that are linked forward or backward in the chain.

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels.

a. (ii) Horizontal Integrated Diversification: Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
Exchange or share assets or competencies, there by exploiting ➢ **Brand name** ➢ **Marketing skills** ➢ **Sales and distribution capacity** ➢ **Manufacturing skills** ➢ **R&D and new product capability** ➢ **Economies of**	➢ Manage and allocate cash flow. ➢ Obtain high ROI. ➢ Obtain a bargain price. ➢ Refocus a firm. ➢ Reduce risk by operating in multiple product markets. ➢ Tax benefits. ➢ Obtain liquid

a. (iii) Concentric Diversification: Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process,technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage.

a. **(iv) Conglomerate Diversification:** In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

<u>Retrenchment, Divestment and Liquidation Strategies</u>:

Retrenchment is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. We deal with each of these strategies below.

Turnaround Strategies: Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.
There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

- Persistent negative cash flow
- Negative profits
- Declining market share
- Deterioration in physical facilities
- Over-manning, high turnover of employees, and low morale
- Uncompetitive products or services
- Mismanagement

A set of **<u>ten elements</u>** that contribute to turnaround are:

1. Changes in the top management
2. Initial credibility-building actions
3. Neutralising external pressures
4. Initial control
5. Identifying quick payoff activities
6. Quick cost reductions
7. Revenue generation
8. Asset liquidation for generating cash
9. Mobilization of the organizations
10. Better internal coordination.

Divestment Strategies: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A <u>divestment strategy may be adopted</u> due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

Liquidation Strategies: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India.

Formulation of Functional Strategy

Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. A functional strategy is one that dictates the task and activities of a certain business area.

Need for a functional Strategy:

- The development of functional strategies is aimed at making the strategiesformulated at the top management level-practically feasible at the functional level.
- Functional strategies help in bringing coordination as they remain part of major strategies.
- Functional strategies facilitate flow of strategic decisions to the different parts of an organization.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done

Marketing Mix

The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps."

1. **Product:** The term 'Product' refers to tangible, physical products as well as services. Products and markets are dynamic. An organization has to understand such dynamism through a set of strategies. Some products have consistent customer demand over long period of time while others have short life spans.

   Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to get into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketers product is different from others.

2. **Price** stands for the amount of money customers have to pay to obtain the product. The price of a product depends on its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

   For a new product an organization may either choose to **skim** or **penetrate** the market. In s*kimming* prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial off take of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In *penetration* firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential consumer may be able to afford and willing to try the product.

3. **Place:** 'Place' is concerned with various methods of transporting and storing goods, and then making them available for the customer. One of the most basic marketing decision is choosing the most appropriate marketing channel. The choice of distribution method will depend on a variety of circumstances. It will be more convenient for some manufacturers to sell to wholesalers who then sell to retailers, while others will prefer to sell directly to retailers or customers.

4. **Promotion** is the business of communicating with customers. It will provide information that will assist them in making a decision to purchase a product or service.

   There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

   i). ***Personal selling:*** Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the customers and provides personal attention to them. Personal selling suffers from a very high costs as sales personnel are expensive. They can physically attend only one customer at a time. Thus it is not a cost-effective way of reaching
   a large number of people. However, as it is a highly effective method to persuade a potential customer into making a purchase, the personal selling is used in all kind of industries for all products.

   ii). ***Advertising:*** Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure cannot be directly measured.

   iii). ***Publicity:*** Publicity is also a non-personal form of promotion similar to advertising. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases.

   iv). ***Sales promotion:*** Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity.
   Activities like discounts, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion.

Expanded Marketing Mix

Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. A few new Ps are as follows:

1. **People**: customer service lies at the heart of modern service industries. Customers are likely to be loyal to organisations that serve them well -from the way in which a telephone query is handled, to direct face-to face interactions.

2. **Physical evidence / Physical Layout**: Today consumers typically come into contact with products in retail units - and they expect a high level of presentation in modern shops - e.g. record stores, clothes shops etc. Not only do they need to easily find their way around the store, but they also often expect a good standard or presentation.

