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STRATEGIC MANAGEMENT

(Common to all MBA Programs)

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Strategic Management

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- Helping the students to learn about strategy formulation and implementation

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UNIT- I

Lesson 1 - Concept Of Corporate Strategy

Lesson Outline

- ‣ Introduction
- ‣ What Is Strategy?
- ‣ Why Corporate Strategy?
- ‣ Levels Of Strategy
- ‣ Crafting A Strategy
- ‣ An Ongoing Process
- ‣ Summary
- ‣ Self Assessment Questions
- ‣ Activities
- ‣ References

Learning Objectives

After reading this lesson you should be able to

- ‣ Define and understand the concept of corporate strategy
- ‣ Identify the different levels of corporate strategy
- ‣ Examine the reasons for developing strategies
- ‣ See corporate strategy as an on going process

Organizations are facing exciting and dynamic challenges in the 21st century. In the gloabalized business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. A sustained or sustainable competitive advantage occurs when firm implements a value – creating strategy of which other companies are unable to duplicate the benefits or find it too costly to initiate. Corporate strategy includes the commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns. The goals of corporate strategy are challenging not only for large firms like Microsoft but also for small local computer retail outlets or even dry cleaners. Table 1.1 lists the top ten strategists

in India in 2005.

TABLE 1.1 - INDIA'S TOP TEN STRATEGISTS

Name of the company	Position in the industry
Infosys Technologies	1
Reliance Industries	2
Wipro	3
Hindustan Lever	4
Maruti Udyog	5
Dr. Reddy's Laboratories	6
HDFC Bank	7
Jet Airways	8
ICICI Bank	9
Ranbaxy Laboratories	10

Source - Internet

What is strategy?

Strategy", narrowly defined, means "the art of the general" (the Greek stratos, meaning 'field, spread out as in 'structure'; and agos, meaning 'leader'). The term first gained currency at the end of the 18th century, and had to do with stratagems by which a general sought to deceive an enemy, with plans the general made for a campaign, and with the way the general moved and disposed his forces in war. Also was the first to focus on the fact that strategy of war was a means to enforce policy and not an end in itself. Strategy is a set of key decisions made to meet objectives. A strategy of a business organization is a comprehensive master plan stating how the organization will achieve its mission and objectives.

> I keep six honest serving men.
> They taught me all I know. Their names are What, Why, When, How, Where and Who.
>   - **Rudyard Kipling**

Here are some definitions of strategy.

> Chandler(1962)Strategy is the determinator of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
>
> Mintzberg (1979) Strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment.
>
> Prahlad (1993) Strategy is more then just fit and allocation of resources. It is stretch and leveraging of resources.
>
> Porter (1996) Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value .

Mintzberg has identified the 5 P's of strategy. Strategy could be a plan, a pattern, a position, a ploy, or a perspective.

1. A plan, a "how do I get there"
2. A pattern, in consistent actions over time
3. A position that is, it reflects the decision of the firm to offer particular products or services in particular markets.
4. A ploy, a maneuver intended to outwit a competitor
5. A perspective that is, a vision and direction, a view of what the company or organization is to become.

Why Corporate Strategy?

Strategic management is basically needed for every organization and it offers several benefits.

1.Universal

Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that

provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national polices, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

2. Keeping Pace With Changing Environment

The present day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threats and constraints, the business corporations are under great pressure and are trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

3. Minimizes   Competitive Disadvantage

It minimizes competitive disadvantage and adds up to competitive advantage. For example, a company like Hindustan Lever Ltd., realized that merely by merging with companies like Lakme, Milk food, Ponds, Brooke bond, Lipton etc which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap heavy profits. Then emerged its retail giant "Margin Free' which is the market leader in states like Kerala. Similarly, the R.P. Goenka Group and the Muruguppa group realized that mere takeovers do not help and there is a need to reposition their products and reengineer their brands. The strategy worked.

4. Clear Sense of Strategic Vision and Sharper Focus on Goals and Objectives

Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved. 'Strategy' defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today's changing environment by providing vision and encouraging to define mission.

5.Motivating Employees

One should note that the labor efficiency and loyalty towards management can be expected only in an organization that operates under strategic management. Every guidance as to what to do, when and how to do and by whom etc, is given to every employee. This makes them more confident and free to perform their tasks without any hesitation. Labor efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management

6. Strengthening Decision-Making

Under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making. This points out the need for strategic management.

7. Efficient And Effective Way Of Implementing Actions For Results

Strategy provides a clear understanding of purpose, objectives and standards of performance to employees at all levels and in all functional areas. Thereby it makes implementation very smooth allowing for maximum harmony and synchrony. As a result, the expected results are obtained more efficiently and economically.

8. Improved Understanding of Internal and External Environments of Business

Strategy formulation requires continuous observation and understanding of environmental variables and classifying them as opportunities and threats. It also involves knowing whether the threats are serious or casual and opportunities are worthy or marginal. As such strategy provides for a better understanding of environment.

Levels of Strategy

A typical business firm should consider three types of strategies, which form a hierarchy as shown in Figure 1.1

Corporate Strategy

This describes a company's overall direction towards growth by managing business and product lines. These include stability, growth and retrenchment.

For example, Coco cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader.

Business Strategy

Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or services in an industry or market segment served by that business unit. Business strategy falls in the in the realm of corporate strategy.

For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design.

Functional Strategy

It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage.

Operating Strategy

These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

Crafting A Strategy

Companies and strategists craft strategies in different ways. In extreme cases it is only the Chairman cum Managing Director who crafts the strategy. But in firms, which have participative management style of functioning, it is a group or team exercise involving key personnel and all functional executives in the organization.
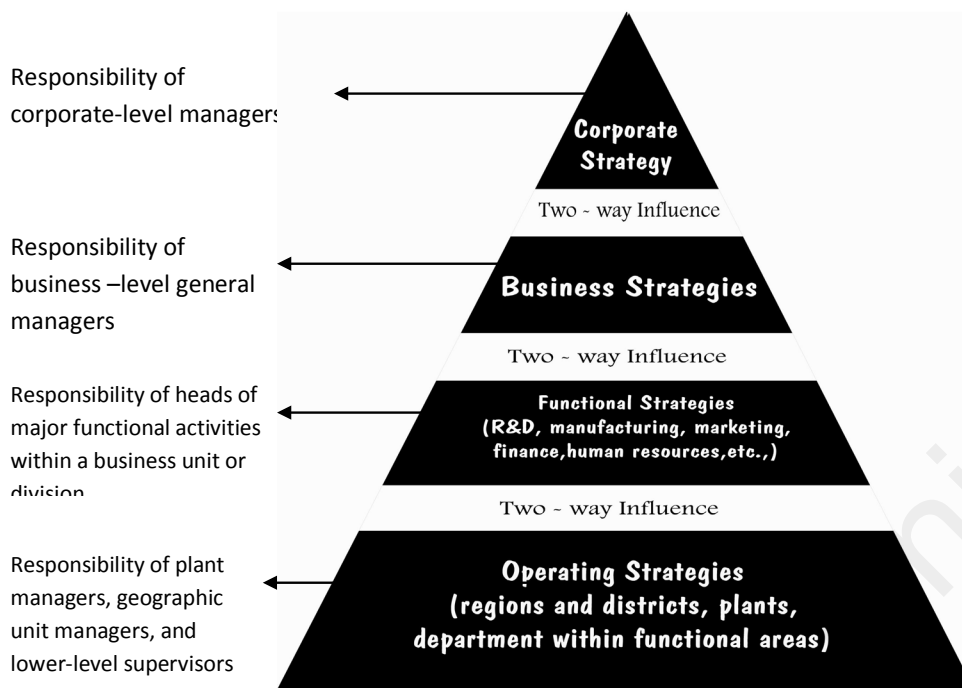
Responsibility of corporate-level managers

Responsibility of business –level general managers

Responsibility of heads of major functional activities within a business unit or division

Responsibility of plant managers, geographic unit managers, and lower-level supervisors

Corporate Strategy

Two - way Influence

Business Strategies

Two - way Influence

Functional Strategies (R&D, manufacturing, marketing, finance,human resources,etc.,)

Two - way Influence

Operating Strategies (regions and districts, plants, department within functional areas)

Figure 1.1 Hierarchy of strategy

There are basically four approaches to crafting a strategy

1.   The Chief Architect approach: A single person – the owner or CEO –assumes the role of chief strategist and chief entrepreneur, single handedly shaping most or all of the major pieces of strategy. This does not mean that one person is the originator of all the ideas underlying the resulting strategy or does all the background data gathering and analysis: there may be much brainstorming with subordinates and considerable analysis by specific departments.

        The chief architect approach to strategy formation is characteristic of companies that have been founded by the company's present CEO. Michael Dell at Dell Computer, Steve Case at America Online, Bill Gates at Microsoft, and Howard Schultz at Starbucks are prominent examples of corporate CEOs who exert a heavy hand in shaping their company's strategy.

2.   The Delegation Approach: Here the manager in charge delegates big chunks of the strategy-making task to trusted subordinates, down-the-line managers in charge of key business units and departments, a high-level task force of knowledgeable and talented people from many

parts of the company, self-directed work teams with authority over a particular process or function, or, more rarely, a team of consultants brought in specifically to help develop new strategic initiatives.

3.   The Collaborative or Team Approach: This is a middle approach when by a manager with strategy-making responsibility enlists the assistance and advice of key peers and subordinates in hammering out a consensus strategy. Strategy teams often include line and staff managers from different disciplines and departmental units, a few handpicked junior staffers known for their ability to think creatively, and near-retirement veterans noted for being keen observers, telling it like it is, and giving sage advice.

Electronic Data Systems conducted a year-long strategy review involving 2,500 of its 55,000 employees and coordinated by a core of 150 managers and staffers from all over the world.

Nokia Group, a Finland-based global leader in wireless telecommunications, involved 250 employees in a strategy review of how different communications technologies were converging, how this would affect the company's business, and what strategic responses were needed.

4.   The Corporate Entrepreneur Approach: In the corporate entrepreneur approach, top management encourages individuals and teams to develop and champion proposals for new product lines and new business ventures. The idea is to unleash the talents and energies of promising corporate entrepreneurs, letting them try out business ideas and pursue new strategic initiatives. Executives serve as judges of which proposals merit support, give company entrepreneurs the needed organizational and budgetary support, and let them run with the ball.

W.L. Gore & Associates, a privately owned company famous for its Gore-Tex waterproofing film, is an avid and highly successful practitioner of the corporate   intrapreneur approach to strategy making. Gore expects all employees to initiate improvements and to display innovativeness.

As on going process

Corporate strategy is a continuous on going process and extends company wide over a diversified company's business. It is a boundary spanning planning activity considering all the elements of the micro and macro environments of a firm. The following are the key tasks of the process of developing and implementing a corporate strategy.

➤ Exploring and determining the *vision* of the company in the form of a vision statement.

➤ Developing a **mission** *statement* of the company that should include statement of methodology for achieving the objectives, purposes, and the philosophy of the organization adequately reflected in the vision statement.

➤ Defining the *company profile* that includes the internal analysis of culture, strengths and capabilities of an organization.

➤ Making *external environmental analysis* to identify factors as threats, opportunities etc.

➤ Finding out ways by which a company profile can be *matched* with its environment to be able to accomplish mission statement

➤ Deciding on the most desirable *courses of actions* for accomplishing the mission of an organization

➤ Selecting a set of *long-term objectives* and also the corresponding strategies to be adopted in line with vision statement.

➤ Evolving short-term and *annual objectives* and defining the corresponding strategies that would be compatible with the mission and vision statement.

➤ *Implementing* the chosen strategies in a planned way based on budgets and allocation of resource, outlining the action programs and tasks.

➤ Installation of a continuous comparable *review system* to create a controlling mechanism and also generate data for selecting future course of action

The over all corporate strategy of a diversified company is depicted in Figure 1.2
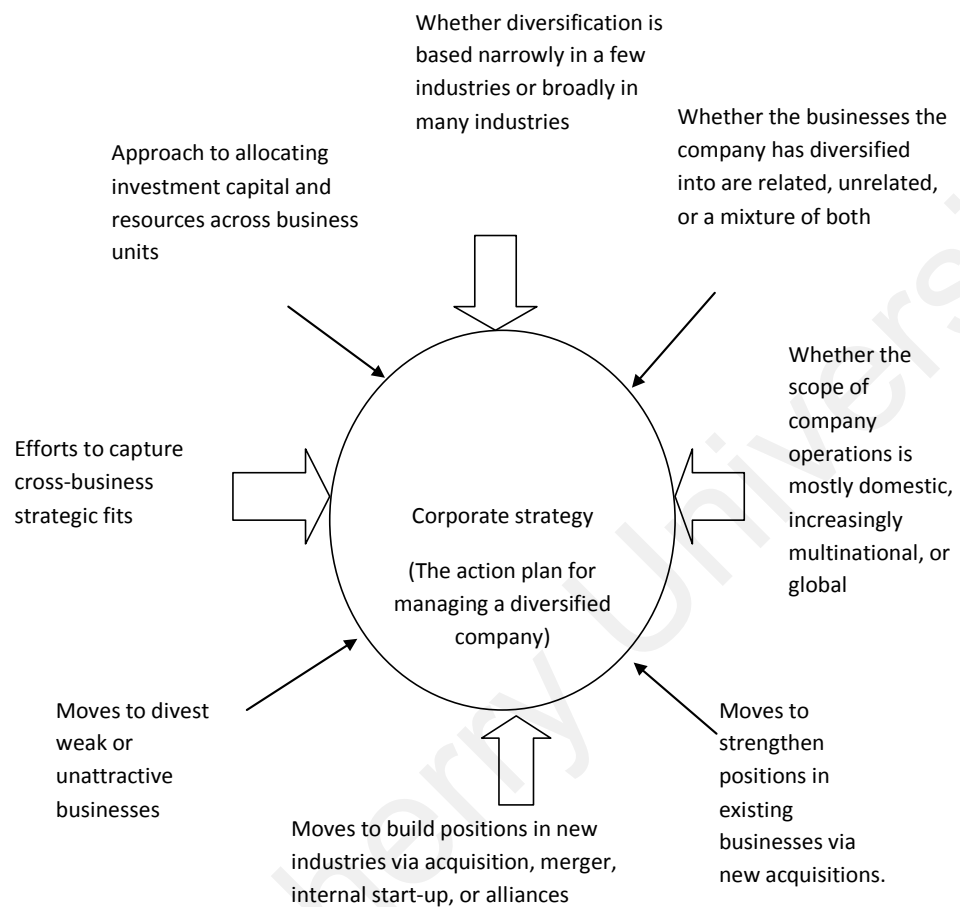
Figure 1.2 Strategy of a diversified company

Source : Thompson & Strickland (2003), Strategic Management, Tata McGraw Hill, New Delhi.

The process of developing corporate strategy or the overall managerial plan for involves the following processes.

1. Making the moves to establish in different businesses and achieve diversification.

2. Initiating actions to boost the combined performance of the businesses the firm has diversified into.

3. Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantage.

4. Establishing investment priorities and steering corporate resources into the most attractive business units

Summary

In the globalized business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. A strategy of a business organization is a comprehensive master plan stating how the organization will achieve its mission and objectives. Strategy is significant because it is universal. It helps corporate to keep pace with changing environs, provides better understanding of external environment, minimizes competitive disadvantage by forcing to think clearly about mission, vision and objectives of enterprise. It improves motivation of employees and strengthens decision-making. It forms the basis for implementing actions. Strategy can be classified based on hierarchy into four levels: corporate level, strategic business level, functional level and operating level. The approaches to strategy making are: the Chief Architect approach, the delegation approach, the collaborator or team approach and the corporate entrepreneur approach. Strategy making is an ongoing process involving activities like defining vision, mission and goals, analyzing organization and environment and matching them to decide suitable actions and objectives, and implementing with a review system.

Self -Assessment Questions

1. Define the concept of strategy

2. Write two definitions of strategy and identify the key elements in them.

3. Distinguish strategy and plan. Which one is more suitable in a competitive environment?

4. What are the 5 Ps of a strategy?

5. Explain the significance of a strategy.

6. What are the different levels of strategy making?

7. Identify the people responsible for strategy making at different levels in an organization

8. Explain the different approaches to strategy making.

9. "Corporate strategy making is an on going process " –Discuss

10. Explain the strategy of a diversified company.

Activities

1. Visit a local business organization, a hospital and educational institution and interview the director or owner of these organizations to identify the mission, vision, goals of the organizations. Also identify the achievements and future plans of these organizations.

2. Refer management journals like Vikalpa of IIM-A or IIMB Management Review or Global CEO or visit websites like India infoline.com and identify articles on strategy and prepare a write up on " Strategy for modern organizations".

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Lesson 2 - Strategic Management Process

Lesson Outline

- ➤ Introduction
- ➤ Process Of Strategic Management – Basic Model
- ➤ Role Of Strategists
- ➤ Mintzberg's Modes Of Strategic Decision Making
- ➤ Strategic Management In India
- ➤ Summary
- ➤ Self Assessment Questions
- ➤ Activities
- ➤ References

Learning Objectives

After reading this lesson you should be able to

- ➤ Describe the strategic management process
- ➤ Know the role of different persons in an organization in strategy making
- ➤ Explain Mintzberg's modes of executive decision making
- ➤ Appreciate the initiatives taken by corporate in India for effective strategy management

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, "Hey, you can't outrun that bear. The first president responded, " May be I can't outrun that bear but I surely can outrun you!" (Fred R. David, 2003,p.5)

This story captures the notion of strategic management, which is to achieve and maintain competitive advantage. How do business or-

ganizations operate successfully in the changing business environment? Strategic management has evolved as a primary value in helping organization operate successfully in a dynamic, complex environment. Even the most successful Fortune 500 companies would accept that it is definitely not by following traditional ways of doing business.

Most successful companies like General Electric have found internet mentors to tutor their managers to world wide web. The company has launched its financial network www.gefn.com in the year 2000 for its consumers.

Launch of Apna PC is a strategic decision. The leader in PC business HCL Info systems has launched one PC below Rs.10, 000 (its sticker price is Rs.9, 990). It has committed to manufacture one million of them every year and expand its dealer network from 800 to 3,000. This strategy is to tap the small businesses and lower income classes in urban and rural India.

BHEL for example uses strategic management to create or modify its long-range plans, which range from 5 to 20 years.

Process of Strategic Management

Strategic management consists of four basic elements.

> - Environmental scanning
> - Strategy formulation
> - Strategy implementation
> - Evaluation and control

Figure 2. 1 shows simply how these elements interact. Figure 2 .2 expands each of these elements and serves as the model

Environmental Scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identity strategic factors – those external and internal elements that will determine the future of the corporation.

The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the corporation exists.
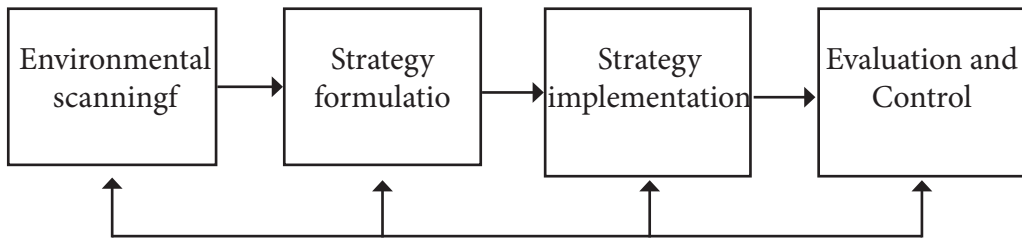
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Figure 2.1 Basic model

External	Mission → Objectives	Program	Perfor-mance
Societal Environment General Forces Task Environment Industry Analysis	Reason for existence / What results to be	Programs Activities Needs	
Internal	Strategies		
Structure Chain of command	Achieved	Budget Budgets	
Culture Belief, Expectations values Resources Assets, Skills, Cometencies.Knowledge	Policies
Strategic plans to policies broad guidelines for decision-making	Procedures Sequences of steps	
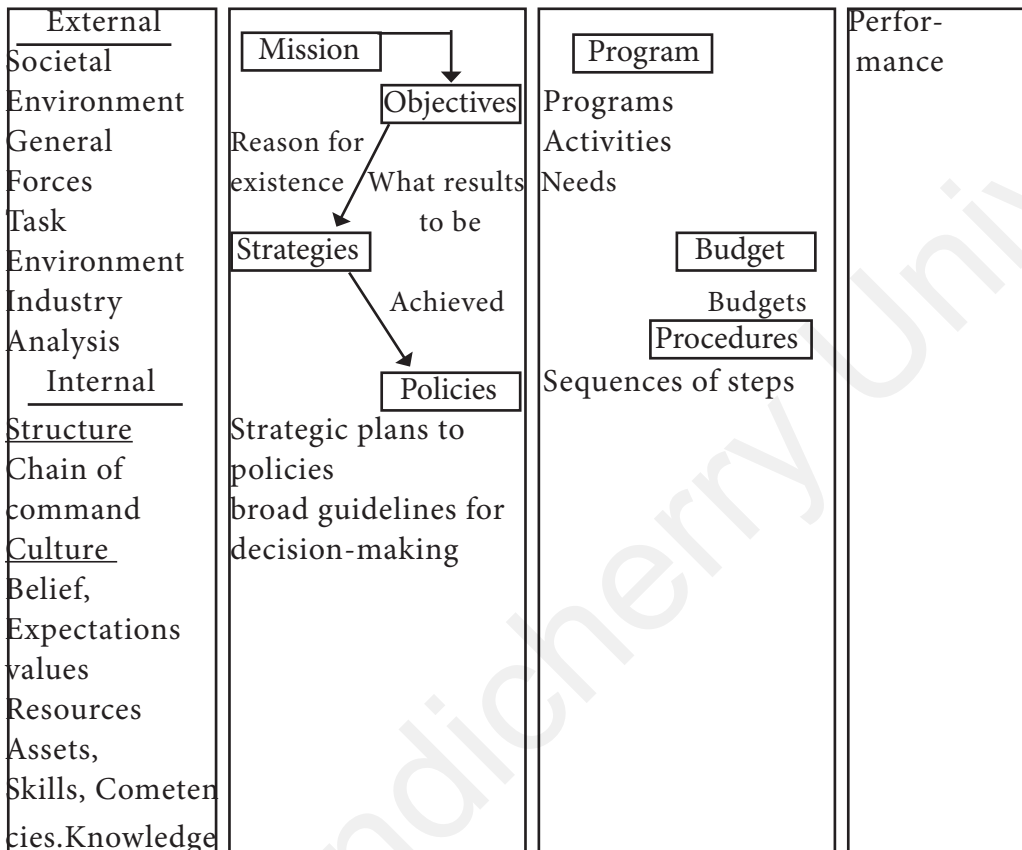
Figure 2.2 Expanded model for strategic Management

The internal environment of a corporation consist of variables (Strengths and Weakness) that are within the organization itself and are not usually within the short run control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources.

The simplest way to conduct environmental scanning is through SWOT analysis . SWOT is an acronym used to describe those particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Strategy Implementation is the process by which strategies and polices are put into action through the development of programs, budgets and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organization. Most of the times strategy implementation is carried out by middle and lower level managers with top management's review. Some times refereed to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation. It includes programs, budgets and procedures.

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

Role of strategists

Strategists are individuals or groups who are primarily involved in the formulation, implementation, and evaluation of strategy. In a limited sense, all managers are strategists. There are persons outside the organization who are also involved in various aspects of strategic management. They too are referred to as strategists. We can identify nine strategists who, as individuals or in groups, are concerned with and play a role in strategic management.

1. Consultants
2. Entrepreneurs
3. Board of Directors
4. Chief Executive Officer
5. Senior management
6. Corporate planning staff
7. Strategic business unit (SBU) level executives

8.   Middle level managers

9.   Executive Assistant

A brief description of how the different strategists approach the process is outlined here.

1)   Consultants: Many organizations which do not have a corporate planning department owing to reasons like small size, infrequent requirements, financial constraints, and so on, take the help of external consultants in strategic management.   Besides the Indian consultancy firms, such as, A.F.Ferguson, S.B. Billimoria and several others, now there are many foreign consultancy firms. They offer a variety of services.

McKinsey and Company, specializes in offering consultancy in the areas of fundamental change management and strategic visioning; Andreson Consulting, is in business restructuring, and info tech and systems; Boston Consulting helps in building competitive advantage; and KPMG Peat Marwick is in strategic financial management and feasibility studies for strategy implementation.

2)   Entrepreneurs are promoters who conceive the idea of starting a business enterprise for getting maximum returns on their investment. They are waiting for an environment change and thereby for an opportunity to exploit the situation in their best interest. Thus they start playing their role right from the promotion of the proposed venture. So, their strategic role to make the venture a success is very conspicuous in a new business enterprise. Therefore, it is expected of an entrepreneur that he should posses foresight, sense of responsibility, desire to work hard and dashing spirit to bear any future contingencies. According to Drucker, "the entrepreneur always searches for change, responds to it and exploits it as an opportunity". Here is an example of a successful women entrepreneur.

Kiran Mazumdar Shaw, a young entrepreneur, set up an export-oriented unit manufacturing a range of enzymes. As an expert in brewing technology, Mazumdur entered the field of biotechnology after experiencing problems in getting a job. Later she set up another plant for manufacturing two new enzymes created by her own research and development (R&D) department. As managing director, Mazumdar was actively involved in all aspects of policy formulation and implementation for her companies.