3. **Process**: Associated with customer service are a number of processes involved in making marketing effective in an organisation e.g. processes for handling customer complaints, processes for identifying customer needs and requirements, processes for handling order etc.

Marketing Analysis

Marketing analysis involves a complete analysis of the company's situation. It also analyzes its strengths and weaknesses to determine which opportunities the company can best pursue.

1. The **executive summary** is a short summary of the main goals and recommendations to be presented in the plan.
2. In the threats and opportunities section, managers are forced to anticipate important developments that can have an impact, either positive or negative, on the firm.
3. Having studied the product's threats and opportunities, the manager can set objectives and consider issues that will affect them.
4. The marketing budget is a section of the marketing plan that shows projected revenues, costs, and profits.
5. The last section of the marketing plan outlines the controls that will be used to monitor progress. This allows for progress checks and corrective action.

Marketing Strategy Techniques

1. **Social Marketing:** Application of commercial marketing concepts, knowledge, and techniques to non-commercial objectives for the society's welfare. For instance, the publicity campaign for prohibition of smoking explained the place where one can and can't smoke in public places.

2. **Augmented Marketing.** It is provision of additional customer services and benefits built around the actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services etc.

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

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

5. **Services Marketing:** A **service** is the action of doing something for someone or something. The promotion of economic activities offered by a business to its clients. Service marketing might include the process of selling telecommunications, health treatment, financial, hospitality, car rental, air travel, and professional services.

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

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

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

9. **Enlightened Marketing:** Enlightened Marketing is based on the philosophy that a company should make good marketing decisions by considering some of the long term factors in mind. Those factors should support the best long-run performance of the marketing system. Some of those factors are consumers' wants, the company's requirements, and society's long-term interests. Essentially Enlightened Marketing is broken down into five principles that include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

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

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

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

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

Financial Strategy Formulation

The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation, as explained below:

1. Acquiring capital to implement strategies / sources of funds: Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation.

The major factors regarding which strategies have to be made are:

- ✓ capital structure;
- ✓ procurement of capital and working capital borrowings;
- ✓ reserves and surplus as sources of funds;
- ✓ and relationship with lenders, banks and financial institutions.

2. Projected financial statements / budgets: Projected (pro forma) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions.

Primarily as a result of the **Enron** collapse and accounting scandal, companies today are being much more diligent in preparing projected financial statements to "reasonably rather than too optimistically" project future expenses and earnings.

A financial budget is also a document that details how funds will be obtained and spent for a specified period of time.

3. Management / usage of funds: Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions.
The management of funds is an important area of financial strategies. For instance, Gujarat Ambuja Cements, currently a highly profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control. This company has been particularly successful in maintaining a low cost for power, which is a major input in cement manufacturing.

4. Evaluating the worth of a business: All the various methods for determining a business's worth can be grouped into three main approaches:

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

2. The second approach to measuring the value of a firm growth. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

3. The third approach, letting the market determine a business's worth, involves three methods. **First,** base the firm's worth on the selling price of a similar company. The **second** approach is called the price-earnings ratio method. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The **third** approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium.

Production Strategy Formulation
The strategy for production is related to the production system, operational planning and control, and research and development (R&D).

A strategy of expansion through related diversification, for instance, will affect what products are offered to which market and how these markets are served.

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

2. **Operations Planning and Control:** Strategies related to operations planning and control include production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilized.

Logistics Strategy
Management of logistics is a process which integrates the flow of supplies to and from the organization, to achieve a level of efficiency 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.

- **Supply Chain Management**

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like procurement of material, conversion, and logistics.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management, supply/demand planning. Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

- **Implementing Supply Chain Management Systems:**

Implementing and successfully running supply chain management system will involve:

1. **Product development:** Customers and suppliers must work together in the product development process. Products that are developed and launched in shorter time and help organizations to remain competitive.