3)   Board of Directors are professionals elected on the Board of Directors (BOD) by the shareholders of the company as per rules and regulations of the Companies Act, 1956. They are responsible for the general administration of the organization. They are supposed to guide the top management in framing business strategies for accomplishing predetermined objectives. It is also the responsibility of the Board to review and evaluate organizational performance whether it is as per the strategy laid down or not. The Board is also empowered to make appointments of senior executives. In this connection, it should be noted that the success of strategies much depends on the relative strength in terms of power held by the Board and the Chief Executive (CE).

4)   Chief Executive Officer: In the management circle, the chief executive is the top man, next to the directors of the Board. He occupies the most sensitive post, being held responsible for all aspects of strategic management right from formulation to evaluation of strategy. He is designated in some companies as the managing director, executive director or as a general manager. Whatever the designation be, he is considered the most important strategist being responsible to play major role in strategic decision-making.

5)   Senior Management: Starting from the chief executive to the level of functional or profit-centre heads, these managers are involved in various aspects of strategic management. Some of the members of the senior management act as directors on the board usually on a rotational basis. All of them serve on different top-level committees set up by the board to look after matters of strategic importance and other policy issues. Executive committees, consisting of senior managers, are responsible for implementing strategies and plans, and for a periodic evaluation of performance.

        Strategic planning at MRF Ltd. used senior management expertise by dividing them into five groups dealing with products and markets, environment, technology, resources, and manpower. Each group had a leader who helped to prepare position papers for presentation to the board. The executive directors in the company were actively involved in SWOT analysis through the help of managers and assistant managers.

6)   SBU level executives: "SBU" stands for strategic business unit. Under this approach, the main business unit is divided into different

independent units and is allowed to form their own respective strategies. In fact, the business is diversified and thus the departmental heads are supposed to act as the main strategist, keeping an eye on optimum benefit for their departments. Hence strategists i.e., the departmental heads enjoy the maximum amount of authority and responsibility within their strategic business units.

At Shriram Fibres, the strategic planning system covered the different businesses ranging from nylon yarn manufacture to the provision of financial services. Strategic plans were formulated at the level of each SBU as well as at the corporate level. The corporate planning department at the head office coordinated the strategic planning exercise at the SBU-level. Each SBU had its own strategic planning cell.

7)   Corporate-planning staff plays a supporting role in strategic management. It assists the management in all aspects of strategy formulation, implementation and evaluation. Besides this, they are responsible for the preparation and communication of strategic plans, and for conducting special studies and research pertaining to strategic management. It is important to note that the corporate planning department is not responsible for strategic management and usually does not initiate the process on its own. By providing administrative support, it fulfills its functions of assisting the introduction, working, and maintenance of the strategic management system.

8)   Middle level managers: They are basically operational planners they may, at best, be involved as 'sounding boards' for departmental plans, as implementers of the decisions taken above, followers of policy guidelines, and passive receivers of communication about functional strategic plans. As they are basically involved in the implementation of functional strategies, the middle-level mangers are rarely employed for any other purpose in strategic management.

9)   Executive Assistant: An executive assistant is a person who assists the chief executive in the performance of his duties in various ways. These could be : to assist the chief executive in data collection and analysis, suggesting alternatives where decisions are required, preparing briefs of various proposals, projects and reports, helping in public relations and liaison functions, coordinating activities with the internal staff and outsiders, and acting as a filter for the information coming from different sources. Among these "the most important and what one manager

labels the "bread and butter role" of EA (executive assistant) could be that of corporate planner".

Mintzberg's Modes of Strategic Decision-Making

Henry Mintzberg has given three most typical approaches of strategic decision making which include:

> - Entrepreneurial mode
> - Adaptive mode
> - Planning mode

We will now examine the three modes of strategic decision making.

Entrepreneurial Mode

Strategy is made by one powerful individual who has entrepreneurial competencies like innovation and risk taking. The focus is on opportunities. Problems are secondary. Generally the founder is the entrepreneur and the strategy is guided by his or her own vision of direction and is exemplified by bold decisions.

The success of Biocon India founded by Kiran Mazumdur shaw is an example of this mode of strategic decision making.

Adaptive Mode

Sometimes referred to as "muddling through," this decision-making mode is characterized by reactive solutions to existing problems, rather than a proactive search for new opportunities. Much bargaining goes on concerning priorities of objectives. Strategy is fragmented and is developed to move the corporation forward incrementally. This mode is typical of most universities, many large hospitals and a large number of governmental agencies.

Planning Mode

This decision making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy. It includes both the proactive search for new opportunities and the reactive solution of existing problems.

Hewlett-Packard (HP) is an example of the planning mode. After a careful study of trends in the computer and communications industries, management noted that the company needed to stop thinking of itself as a collection of stand-alone products with a primary focus on instrumentation and computer hardware. Led by its new CEO, Carly Florina, top management felt that the company needed to become a customer-focused and integrated provider of information appliances, highly reliable information technology infrastructure and electronic commerce service.

A fourth mode of 'logical incrementalism' was later added by Quinn.

Logical Incrementalism

In this mode, top management first develops reasonably clear idea of the corportion's mission and objectives. Then, in its development of strategies, it chooses to use "an interactive process in which the organization probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies". Thus the strategy is allowed to emerge out of debate, discussion, and experimentation. This approach appears to be useful when

> ➤ The environment is changing rapidly,
> ➤ It is important to build consensus, and
> ➤ Needed resources are to be developed before committing the entire corporation to a specific strategy.

Strategic management in India

After the economic liberalization announced in India in 1991, strategic management has gained greater relevance. In fact it is a major thrust area after the WTO meet of December 2005 held in Hong Kong. Figure 2.3 lists the environmental changes that have increased the relevance of strategic management. In view of this to make strategic management effective organizations are showing some new initiatives described here.

1.   The abolition of public sector monopoly or dominance in a number of industries has enormously increased business opportunities. Many of them are high-tech and heavy investment sectors which make strategic management all the more relevant.

2.   The delicensing has removed not only an important entry and growth barrier but also a consumption (and, therefore, demand) barrier. In the past, because of non-production/limited production and import restrictions, many goods were non-available or had limited availability (in quantity and /or variety).

3.   The scrapping of most of the MRTP Act restrictions on entry, growth and Mergers &Acquisitions (M&As) , along with the dereservation and delicensing of industries referred to above, have opened up flood-gates of business opportunities for large enterprises.

4.   The liberalization in policy towards foreign capital and technology, imports and accessing foreign capital markets provides companies opportunities for enhancing their strengths to exploit the opportunities.

5.   The liberalization in other countries, the expanding foreign markets, the growing competition in India, the new policy environment etc., increase the importance of foreign markets and strategic management.

6.   The grant of more autonomy to the public sector enterprises, as in the case of the navarathnas, increases the scope of strategic management.

Figure 2.3 Trend Setters in Indian Economy

Source: Cherunilam, Francis(2002) Strategic Management,

Himalaya Publishing Company, New Delhi

(i) Developing learning organization

Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization – an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights. Organizational learning is a critical component of competitiveness in a dynamic environment. It is particularly important to innovation and new product development.

For example, Hewlett-Packard uses an extensive network of informal committees to transfer knowledge among its cross-functional teams and to help spread new sources of knowledge quickly.

(ii) TQM Implementation

The very purpose of strategic management is to win over its competitors. Total quality Management (TQM) is an organizational philosophy that aims at maximizing customer satisfaction by constantly striving to enhance operational efficiency through out the organization. It is a start to finish process that systematically integrates the strategy and all the function activities of the organization. Most of the Japanese companies adopted TQM practices in 1970 itself.

TQM method measures customers' needs, measures and evaluate customer satisfaction delivered by the product or service ,and engages the organization in continuous improvement to stay tuned-in to changes in customers' needs".

The essential characteristics of TQM are:

- A customer-driven definition of quality

- Strong quality leadership

- Emphasis on continuous improvement

- Reliance on facts, data, and analysis

- Encouragement of employee participation

It is imperative for a company, which has adopted the TQM to integrate it with every phase of the strategic management.

Environmental Analysis and TQM

The environmental analysis of a company with TQM connects the needs of the external customer (the entirety that buys the good or service of the company) with the various activities of the company.

Organizational Decision and TQM

TQM influences the organizational direction by embodying the quality philosophy in the organizational mission. Indeed, the missions of a number of organizations emphasize that quality and continuous improvement must drive every action of the organization.

Strategy Formulation and TQM

TQM helps make strategy implementation very efficient because of the clarity of organizational goals and direction, and the work and relationships culture fostered by TQM.

Strategic Control and TQM

Systems established under TQM and the favorable change in the organizational culture make strategic control more effective. Benchmarking also helps efficient control.

Information technology adaptation

Until the mid 1989 business firms were successfully making profits without using Internet or launching their websites. Today virtual shopping and online retailing supplement brick and mortar sales. A great success is that of amazon.com, which do not involve in brick and mortar retailing at all. All their sales come from online business only today.

Space providers like e-bay.com are becoming increasingly popular in India after taking over bazee.com. Executives today are electronic executives who cannot operate without World Wide Web.

Globalizing Operations

Nike and Reebok, for example, manufacture their athletic shoes in various countries thorough out Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interowen with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage.

Summary

Strategic management has evolved as a primary value in helping organization operate successfully in a dynamic, complex environment

BHEL for example uses strategic management to create or modify its long-range plans, which range from 5 to 20 years. Strategic management consists of four basic elements: Environmental scanning, Strategy formulation, Strategy implementation and Evaluation and control. Nine persons or groups are identified to have interest in strategic management. They are-Consultants, Entrepreneurs, Board of Directors, Chief Executive Officer, Senior management, Corporate planning staff, Strategic business unit (SBU) level executives, Middle level managers and Executive Assistant. Henry Mintzberg has given three most typical approaches of strategic decision making which include: Entrepreneurial mode, Adaptive mode and Planning mode. In India, abolition of public sector monopoly, the delicensing, scrapping of MRTP Act, liberalization policy towards technology and capital,

expanding foreign markets and competition and grant of autonomy to navarathnas etc., created the need for strategic management. The key elements in strategic management are: developing learning organization, TQM implementation, and information technology adaptation and globalsing operations.

Self -Assessment Questions

1. Describe the strategic management process with examples.
2. Explain environment canning and analysis.
3. What do you understand by strategy implementation and control?
4. Explain the role of different persons in an organization in strategy making.
5. What is the role of entrepreneur and entrepreneur in strategy making?
6. Examine the Mintzberg's modes of executive decision-making and identify the companies adapting such modes.
7. What factors in India are responsible for growing importance of strategy?
8. Describe with examples the initiatives taken by corporate in India for effective strategy management.
9. What is TQM and how it is made an element in strategy?
10. What is the impact of IT on corporate strategy?

Activities

1. Read the Chairman's speech of two different companies in the Annual General Meetings and prepare a note on their strategies.

2. Refer the websites of three organizations –one from service sector, one from manufacturing sector and one from IT sector- and compare their strategic approaches.

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Lesson 3 - Mission and Objectives

Lesson Outline

- Introduction
- Process Of Establishing Organizational Direction
- Strategic Intent
- Mission Or Purpose
- Objectives
- Synergy
- Summary
- Self Assessment Questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to.

- Understand and need for strategic direction and strategic intent
- Define mission statements for different organizations
- Appreciate the types of organization objectives
- Know how to set objectives in of Key Result Areas (KRAs)
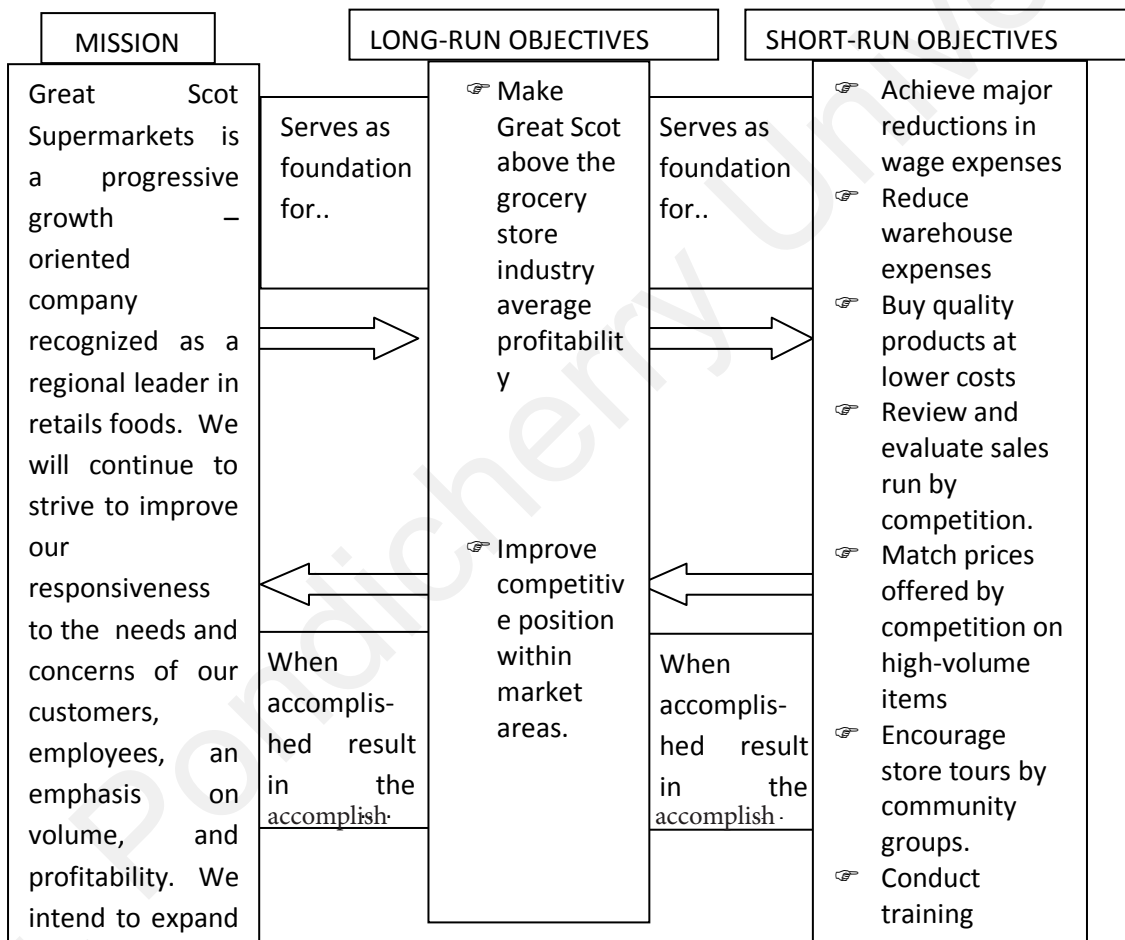
Introduction

Planning is way of organization life but it differs from individuals to organizations. It is futuristic, decision oriented and goal driven. Planning bridges the gap from where we are to where we want to go. It involves the process of establishing direction, identifying a strategic intent, selecting missions and objectives and ways of achieving them.

Process of Establishing Organizational Direction

The process of establishing direction consists of three major steps as shown in Figure 3.1

1. Reflecting on the results of an environmental analysis,

2. Establishing an appropriate organizational mission, and

3. Establishing appropriate organizational objectives.

Figure 3.1 Strategic Management –Process focus

MISSION		LONG-RUN OBJECTIVES		SHORT-RUN OBJECTIVES
Great Scot Supermarkets is a progressive growth – oriented company recognized as a regional leader in retails foods. We will continue to strive to improve our responsiveness to the needs and concerns of our customers, employees, an emphasis on volume, and profitability. We intend to expand	Serves as foundation for.. ⟹ ⟸ When accomplis-hed result in the accomplish·	☞ Make Great Scot above the grocery store industry average profitability ☞ Improve competitive position within market areas.	Serves as foundation for.. ⟹ ⟸ When accomplis-hed result in the accomplish·	☞ Achieve major reductions in wage expenses ☞ Reduce warehouse expenses ☞ Buy quality products at lower costs ☞ Review and evaluate sales run by competition. ☞ Match prices offered by competition on high-volume items ☞ Encourage store tours by community groups. ☞ Conduct training

Source: Samuel C. Certo & J Paul Peter, Strategic M

anagement A Focus on Process, Mc Graw Hill International, New York.p

Developing mission and objectives helps a manager to

- Contribute primarily to manager's purpose

- Identify primarily among manager's tasks

- Examine the pervasiveness of planning and

- Outline the efficiency of resulting plans.