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

3. **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT).

4. **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant.

5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also includes outsourcing of services that traditionally have been provided within an organization.

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

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

Research and Development

Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products. Technological improvements that affect consumer and industrial products and services shorten product life cycles.

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

1. The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach.

2. A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start up.

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

Human Resource Strategy Formulation
An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence is very important.
The following points should be kept in mind:

1. ***Recruitment and selection:*** The workforce will be more competent if a firm can successfully identify, attracts, and select the most competent applicants.

2. ***Training*:** The workforce will be more competent if employees are well trained to perform their jobs properly.

3. ***Appraisal of performance:*** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counselling, coaching or training.

4. ***Compensation:*** A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of their competitors. This practice enables organizations to attract and retain the most capable people.

Strategic Role of Human Resource Management:
The prominent areas where the human resource manager can play strategic role are as follows:

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

Creating competitive atmosphere: Present's globalized market maintaining a competitive gain is the object of any organization. There are two important ways of business can achieve a competitive advantages over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers.

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

Development of works ethics and culture: As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation.

Strategy Implementation and Control

Strategy Formulation Vs Strategy Implementation

Strategy Formulation	Strategy Implementation
Strategy formulation is positioning forces before the action.	Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process.	Strategy implementation is primarily an operational process.
Strategy formulation requires good intuitive and analytical skills.	Strategy implementation requires special motivation and leadership skills
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals.

Two types of linkages exist between these two phases of strategic management. 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.

- ***Forward Linkages:*** With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organization. For instance, the organizational structure has to undergo changes with new strategy.

- ***Backward Linkages:*** Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. Organizations need to adopt those strategies which can be implemented with the help of the present available resources.

Issues in Strategy Implementation

The different issues involved in strategy implementation are:

Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent:. Strategies, therefore, have to be activated through implementation.

Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in different kinds of programmes. An example of a programme is a research and development programme for the development of a new product.
Programmes lead to the formulation of projects. Thus, research and development programmes may consist of several projects, , requires separate allocation of funds, and is to be completed within a set time schedule.

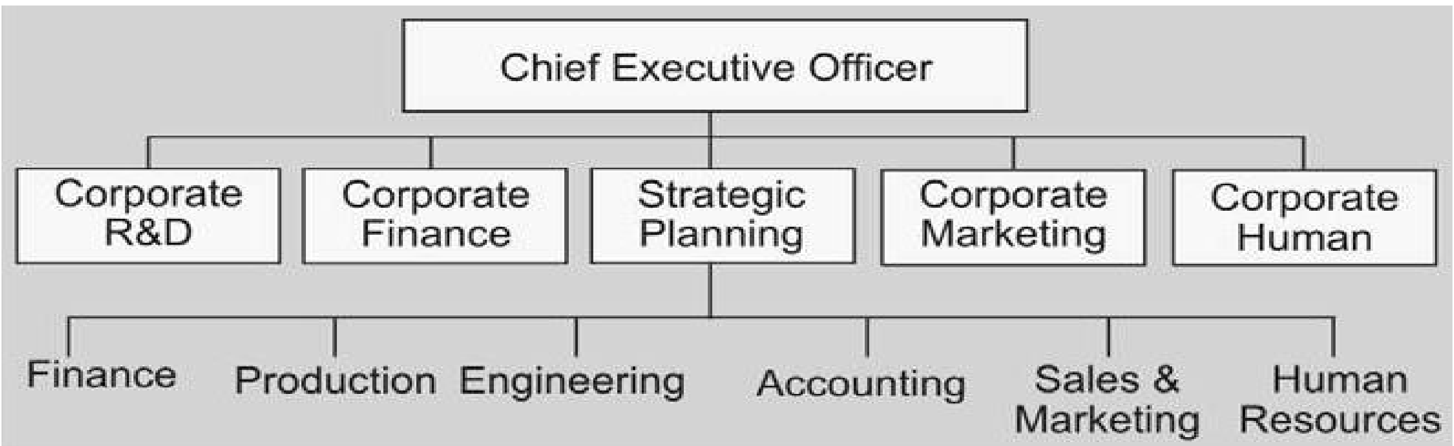
Projects create the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Organization and Strategy Implementation

The Functional Structure

A widely used structure in business organisations is functional type because of its simplicity and low cost. Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, and allows rapid decision making.

Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes times characterized by low employee morale.



The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources.

The Divisional Structure

As a small organization grows, it has more difficulty in managing different products and services in different markets. The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process.

Advantages of a Divisional Structure:

- ✓ **Accountability** is clear. That is, divisional managers can be held responsible for sales and profit levels.
- ✓ Employee **morale** is generally higher
- ✓ It creates career development opportunities for managers
- ✓ Allows new businesses and products In be added easily

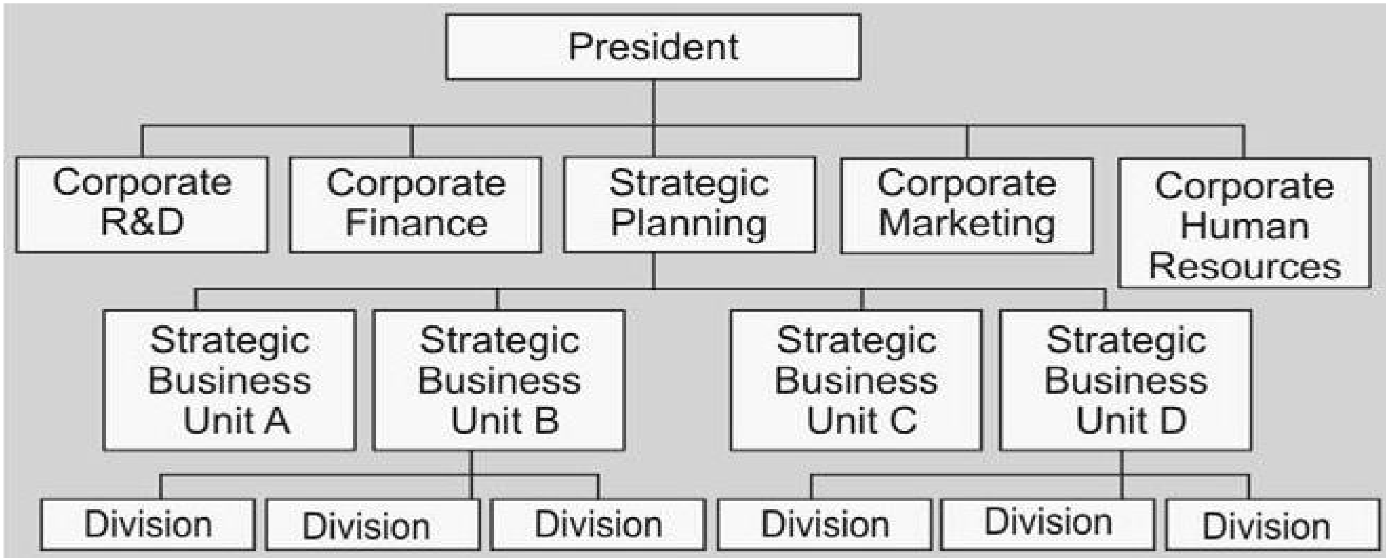
Limitations/Disadvantages:

- ✓ Divisional structure is **costly**
- ✓ Not suitable for all types of businesses.

The Strategic Business Unit (SBU) Structure

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day to day operations.

As certain divisions are re-grouped into an SBU, This change in structure can facilitate strategy implementation by improving coordination between similar divisions.



Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous.

For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organised into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g., Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability.