The terms mission, objectives, goals and targets are used many a time interchangeable. However, in corporate literature they are often used distinctively. Mission leads to objectives (which are designed to achieve the mission), objectives lead to goals (which are designed to achieve the objectives) and goals lead to targets (which are set to achieve the goals) as shown in Figure3.2.
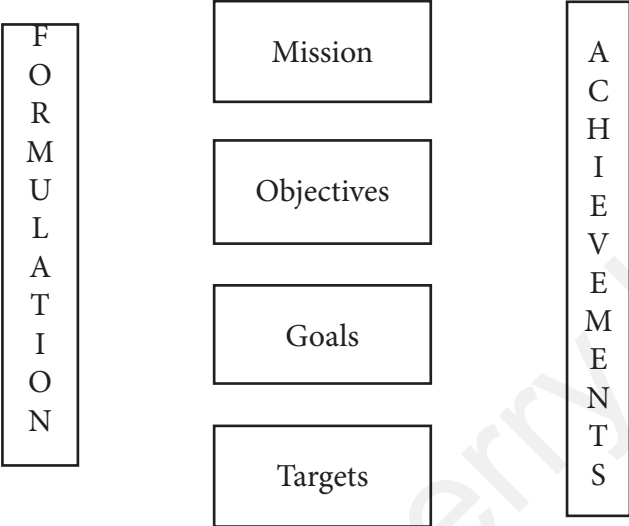
```
 ┌───┐   ┌────────────┐   ┌───┐
 │ F │   │  Mission   │   │ A │
 │ O │   └────────────┘   │ C │
 │ R │                    │ H │
 │ M │   ┌────────────┐   │ I │
 │ U │   │ Objectives │   │ E │
 │ L │   └────────────┘   │ V │
 │ A │                    │ E │
 │ T │   ┌────────────┐   │ M │
 │ I │   │   Goals    │   │ E │
 │ O │   └────────────┘   │ N │
 │ N │                    │ T │
 │   │   ┌────────────┐   │ S │
 │   │   │  Targets   │   │   │
 └───┘   └────────────┘   └───┘
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Figure 3.2   Elements in Strategy Formulation

Strategic Intent

CK Prahald and Hamel coined the term 'strategic intent' to indicate   an obsession of an organization, some times having ambitions that may even be out of proportion to their resources and capabilities. They explain the term 'strategic intent' like this.

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress…. At the same time, strategic intent is more than simply unfettered ambition.

The concept also encompasses an active management process that includes

> ➤ focusing the organization's attention on the essence of winning,

> ➤ motivating people by communicating the value of the target,

> ➤ leaving room for individual and team contributions,

> ➤ sustaining enthusiasm by providing new operational definitions as circumstances change and

> ➤ using intent consistently to guide resource allocations".

Hamel and Prahlad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent –as evident from their path breaking article, published in 1989 in the Harvard Business Review- seems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts.

Indian examples of companies with strategic internet are late Dhirubai Ambani's Reliance group with the strategic intent of being a global leader of being the lowest cost producer of polyester products a status achieved with vertical integration and operational effectiveness. The Indian hardware giant, HCL's aspiration to become global software and service company is working with the strategic intent of putting hardware, software and networking together and making it work At Procter & Gamble (P&G) employees participate in a program the CEO calls "combat training, "The program's intent is to focus on ways P&G can beat the competition.

Mission or Purpose

Its name or articles of incorporation do not define a business. The business mission defines it. Only a clear definition of mission and purpose of the organization makes possible clear and realistic business objectives.

Mission statements can vary in length, content, format, and specificity. Most practitioners and academicians of strategic management feel that an effective statement exhibits nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic-management process, it is important that it includes all of these essential components:

1. Customers: Who are the firm's customers?

2. Product or services: What are the firm's major products or services?

3. Markets: Geographically, where does the firm compete?

4. Technology: Is the firm technologically current?

5. Concern for survival, growth and profitability: Is the firm committed to growth and financial soundness?

6. Philosophy: What are the basic beliefs, values, aspirations, and ethical priorities of the firm?

7. Self-concept: What is the firm's distinctive competence or major competitive advantage?

8. Concern for public: Is the firm responsive to social, community, and environmental concerns?

9. Concern for employees: Are employees a valuable asset of the firm?

Pepsi Co's mission is to increase the value of our shareholders' investment. We do this through sales growth, cost controls, and wise investment resource. We believe our commercial success depends upon offering quality and value to our consumers and customers; providing products that are safe, wholesome, economically efficient, and environmentally sound; and providing a fair return to our inventors while adhering to the highest standards of integrity.

Dell Computer's mission is to be the most successful computer company in the world at delivering the best customer experience in markets we serve. In doing so, Dell will meet customer expectations of highest quality; leading technology; competitive pricing; individual and company accountability; best-in-class service and support; flexible customization capability; superior corporate citizenship; financial stability.

Establishing an organizational mission is an important part of management's job, because the existence of a formally expressed organizational mission generally makes it more likely that the organizational will succeed. Having an established and documented organizational mission accomplishes several important things. A mission statement once established serves an organization for many years. But a mission may become unclear as the organization grows and adds new product, markets and technologies to its activities. So a mission statement should be broad enough to accommodate any new changes to avoid reformulation.

Objectives

An organization's mission gives a framework or direction to a firm. The next step in planning is focusing on establishing progressively more specific organizational direction by setting objectives. An organizational objective is a target toward which the organization directs its efforts. Objectives in organizations, as shown in Figure 3.3 exhibit a hierarchy.
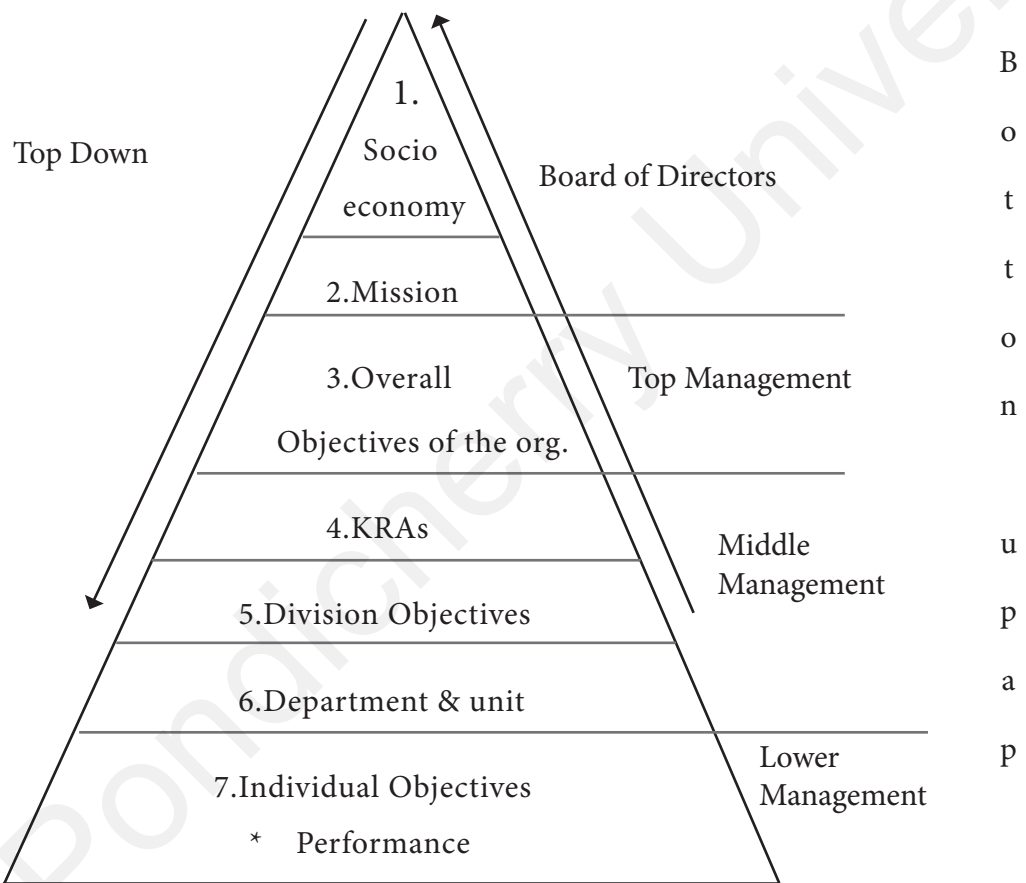

Figure 3.3 Hierarchy of Objectives

The BOD are more concerned with mission, purpose and overall objectives. Middle managers are involved in key result areas(KRAs), division and department objectives. At the lower level, group personal objectives are set. The objectives can be top down or bottom up taking the initiative from lower management.

Managers should develop organizational objectives that are

- › Specific
- › Require a desirable level of effort
- › Flexible
- › Measurable and operational
- › Consistent in the long and short run

Peter Drucker, perhaps the most influential business writer of modern times, has pointed out that it is a mistake to manage organizations by focusing primarily on one and only one objective. According to Drucker, organizations should aim at achieving several objectives instead of just one. Enough objectives should be set so that all areas important to the operation of the firm are covered. Eight key areas in which organizational objectives should normally be set are:

1. **Market standing:** The position of an organization – where it stands – relative to its competitors

2. **Innovation:** Any change made to improve methods of conducting organizational business.

3. **Productivity:** The level of goods or services produced by an organization relative to the resources used in the production process. Organizations that use fewer resources to produce a specified level of products are said to be more 'productive than organizations that require more resources to produce at the same level.

4. **Resource levels:** the relative amounts of various resources held by an organization, such as inventory, equipment, and cash. Most organizations should set objectives indicating the relative amount of each of these assets that should be held.

5. **Profitability:** The ability of an organization to earn revenue dollars beyond the expenses necessary to generate the revenue. Organizations commonly have objectives indicating the level of profitability they seek.

6. **Manager performance and development:** The quality of managerial performance and the rate at which managers are developing personally. Because both of these areas are critical to the long-term success of an organization, emphasizing them by establishing and striving to reach related organizational objectives is very important.

7. **Worker performance and attitude:** The quality of non-management performance and such employee's feelings about their work. These areas are also crucial to long-term organizational success. The importance of these considerations should be stressed through the establishment of organizational objectives.

8. **Social responsibility:** The obligation of business to help improve the welfare of society while it strives to reach organizational objectives.

Table 3.1 shows the usage of the different objectives by various companies.

Table 3-1

Types and Usage Levels of Organizational Objectives

Type of objective	Number of companies studied having objective type	Percent of companies studied having objective type
Profitability	73	89
Growth	67	82
Market share	54	66
Social responsibility	53	65
Employee welfare	51	62
Product quality and service	49	60
Research and Development	44	54
Diversification	42	31
Efficiency	41	50
Financial stability	40	49
Resource conservation	32	39
Management development	29	35
Multinational enterprise	24	29

Consolidation	14	17
Miscellaneous other goals	15	18

*Adds to more than 100 percent because most companies have more than one goal

Synergy

Derived form the Greek word "synergos," which means "working together" exceeds the value those units could create working independently. Another way of saying this is that synergy exists when assets" are worth more when used in conjunction with each other than separately. Synergies can involve physical and non-physical assets" such as human capital. For shareholders, synergy generates gains in their wealth that they could not duplicate or exceed through their own portfolio diversification decisions.

Synergy exists when the value created by business units, working together exceeds the value those same units create working independently. But, as a firm increases its relatedness between business units, it also increases its risk of corporate failure, because synergy produces joint interdependence between business units and the firm's flexibility to respond is constrained. This threat may force two basic decisions. First, the firm may reduce its level of technological change by operating in more certain environments. Alternatively, the firm may constrain its level of activity sharing and forego the benefits of synergy. Either or both decisions may lead to further diversification. The latter may produce additional, but unrelated, diversification. Synergetic effects occur across functional areas and core competencies emerge as a result of the concentration of resources to the areas where an organization wishes to build up strategic advantages. This can be observed in the case of a company, which is, or intends to be, a market leader, a low-cost producer, a technologically superior competitor, or an ideal employer. For achieving each of these objectives, an integrated approach to functional plans and policies would be necessary. For instance, a company, which intends to be a market leader, would have to offer products of the best quality at a

competitive price through an efficient distribution network supported by an aggressive promotion policy. The other functional area plans and policies would have to supplement these marketing policies.

Summary

Two main organizational ingredients are commonly used to establish organizational direction: Organizational mission and organizational objectives. Organizational mission is the purpose for which, or reason why, the organization exists. An organizational mission should help focus human effort, ensure compatibility of organizational purposes, provide a rationale for resource allocation, indicate broad areas of job responsibility, and provide the foundations for organizational objectives. Objectives are the end points of an activity. They help define the direction of an organization in concrete form for accomplishment. Objectives of an organization form a hierarchy and are multiple. Objectives are needed in key result areas. They include market-standing, innovation, productivity, profitability, public responsibility, physical and financial resources, employee performance and attitude and manager performance and development. Synergy is necessary for competitive advantage. For instance, a company, which intends to be a market leader, would have to offer products of the best quality at a competitive price through an efficient distribution network supported by an aggressive promotion policy. The other functional area plans and policies would have to supplement these marketing policies.

Self-Assessment Questions

1. Define mission and objectives and give examples.

2. Examine the significance of mission statement and goals and objectives in giving strategic direction to a firm

3. What do you understand by strategic intent? Explain the concept with corporate examples

4. Explain why a mission statement should accommodate the future growth of a company

5. Outline the typical characteristics of a mission statement and list its components

6. Illustrate the hierarchy of objectives as it cascades down the hierarchy

7. Identify and briefly explain the Key Result Areas of Peter F. Drucker

8. What are the characteristics of goals?

9. Describe the concept of 'synergy' and discuss its significance to strategic planning.

10. Identify companies having clear strategic direction, mission and objectives.

Activities

1. Find the mission statements of the following organizations:

2. (a) Procter & Gamble India Ltd (a) Glaxo Laboratories   (c) Appolo Hospitals

3. Study the objectives of   Bharat Heavy Electrical Limited. Figure out the strategic intent of the company.

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Lesson 4 - Strategic Business Unit and Functional Level Strategies

Lesson Outline

- Introduction
- Strategy Management Outcomes
- Evolution Of Structures
- Types Of Structures
- Decision-Making Hierarchy Of Business Firms
- Strategy - Structure Combinations
- Role Of Sbu Level Executives And Strategies
- Functional Level Strategies
- Summary
- Self Assessment Questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Understand significance of strategy implementation
- Know different structures of organizations.
- Explain strategy structure relationships
- Outline the role of SBU level executive
- Know what functional strategies are

Introduction

The true success of an organization depends upon effective formulation and implementation of strategies. According to Thomas Peters and Robert Waterman innovative companies are good at strategy implementation. Effective managers often work back and forth between

strategy formulation and strategy implementation. In this process, there is a need to understand the concept of Strategic Business Units (SBUs) and functional level strategies. There is a need to understand the hen and egg dilemma-strategy follows structure or structure follows strategy.

Strategy Management outcomes

Strategy formulation and strategy implementation when depicted on a matrix form suggests four probable outcomes of the four combinations of variables: Success, roulette, trouble and failure.

STRATEGY FORMULATION

	Good	Poor	
STRATEGY	Success	Roulette	**Good**
IMPLEMENTATION	Trouble	Failure	**Poor**

Success is the most likely outcome when an organization has a good strategy and implements it well. In this case, all that can be done to ensure success has been done. Environmental factors outside the company's control such as competitive reactions or customer changes may still make a strategy unsuccessful. However, organizational objectives have the best chance of being achieved in this cell.

Roulette involves situations wherein a poorly formulated strategy is implemented well. Two basic outcomes may ensue. The good execution may overcome the poor strategy or at least give management an early warning of impending failure. Perhaps the field sales force recognizes a problem in the strategy and changes its selling approach to a more successful one. Alternatively, the same good execution can hasten the failure of the poor strategy. Thus, it is impossible to predict exactly what will happen to strategies in the roulette cell, and that's where it gets its name.

The trouble cell is characterized by situations wherein a well-formulated strategy is poorly implemented. Because managers are more accustomed to focusing on strategy formulation, the real problem with the strategy – faulty implementation-is often not diagnosed. When