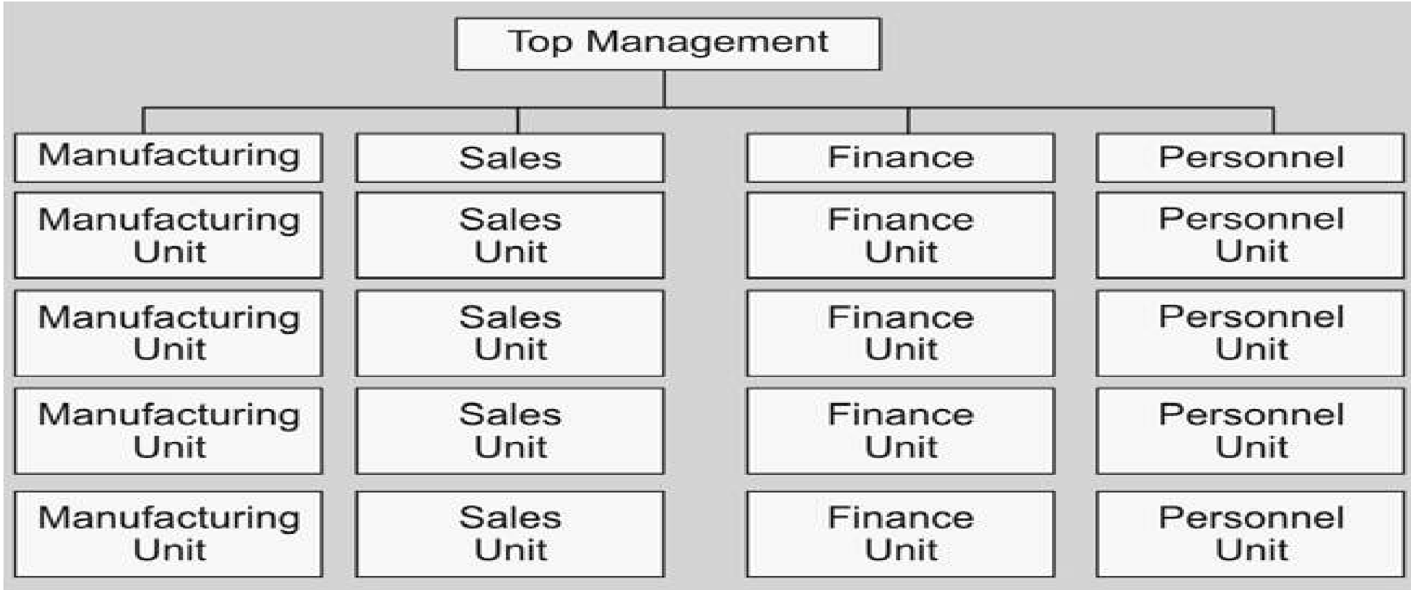
Newer Forms of Organization Structures

The Matrix Structure

A matrix organization structure is usually defined as one where there are multiple reporting lines – that is, people have more than one formal boss.

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix).

The matrix structure is very useful when the external environment (especially its technological and market aspects) is very complex and changeable.



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

1. ***Cross-functional task forces*:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.

2. ***Product/brand management*:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins.

3. ***Mature matrix*:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent.

Network Structure

A newer and somewhat more radical organizational design, the network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions. Many activities are outsourced.