things go wrong, managers are likely to reformulate the strategy rather than question whether the implementation was effective. The new (and often less appropriate) strategy is then re-implemented and continues to fail.

Failure is the most likely to occur when a poorly formulated strategy is poorly implemented. In these situations, management has great difficulty getting back on the right track. If the same strategy is retained and implemented in a different way, it is still likely to fail. If the strategy is reformulated and implemented the same way, failure remains the probable result. Strategic problems in this cell of the matrix are very difficult to diagnose and remedy. The analysis of the matrix makes two things clear.

➤ First, strategy implementation is at least as important as strategy formulation.
➤ Second, the quality of a formulated strategy is difficult to assess in the absence of effective implementation.

Evolution of Structures

A firm's organizational structure is a formal configuration that largely determines what the firm will do and how it will complete its work. Different structures are required to implement different strategies. A firm's performance increases when strategy and structure are properly matched.   Business-level strategies are usually implemented through the functional structure. The cost leadership strategy requires a centralized functional structure-one in which manufacturing efficiency and process engineering are emphasized.   The evolution from the functional structure to the three types of multidivisional structure (M-form) occurred from the 1920s to the early 1970s. The cooperative M-form, used to implant the related-constrained corporate-level strategy, has a centralized corporate office and extensive integrating mechanisms. Divisional incentives are linked to overall corporate performance. The related-linked SBU M-form structure establishes separate profit centers within the diversified firm.

Types of Organization Structures

Two basic kinds of organizational structures exist-Formal and informal. There is the formal organizational structure which represents the relationships between resources as designed by management. The formal organizational structure is conveyed in the organization chart. Then there is the informal organizational structure, which represents the social relationships based on friendships or interests shared among various members of an organization. The informal organizational structure is evidenced in the patterns of communication commonly called the "grapevine." The informal network can be used to encourage rapid execution of strategies.

In formal organization structure there is the question of what management levels and personnel with the organization will be responsible for various implementation tasks. The five types of organizational structures that are commonly seen are the simple, functional, divisional, strategic business unit (SBU), and matrix structures. A schematic diagram of each of these structures is shown in Figure 4-1

Simple

Owner-Manager

Employees

Functional

CEO

Operations   Marketing   Finance

Divisional

CEO

Division 1   Division 2

SBU

CEO

VP   VP

Division   Division

1 2 3   1 2 3

Matrix type
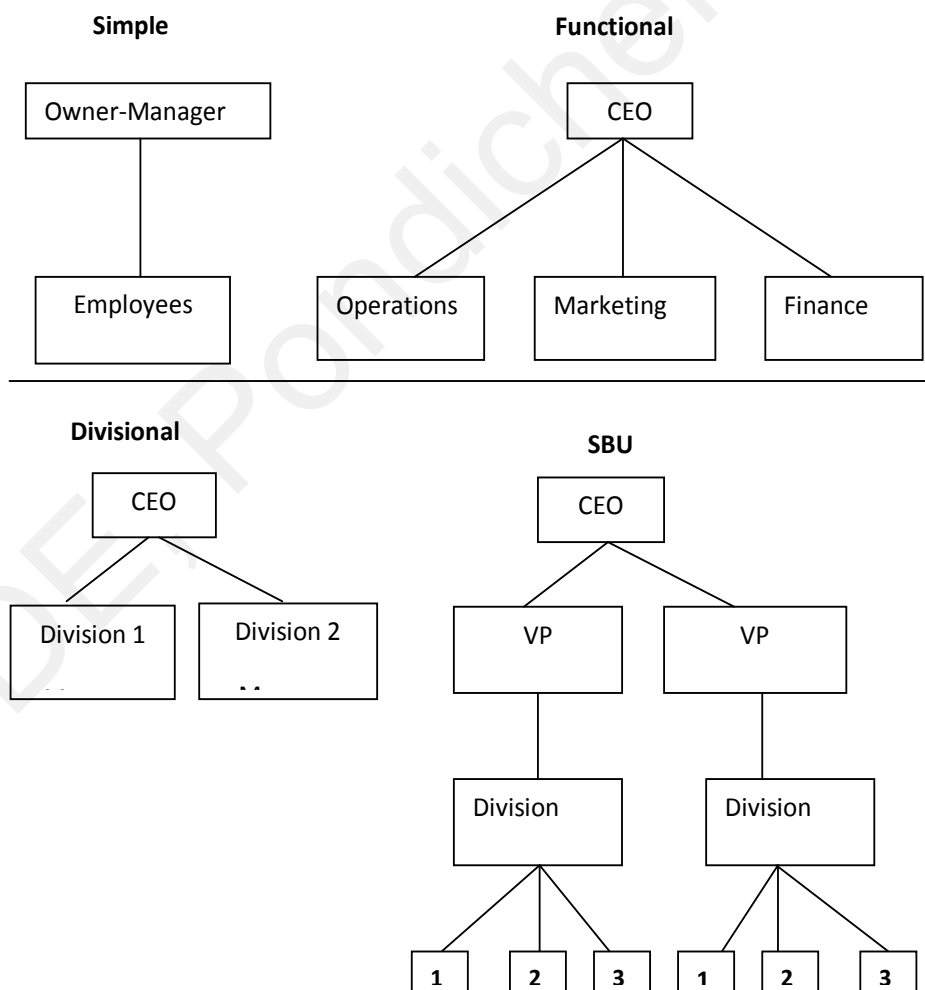
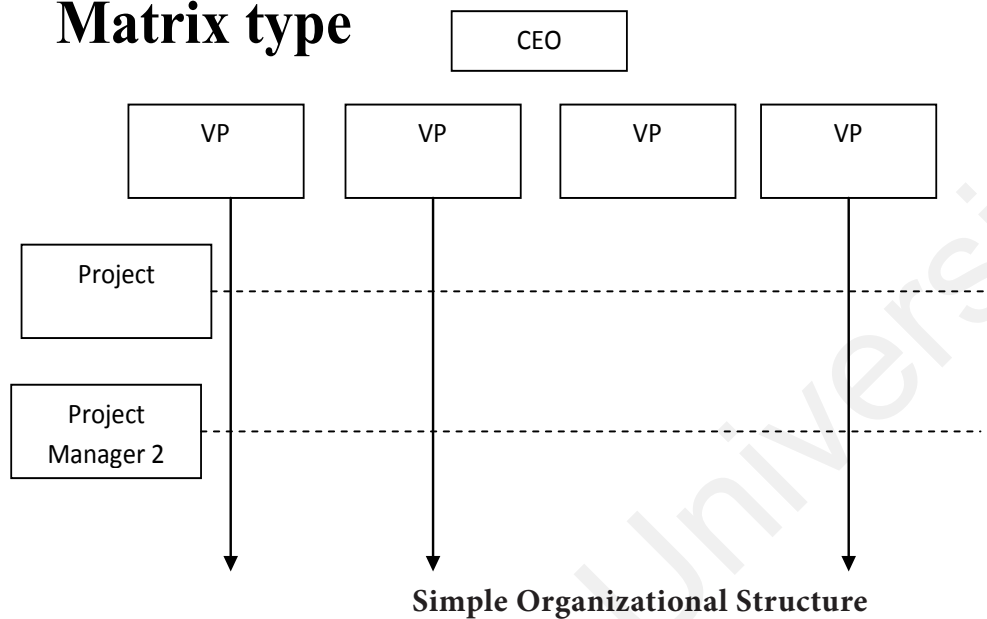**Simple Organizational Structure**

Figure 4-1 Different organization structures

A simple organizational structure has only two levels, the owner-manager and the employees. Small firms with one product or only a few related ones usually exhibit this structure.

Functional Organizational Structure

As organizations grow and develop a number of related products and markets, their structures frequently change to reflect greater specialization in functional business areas. Such line functions as production and operations, marketing and research and development (R&D) may be organized in departments.

Divisional Organizational Structure

As firms acquire or develop new products in different industries and markets, they may evolve a divisional organizational structure. Each division may operate autonomously under the direction of a division manager, who reports directly to the CEO. Divisions may be formed on the basis of product lines (automotive, aircraft), markets (customer, industrial buyers), geographic areas (north, south, international), or channels of distribution (retail store, catalog sales). Each division not only has its own line and staff functions to mange but also formulates and implements strategies on its own with the approval of the CEO.

Strategic Business Unit Structure

When a divisional structure becomes unwieldy because a CEO has too many divisions to manage effectively, organizations may reorganize in the form of strategic business units (SBUs) or strategic groups. This structure groups a number of divisions together on the basis of such things as the similarity of product lines or markets. Vice presidents are appointed to oversee the operations of the newly formed strategic business units, and these executives report directly to the CEO.

Matrix Organizational Structure

A matrix organizational structure is used to facilitate the development and execution of various programs or projects. Each of the department vice presidents listed at the top has functional responsibility for all the projects, whereas each of the project managers listed down the side has project responsibility for completing and implementing the strategy. This approach allows project mangers to cut across departmental lines and can promote efficient implementation of strategies.

The advantages and disadvantages of the different structures are presented below.

Simple	
Advantages	**Disadvantages**
1. Facilitates control of all the business activities.	1. Relies totally on the owner-manger
2. Makes possible rapid decision-making and ability to change with market signals.	2. Grows increasingly inadequate as volume expands.
3. Offers simple and informal motivation/reward/control systems.	3. Does not facilitate development of future managers
	4. Owner-manager is forced to focus on day-to-day matters and not on future strategy.

Functional	
Advantages	**Disadvantages**
1.Boosts efficiency through specialization	1.Promotes narrow specialization and potential functional rivalry or conflict
2.Fosters improved development of functional expertise	2.Fosters difficulty in functional coordination and inter functional decision making
3.Differentiates and delegates day-to-day operating decisions	3.Can occasion staff-line conflict.
4.Sharply focuses on accountability for performance	4.Limits internal development of general managers.
5.Retains functional specialization within each division	
6.Serves as good training ground for strategic mangers.	

Strategic Business Units	
Advantages	**Disadvantages**
1.Tightens the strategic management and control of large, diverse business enterprises.	1.May increase dysfunctional competition for corporate resources
2.Facilitates distinct and in-depth business planning at the corporate and business levels.	2.May make defining the role of the group vice president difficult
3.Channels accountability to distinct business units.	3.May increase difficulty in defining the degree of autonomy for the group vice presidents and division mangers

Decision-Making Hierarchy Of Business Firms

The decision-making hierarchy of business firms typically contains three levels as shown in Figure 4.2 At the top is the corporate level, composed principally of members of the board of directors and the chief executive and administrative officers. They are responsible for the financial performance of the corporation as a whole and for achieving the

non-financial goals of the firm, for example, corporate image and social responsibility.

Matrix	
Advantages	**Disadvantages**
1.Accommodates a wide variety of project oriented business activity.	1.Can create confusion and-contradictory policies by allowing dual accountability.
2.Serves as good training ground for strategic managers.	2.Necessitates tremendous horizontal and vertical coordination.
3.Maximizes efficient use of functional managers.	
4.Fosters creativity and multiple sources of diversity.	
5.Provides broader middle management exposure to strategic issues for the business.	

The second rung of the decision-making hierarchy is the business level composed principally of business and corporate mangers. These managers must translate the general statements of directions and intent generated at the corporate level into concrete, functional objectives and strategies for individual business divisions or SBUs. In essence, business-level strategic mangers must determine the basis on which a company can compete in the selected product-market arena.

The third rung is the functional level, composed principally of managers of product, geographic, and functional areas . It is their responsibility to develop annual objectives and short-term strategies in such areas as production, operations, and research and development; finance and accounting, marketing: and human relations. However, their greatest responsibilities are in the implementation or execution of a company's strategic plans. While corporate and business-level managers centre their planning concerns on "doing the right things," managers at the functional level must stress "doing things right." Thus, they directly address such issues as the efficiency and effectiveness of production and marketing systems, the quality and extent of customer service, and the

success of particular products and services in increasing their market shares.
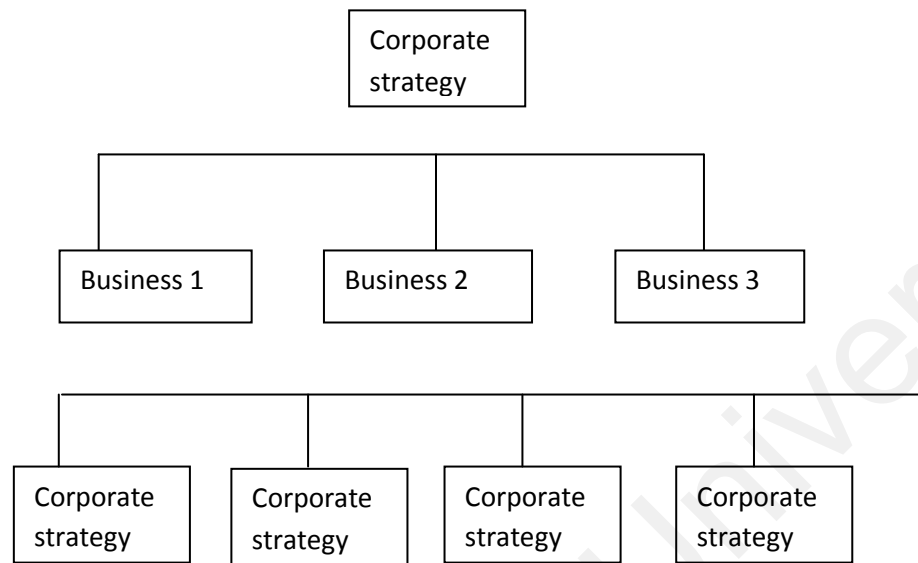


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                    ┌──────────────┐
                    │  Corporate   │
                    │  strategy    │
                    └──────┬───────┘
          ┌────────────────┼────────────────┐
    ┌─────┴─────┐    ┌──────┴────┐    ┌──────┴────┐
    │ Business 1│    │ Business 2│    │ Business 3│
    └───────────┘    └───────────┘    └───────────┘
   ┌───────┬────────────┬────────────┬────────────┐
┌──┴───┐ ┌──┴───┐  ┌────┴───┐  ┌─────┴──┐
│Corporate│ │Corporate│ │Corporate│ │Corporate│
│strategy │ │strategy │ │strategy │ │strategy │
└─────────┘ └─────────┘ └─────────┘ └─────────┘
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Figure 4.2 Decision Making hierarchy

Table 4-1 depicts the characteristics of strategic management decisions at different levels. Examples of corporate-level decisions include the choice of business, dividend policies, sources of long-term financing, and properties for growth. Functional-level decisions usually determine actions requiring minimal company wide cooperation. These activities supplement the functional area's present activities and a re adaptable to ongoing activities so that minimal cooperation is needed for successful implementation. Business –level descriptions of strategic decisions fall between those for the other two levels. For example, business-level decisions are less costly, risky, and potentially profitable than corporate level decisions, but they are more costly, risky, and potentially profitable than functional-level decisions. Some common business-level decisions involve plant location marketing segmentation and geographic coverage, and distribution channels.

Table 4-1 Characteristics of strategic management decisions at different levels

Level of strategy			
Characteristic	Corporate	Business	Functional
Type	Conceptual	Mixed	Operational
Measurability	Value judgments dominant	Semi quantifiable	Usually quantifiable
Frequency	Periodic or sporadic	Periodic or sporadic	Periodic
Adaptability	Low	Medium	High
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide range	Moderate	Low
Profit potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long range	Medium range	Short range
Flexibility	High	Medium	Low
Cooperation required	Considerable	Moderate	Little

Corporate Level Strategy And Structure Combinations

The need for having the right structure for implementation of strategy need not be over emphasized. Cost. The structural characteristics of specialization, centralization, and formalization play important roles in the successful implementation of the cost leadership strategy. Specialization refers to the type and number of job specialties that are required to perform the firm's work. For the cost leadership strategy, mangers divide the firm's work into homogeneous subgroups. The basis for these subgroups is usually functional areas, products being produced, or clients served. By dividing and grouping work tasks into specialties, firms reduce their costs through the efficiencies achieved by employees specializing in a particular and often narrow set of activities. Additional characteristics of the form of the functional structure used to implement the differentiation strategy are shown in Figure 4-4
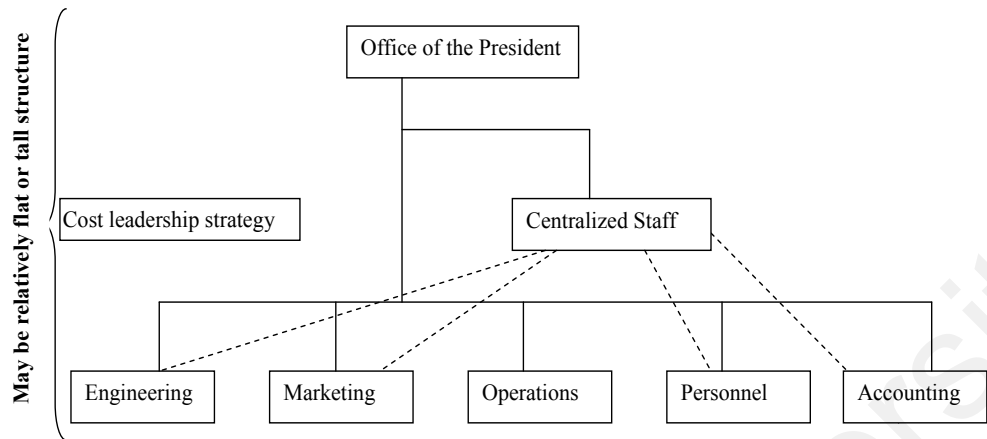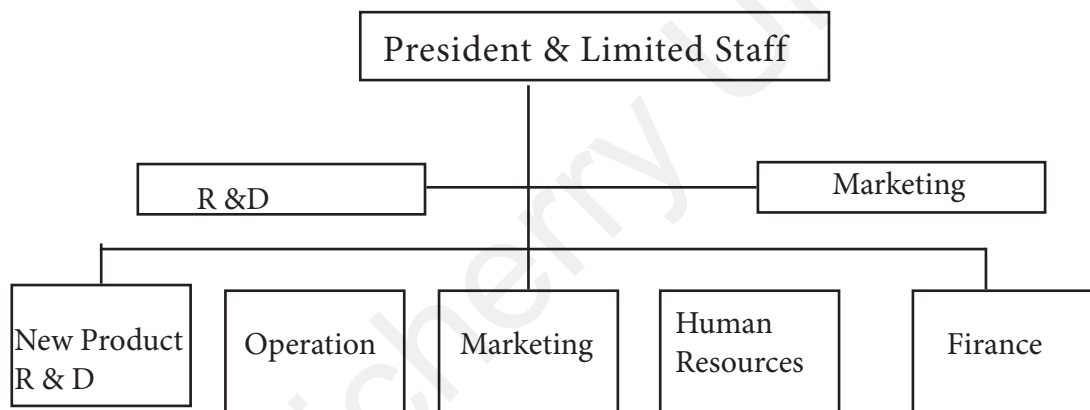
Figure 4-3 Functional organization for cost leadership strategy

Notes:

› Marketing is the main function for keeping track of new product ideas

› New product R & D is emphasized

› Most functions are decentralized, but R & D and marketing may have centralized staffs that work closely with each other.

› Formalisation is limited so that new product ideas can emerge easily and change is more readily accomplished.

Overall structure is organic. Job roles are less structured.

Role of SBU Level Executives

The role of SBU level executive is very important to strategic management since each product-market segment has a unique strategy. These executives are profit centre heads or divisional heads and are

considered the chief executives of a defined business unit for the purpose of strategic management. An SBU level executive wields a lot of authority within the SBU and also works in coordination with other SBUs.

Many public and private sector companies have adopted the SBU concept in some form or the other "There are several family-managed groups today who boast of their professionally-managed organizations structure. Each of their companies has a chief executive who has total responsibility and authority over the profit center.

Strategic planning at MRF Ltd used senior management expertise by dividing them into five groups dealing with products and markets, environment, technology, resources, and manpower. Each group had a leader who helped to prepare position papers for presentation to the board. The executive directors in the company were actively involved in SWOT analysis through the help of managers and assistant managers.

At Shriram Fibers, the strategic planning system covered the different businesses ranging from nylon yarn manufacture to the provision of financial services. Strategic plans were formulated at the level of each SBU as well as at the corporate level. The corporate planning department at the head office coordinated the strategic planning exercise at the SBU-level. Each SBU had its own strategic planning cell

Functional Strategies

Functional strategies which are short-term game plans for the key functional areas are the means to accomplish the annual plans. Functional strategies by clearly specifying the various measures to be taken in different functional areas in different time horizons help operationalize the grand strategy. In other words, functional strategies provide the short-term operational details for accomplishing the long term objectives systematically. Pearce II and Robinson Jr. (1988) maintained

"Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (marketing, finance, production, etc) to pursue the business strategy in daily activities. In a sense, functional strategies translate thought (grand strategy in to action designed to accomplish specific annual objectives. for every major subunit of a company, functional strategies identify

and coordinate actions that support the grand strategy and improve the likelihood of accomplishing annual objectives."

Operationalizing the corporate strategy requires the development of functional strategies in key areas like marketing, production, R &D, finance and human resources. Figure.4.5   Illustrates annual objectives and functional strategies
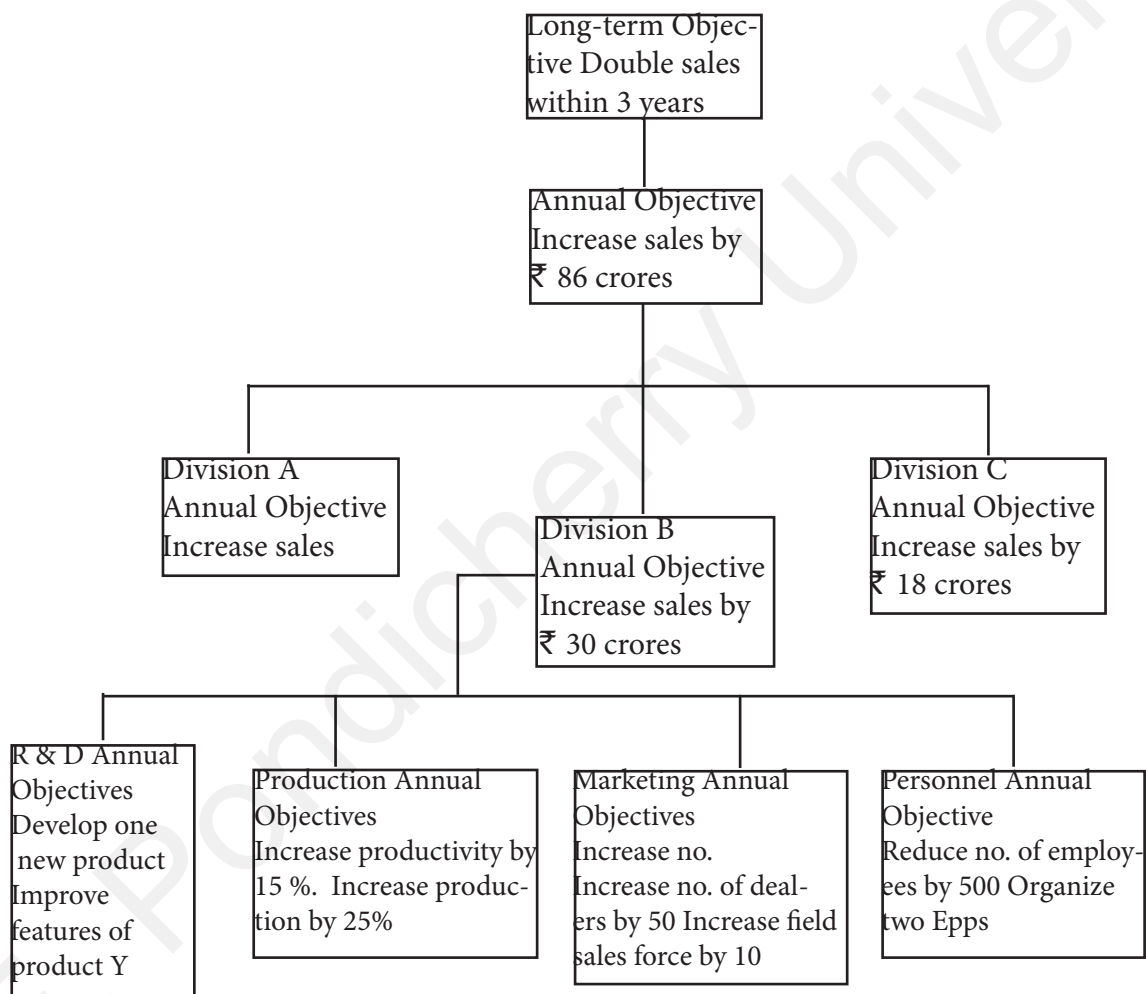
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                    ┌─────────────────────┐
                    │ Long-term Objec-    │
                    │ tive Double sales   │
                    │ within 3 years      │
                    └──────────┬──────────┘
                    ┌──────────┴──────────┐
                    │ Annual Objective    │
                    │ Increase sales by   │
                    │ ₹ 86 crores         │
                    └──────────┬──────────┘
```