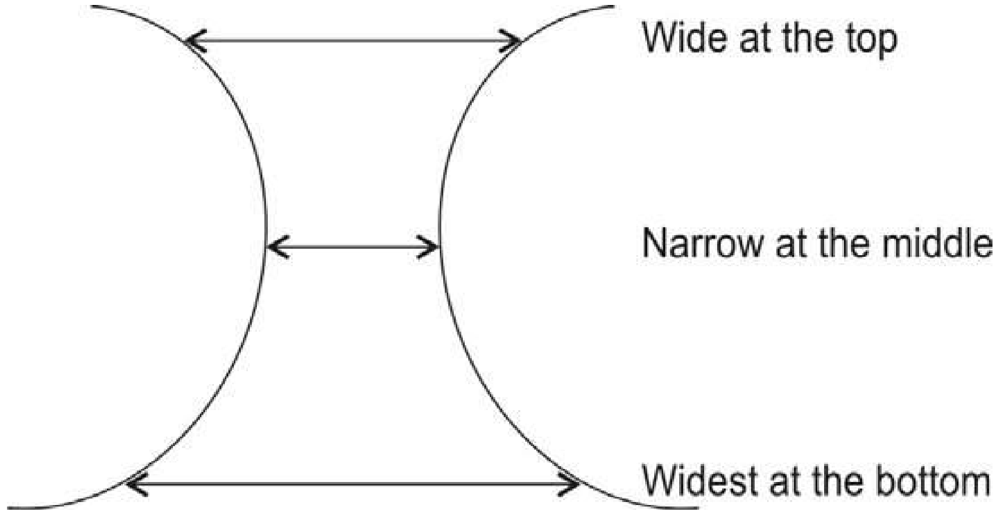
This is called virtual because, network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration.

Rather than being located in a single building or area, an organization's business functions are scattered worldwide.

Companies like Nike, Reebok and Benetton use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost

Hourglass Structure

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools.



The structure has a short and narrow middle-management level.

The managers in the hourglass structure are generalists and perform wide variety of tasks.

Advantages:

- Reduced Costs.
- Simplifying decision making.
- Decision making authority is shifted close to the source of information so that it is faster.

However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly. Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high.

Strategic Business Units & Core Competence

An SBU is a grouping of related businesses. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way.

The attributes/characteristics of an SBU and the benefits are:

1. A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.

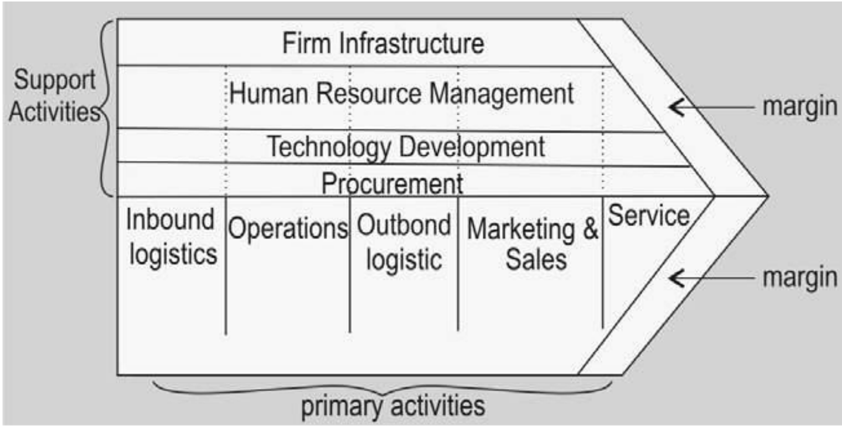
2. An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses.

3. Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.

4. Each SBU will have a CEO.

5. Each SBU will have its own distinct set of competitors

The Value Chain Analysis: Value chain analysis has been widely used as a means of describing the activities within and around an organization.



The primary activities of the organization are grouped into five main areas:

1. **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product/service.
2. **Operations transform** these various inputs into the final product or service: machining, packaging, assembly, testing etc.
3. **Outbound logistics** collect, store and distribute the product to customers.
4. **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it.
5. **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

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

- ***Procurement*****:** This refers to the processes for acquiring the various resource inputs
- ***Technology development*****:** All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development)
- ***Human resource management*****:** It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- ***Infrastructure*****:** Infrastructure also consists of the structures and routines of the organization like planning, finance, quality control etc.

Identifying Core Competences:
These are the competences which gives the organization the competitive advantage over its rivals. These are known as the core competences and will differ from one organization.

The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

Value chain analysis is helpful in identifying those activities which the organization must undertake to maintain its competence and those which represent the core competences of the organization.

However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences.

<u>Managing linkages</u>:
Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. This can be avoided by the management of linkages within the organization's value chain.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer.

- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. Travel bookings and hotel reservation systems are such examples.

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

<u>Leadership and Strategic Implementation</u>
A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, and head cheerleader etc.

Managers have <u>five leadership roles to play in pushing for good strategy execution</u>:

1. Staying on top of what is happening, closely **monitoring progress**.

2. Promoting a culture and **spirit** that mobilizes and energizes organizational members to execute strategy.

3. Keeping the organization **responsive** to changing conditions, alert for new opportunities.

4. Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.

5. Making corrective actions to improve strategy execution and overall strategic performance.

<u>Leadership role in implementation</u>
The strategic leader has several responsibilities in Strategy implementation, as follows:

- Managing human capital
- Maintaining high performance over time.
- Being willing to make courageous decisions.
- Seeking feedback through face-to-face communications.
- Having decision-making responsibilities that cannot be delegated.

<u>Transformational Vs Transactional Leadership style</u>:

Transformational leadership style use charisma and enthusiasm to inspire people
Transformational leaders offer excitement, vision, intellectual stimulation and personal

satisfaction. Such a leadership motivates the employees to improve their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Whereas, ***transactional leadership style*** focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Strategic Change

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

1. ***Recognize the need for change***: The This basically means going for environmental scanning, analysis and then determine where the problem lies and scope for change exists.

2. ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should be same. There should be no conflict between them. Senior managers need to constantly and consistently communicate the vision to all levels of the organization.

3. ***Institutionalise the change***: This is basically an action stage which requires implementation of changed strategy. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken.

Reaching Strategic Edge

Business Process Reengineering

Business process reengineering (often referred to by the acronym BPR) is the main way in which organizations become more efficient and modernize. Business process reengineering transforms an organization in ways that directly affect performance.

The orientation of the redesign effort is radical. Radical redesigning means going to the root of the problem areas and not attempting to make any superficial changes. Radical redesign involves completely discarding all existing structures and procedures and evolving completely new ways of doing the work.

Implementing BPR in organizations:

Steps in BPR are as follows:

1. **Determining objectives and Framework:** Objectives are the desired end results of the redesign process.

2. **Identify customers and determine their needs:** The designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.

3. **Study the existing process:** The existing processes will provide an important base for the redesigners.

4. **Formulate a redesign process plan:** The information gained through the earlier steps is translated into an ideal redesign process.

5. **Implement the redesign:** It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements.

The Role of Information Technology in BPR

IT-initiatives 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

All these can bring about a radical change in the quality of products and services, thereby improving the competitiveness and customer satisfaction. Information technology (IT) is a critical factor in the success of bringing this change.

Problems in BPR: Reengineering is a major and radical improvement in the business process. Only a limited number of companies are able to have enough courage for having BPR because of the challenges posed.

Benchmarking

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

The Benchmarking Process:

1. ***Identifying the need for benchmarking and planning:*** This step will define the objectives the benchmarking exercise.

2. ***Clearly understanding existing business processes:*** This step will involve compiling information and data on performance. This will include mapping processes.

3. ***Identify best processes:*** Within the selected framework, best processes are identified.

4. ***Compare own processes and performance with that of others:*** While comparing gaps in performance between the organization and better performers is identified.

5. ***Prepare a report and Implement the steps necessary to close the performance gap:*** A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.

6. ***Evaluation:*** Business organizations evaluate the results of the benchmarking process in terms of improvements

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

Principles guiding TQM

- **Focusing on the customer:** According to Lee Iacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer. This sums up the importance of customer focus in the TQM philosophy

- **Preventing rather than detecting defects:** TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects.

- **Root cause corrective action:** Most of us have experienced instances in which problems we thought were corrected continued to occur. TQM seeks to prevent this by identifying the root causes of problems.

- **Supplier teaming:** Another principle of the TQM philosophy is to develop long-term relationships with a few high-quality suppliers.