Figure.4.5 Annual Objectives and Functional Strategies

The annual objective is to increase sales by ₹ 86 crores. Strategies for this include, for example, increasing the sale of division A by ₹38 crores, division B by ₹ 30 croes, division C by ₹18 crores, developing a new product, intensifying promotion by increasing the size of the filed sales force, increasing the number of dealers etc.

The functional strategy for marketing must cover all the factors of the marketing mix. Mutually consistent strategies for each of the factors must be developed to help achieve the annual marketing objective.

R & D strategy may involve improving product or packing, developing new product etc.

Similarly every key functional area must develop strategies to achieve the annual objectives. The functional strategies are discussed in detail in unit III of this study material for all the functional areas viz., R & D operations, finance, human resources, logistics, information systems and marketing

Summary

The true success of an organization depends upon effective formulation and implementation of strategies. There is a need to understand the hen and egg dilemma-strategy follows structure or structure follows strategy. Strategy formulation and strategy implementation when depicted on a matrix form suggests four probable outcomes of the four combinations of variables: Success, roulette, trouble and failure. Designing sound organization structures would enable strategists to accomplish the implementation of strategies in a proper way. There are four types of organization structures. The five types of organizational structures that are commonly seen are the simple, functional, divisional, strategic business unit (SBU), and matrix structures. Decision making in the hierarchy is found at three levels – corporate, business and functional. Functional strategies enable the implementation of corporate level strategies.

Self Assessment Questions

1. Why is it important that strategy implementation and strategy formulation be integrated carefully?

2. What is the meaning of the following statement? "In organizations, there is a consistent path of structure following strategy and then strategy following structure."

3. Explain the different types of organizational structures and state their merits and demerits.

4. Why do you think divisional organization is necessary for strategic management ?

5. Explain the relevance of matrix structures for corporate strategies

6. What type of organizational structure is used to implement the cost leadership, and differentiation ?

7. What organizational structures should be used to implement the multi domestic, global, and transnational international strategies?

8. Explain the decision making hierarchy in an organization.

9. What is Strategic business unit and what type of leadership is required?

10. Explain the significance of functional strategies.

Activities

1. From the management journals collect two articles on corporate strategy and structure and draw conclusions on the question whether strategy follows structure.

2. From the internet identify the structure and strategy elements of two organizations and prepare a paper on strategy decision making in modern enterprises

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UNIT- II

Lesson 5 - Environmental Analysis

Lesson Outline

> Introduction

> Concept Of Environment

> Taxonomy Of A Firm's Environment

> Macro Environment Analyzed

> Impact Of Macro Environment On Business

> Environment And   Strategic Analysis

> Environmental Changes In India

> Summary

> Self Assessment Questions

> Activities

> References

Learning Objectives

After reading this lesson you should be able to

> Understand the concept and different types of environment

> Examine the elements of external environment and their influences on business

> Know how strategic analysis and response takes place relating to environment

Introduction

Business organizations operate in a turbulent environment and the changes in the environment impacts business. The changes that take place in the internal and external environments impinge on the policy

decisions of business enterprises and cast profound influence in their working and efficiency. The external environmental factors are in a continual flux creating new opportunities and new threats to the company. They are always capable of producing major shocks, which Peter Drucker has called as, "an Age of Discontinuity." In order to survive and succeed a company must consider and understand the environment and make policies to adopt to or alter the environment.

Concept of Environment

Unilever recently sued Proctor & Gamble (P&G) over that company's corporate espionage activities to obtain the secrets of its Unilever hair-care business. After spending $3 million to establish a team to find out about competitors in the domestic hair care industry, P&G allegedly took roughly eighty documents from garbage bins outside Unilever' s hair-care brands such as ThermaSilk, Suave, Salon Selective, and Finesse.

Prof. Keith Davis defines business environment as, "the aggregate of all conditions events and influences that surround and affect it." These surroundings are constantly changing and uncertain.

Unilever recently sued Proctor & Gamble (P&G) over that company's corporate espionage activities to obtain the secrets of its Unilever hair-care business. After spending $3 million to establish a team to find out about competitors in the domestic hair care industry, P&G allegedly took roughly eighty documents from garbage bins outside Unilever' s hair-care brands such as ThermaSilk, Suave, Salon Selective, and Finesse.

Taxonomy of a Firm's Environment

The total environment can be classified into two broad categories
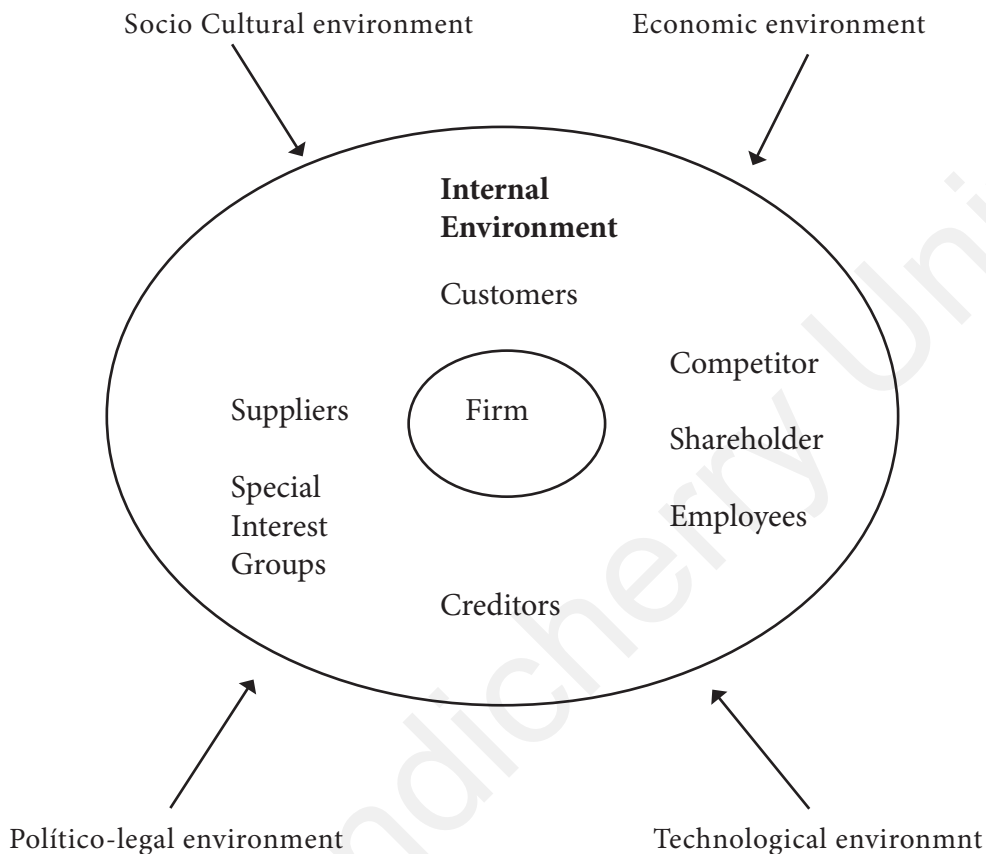
- ➤ Internal environment
- ➤ External environment

The internal environment includes the goals and value system, the hierarchical authority structure, the technological equipment and processes, the social groups and teams, the management groups, organizational climate and culture,etc.