- **A sustained management commitment to quality**: An organization's personality and culture will ultimately reflect its senior management's values. If an organization is serious about implementing TQM, the commitment to do so has to start at the top.

TQM Vs Traditional Management Practices

TQM is quite different from traditional management practices, requiring changes in organizational processes, beliefs and attitudes, and behaviours. Some of the key differences are as follows:

- **Changing Relationships with Customers and Suppliers:** In TQM, quality is defined as products and services beyond present needs and expectations of customers. Innovation is required to meet and exceed customers' needs. Traditional management places customers outside of the enterprise and within the domain of marketing and sales.

- **Motivation and Job Design:** TQM managers provide leadership rather than over intervention. People 'are motivated to make meaningful contributions to what they believe is an important and noble cause.

Six Sigma and Management

Primarily Six Sigma means maintenance of the desired quality in processes and end products.

It is a quality-control program developed in 1986 by Motorola.

Six Sigma Methodology:

For implementing six sigma there are two separate key methodologies for existing and new processes. Conceptually there is some overlapping between the two.
The two methodologies as follows:

1. **DMAIC**: DMAIC methodology is an acronym for five different steps used in six sigma directed towards improvement of existing product, process or service. The five steps are as follows:

- **Define:** State the problem, specify the customer set, identify the goals, and outline the target process.
- **Measure:** Decide what parameters need to be quantified, work out the best way to measure them.
- **Analyze:** Identify gaps between actual and goal performance, determine causes of those gaps.
- **Improve:** Devise potential solutions, identify solutions that are easiest to implement.
- **Control:** Generate a detailed solution monitoring plan, pdate plan records on a regular basis.

2. **DMADV:** DMADV is again acronym for the steps followed in implementing six-sigma. It is a strategy for designing new products, processes and services.

- **Define:** State the problem, specify the customer set, identify the goals, and outline the target process.
- **Measure:** Decide what parameters need to be quantified, work out the best way to measure them.
- **Analyze:** Identify gaps between actual and goal performance, determine causes of those gaps.
- ***Design:*** Develop details of design and optimise it.
- ***Verify:*** Verify designs through simulations or pilot runs.

Six Themes of Six-Sigma:

- ***Theme one - genuine focus on the customer:*** Six Sigma improvements are defined by their impact on customer satisfaction and value. In Six Sigma, customer focus becomes the top priority.

- ***Theme two - data and fact-driven management:*** Six Sigma discipline begins by clarifying what measures are key to measuring business performance.

- ***Theme three - processes are where the action is:*** One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and anagersparticularly in service-based functions and industries-that mastering processes is a way to build competitive advantage in delivering value to customers.

- ***Theme four - proactive management:*** Most simply, being proactive means acting in advance of events rather than reacting to them.

- ***Theme five – boundaryless collaboration:*** The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause.

- ***Theme six - drive for perfection; tolerate failure:*** No company will get even close to Six Sigma without launching new ideas and approaches-which always involve some risk.

Contemporary Strategic Issues

Strategies for Internet Economy:

The following features stand out:

1. **The Internet makes it feasible for companies everywhere to compete in global markets:** e-commerce escalates rivalry among sellers in different geographic areas to a whole new level.

2. **Entry barriers into the e-commerce world are relatively low:** Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms.

3. **Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors:** Vendor Web sites are only a few clicks apart and are open for business 24 hours a day, every day of the year

Strategic management in non-profit and government organization

Educational institutions: The significant change in the competitive climate has taken place in the educational environment. Hence, they are adopting different strategies for attracting best students.

Educational institutions are using strategic-management techniques and concepts more frequently. The first all-Internet law school, Concord University School of Law, boasts nearly two hundred students who can access lectures anytime and chat at fixed times with professors.

Medical organizations: Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples.

Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services.

The whole strategic landscape of healthcare is changing because of the Internet. Intel recently began offering a new secure medical service whereby doctors and patients can conduct sensitive business on the Internet, such as sharing results of medical tests and prescribing medicine.