The external environment can be classified into two segments.

- ᴘ Macro environment or Mega environment, or
- ᴘ Micro environment or task environment.

Figure 4-1 Environment types

Socio Cultural environment   Economic environment

Internal Environment

Customers

Competitor

Suppliers   Firm

Shareholder

Special Interest Groups

Employees

Creditors

Político-legal environment   Technological environmnt

Macro Environment

Also referred to as general or remote environment, Mega' environment, skirts the 'micro', or the relevant environments.The major constituents of mega environment are PEST or STEP (P refers to Politico-legal environment, E-Economic environment, S-Socio-cultural environment and T-Technological environment) or PESTEL (Political, environmental, socio-cultural, technological, economic and legal). These environments can further be classified into international, regional, national etc. Thus, depending upon the situation, an analyst may refer to the global economic environment, the regional political environment or the national social environment.

Micro Environment

Microenvironment includes employees, shareholders, creditors, suppliers, customers and financial institutions, regulatory organizations, channels of distribution, and special interest groups like consumer associations, and community organizations. This environment has a substantial impact on an organization's current business. Consequently, developments in microenvironment become the dominant preoccupation of the management for strategic decisions. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adoptions can improve manufacturing and marketing techniques.

A company like L& T which has diversified product mix like machinery for cement, switchgear, material handling equipment, machinery for dairy plants, computer peripherals etc., may have many 'micro' environments. Only necessary information should be gathered by L & T from the relevant environment.

Macro Environment Analyzed

Now, we will examine the various factors in the macro environment and identify the type of impact they make on business organizations.

Socio -Cultural Environment

The socio cultural environment is one of the key elements of macro environment. Figure 4-3 lists the key variables in this environment. Demographics like literacy rates, sex ratios, child birth rates, age distribution, educational levels life style, geographic distribution, mobility of the pollution cultural variables like beliefs, values, faiths, religion, customs and traditions, environment folkways, etc., are part of the social changes in society may be slow or fast but change is inevitable in any business environment. Examples in the Indian business environment include –

- ➤ Growing fast food culture
- ➤ Women moving from kitchens to corporate
- ➤ Burgeoning middle class
- ➤ Increasing literacy levels
- ➤ Declining birth rates and increasing senior citizens

➤ Increasing health consciousness

Socio-cultural factors affect buying preferences, usage patterns and life style adaptations. Firms, which ignore the socio cultural environments, tend to loose.

McDonalds, the world's fastest growing fast food chains extended Indian market with beef and pork as ingredients in its pizzas and burgers. Since Hindus are religiously against cow slaughter and do not consume beef and Muslims hate pork these was great opposition in Bombay and the local shiv sena activities broke down McDonald's fast food center at Mumbai. Today the company relaunched its products with 'no beef and no pork' sign boards and even gave wide publicity that animal fat is not used in its restaurants. Further to Indianise its products new versions for Indians like Mc. Imli (with tamarind), Mc spic (with Indian spices) etc are introduced exclusively for Indian market.

Peculiar usage forms include:

Vicks Vaporub is used as a mosquito repellent in some tropical countries. Hair dyes are used for marking animals and washing machines for making Lassi in some rural areas of Punjab.

Figure 4-3 Key Social, Cultural and Demographic Variables

1. Childbearing rates
2. Number of specific interest groups
3. Birth and death rates
4. Life expectancy rates
5. Attitude towards work and organization
6. Attitude towards government
7. Attitude towards authority
8. Ethical norms
9. Value system
10. Composition of work force
11. Attitude towards income, savings and capital formation
12. Social ethos towards work and organization

Technological Environment

Technology is knowledge to create new things. Mangers need technology to design, produce, distribute and sell goods and services. Impact of technology is mixed. Positive benefits are seen in new products, new machines, new tools, new materials and services. Benefits include greater productivity, higher living standards, more leisure time and greater variety of products. Ex: Range of cars – subcompacts, compacts, intermediates, sports, specialty, variations in engine power, steering A/c, speed control, roof etc. Negative effects include pollution, energy shortage, loss of privacy, traffic jam etc. A balanced approach is therefore needed.

Xerox dominated the world photocopier market with 93 percent of the market share. It guarded its technology with over 500 patents. Cannon was a camera company from Japan that entered into this business around 1970. It did not have the process technology to by-pass Xerox's patents. Yet over the next three decades, Canon rewrote the rule book of how copiers were to be produced and sold. Canon's copiers are a business of around Rs.300,000 crore in annual revenues and it sells more copiers than Xerox does. Canon succeeded, not by coping Xerox, but Canon believed that individuals and small businesses would find the product useful if only they could afford it. The technology appropriate for this product would therefore be different from Xerox's patent protected technologies.

In 1975, revolutionary technological changes and discoveries have brought about dramatic impact of organizations. Among such discoveries mention may be made of super conductivity, computer engineering, "thinking" computers, robotics, unmanned factories, miracle drugs, fiber optics biometrics and electronic funds transfer. Superconductivity is expected to revolutionize business operations especially in such areas as transport, utility, health care, electrical and computers.

Technological Change is of Two Types

Convergent change - where incremental innovation and improvement optimizes the ability of the organization to succeed in the existing environment. In India this change occurs in 10-12 years, in western firms five to six years and in Japan it is four years. Presently

some Japanese firms like Nissan make changes from 14 months to 2 years time.

Divergent change – Involves changes where the framework of the organization undergoes discontinuities. Whether it is in response to events over which the corporation has no control, like deregulation, major shift in economic policies, nationalization or events related to radical changes in technology like product life cycle shifts, new process technologies, radical innovations, etc., these changes involve organizational re-formation or transformation. Example includes replacement of Swiss mechanical watches with high innovation by simple battery operated electronic watches. Some of the winners and losers of technological changes are given in the following Table 4-1.

Table 4-1: Disruptive Technologies : Winners and Losers

Dominant Firm	Product	Disruptive Technology	Winning Challengers
GM and Ford	Small cars	Japanese quality & manufacturing expertise	Totyoto and Honda
Gillette	Razor blades	Stainless steel technology	Wilkensen
Gillette	Cheap razors	Plastic technology	Bic
Parker	Fountain pens	Ball point pen technology	Timex
Swiss watchmakers	Time pieces	Lever-action watch technology	Timex
Timex	Watches	Electronic technology	Casio. Etc.

Economic Environment

The various forces of economic environment can be explained as follows.

➤ Capital –machinery, buildings, investments office equipment, tools and cash. Business organizations issue shares and debentures and borrow from commercial banks.

➤ Labour –availability of skilled labor at affordable wage rates. US companies are outsourcing from India because labor is very cheap here.

➤ Prices – The price changes caused by business cycles are a major

concern. The price raise in one industry affects the other ones. It is like a chain reaction. It reduces the buying power of consumers and reduces demand.

➤ Government Fiscal and tax policies – Government's control on availability of credit through fiscal policy has considerable impact on business. If business profit taxes are high, the interest to go into business gets marginalized. If sale, tax is high people don't buy.

➤ Customers- Customers are the foundation of business. Business must serve the public. People want value for the money they pay and service that satisfy their needs. Companies are customizing products to specific groups or individuals. Refrigerator companies are introducing bare bone models for the low income groups. Auto companies are opening up service centers. Also thee are CRM (customer relationship management) programs in many organizations today.

➤ General Economic Conditions - The general economic conditions like national income, per capita income, economic resources, distribution of income and assets, economic development, etc. are important determinants of the business strategies. In countries and regions where income of people is low, the demand for the product will be low. It discourages the companies to enter the market. However in economies where the income of people is rising and hence business prospects will be brighter; investment will get automatic attraction. Recently growing income of middle class in India, encouraged foreign investors to operate in India.

➤ Economic Systems. All business organizations operate in at least one type of economic system-socialist, communist and capitalistic. In capitalistic type of economic system, free play of market mechanism takes place, whereas in state-controlled economies, there are restrictions, on the private sector's role. It has been noticed that with the collapse of communist Soviet Union multinational corporations are searching their market in East European Countries.

➤ Economic Policies. The economic policies of the government have tremendous impact on the business. For example, in India, before July 1991 public sectors were encouraged to play dominant role to achieve commanding heights of the economy; as a result competition was not there. With the new economic policies of liberalization and

globalization, the era of protectionism and preferential treatment is giving way to competition and cost-consciousness.

> Economic Growth The general economic growth in the economy has direct impact on the business strategies. Increased economic growth rate, leading to increase in consumptions, expenditure, lowers the general pressure within an industry and offers more opportunities than threats. On the other hand, decline in economic growth reduces consumer expenditure , that leads to competitive pressures and threatens the profitability.

> Interest rates. The rate of interest affects the demand for the products in the economy, particularly when general goods are to be purchased through borrowed finance. If the interest rate is low, the demand for certain products like autos, appliances, capital equipments, housing materials, etc. will rise. This provides good opportunity for these industries to expand whereas rising interest rates pose a threat to these industries. Interest rates also determine the cost of capital of the company. When rates of interests are lower, companies can adopt ambitious strategy with borrowed funds.

> Currency exchange rates. Currency exchange rates have direct impact on the business environment. When the rupee was devalued in 1991, it was to make Indian products cheaper in the world market and consequently boost India's exports. That was a great opportunity for Indian exporters.

> Taxes- the imposition of taxes like income tax, sales tax and excise duties have impact on business. The chocolate manufactures in India suffered a set back in the new millennium when the excise duty on confectionery items increased from 8 to 16 percent. Nutrine Confectionery company which sells a popular brand of chocolate called 'Aasey' with a price of 0.25 paise to had to increase its price from 0.25 paise had 0.50 paise since the price cannot be increased by 0.04 paise due to coinage problem. A child who goes to nearly kiosk with 0.25 paise used to return home to his mother without a chocolate. It took three months for the customers (children) to adjust to the new price and the company lost crores of rupees it gets from Children's pocket money.

Politico- Legal Environment

The various forces in political and legal environment direct and restrict business decision-making.

Political environment – Attitudes of Government and legislators change with social demands and beliefs. Government affects every aspect of life. For instance, strong pollution norms many result in closure of a company. Government not only promotes but also constrains business. Promotion is possible by stimulating economic extension and development, by providing subsidies to SSIs, tax advantages, support to R&D and protecting business in priority sector. Also, government can be the biggest customer. The public announcements of government, the observations in plan documents indicate government policies. E.g.: Industrial policy resolution, 1948 and the economic policy, 1991.

Several European Countries restrain the use of children in commercial advertisements. In India advertisement of cigarettes must carry the statutory warning that "Cigarette smoking is injurious to health."

The prevalence of political uncertainty has effect on the business strategies. In the presence of political uncertainty, no business likes to commit itself for long term strategies or investments while the uncertainty countries. Therefore the companies focus more on preparing alternative plans for different emerging situations.

Legal environment – It consists of judiciary and legislation. It constrains and regulates business. There are several legislation like the Company act 1956, the Payment of wages Act, 1936 and Factories Act 1948. There are judiciary arrangements like courts and tribunals.

Indian business environment is undergoing a sea change since 1991 after economic reforms were introduced. Fredrick Gluck, Director of Mckinsey & Company concludes his observations in the following words:

"It is no exaggeration that in an industry that is, or is rapidly becoming global, the riskiest possible posture is to watch as more aggressive companies use this growth to capture economies of scale and learning. The domestic competitor will then be faced with an attack

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on domestic markets using different (and possibly superior) technology, product design, manufacturing, marketing approaches, and economies of scale. A few examples suggest how extensive the phenomenon of world markets has already become. Hewlett Packard's manufacturing chain reaches half-way around the globe, from well paid, skilled engineers in California to low range assembly in Malaysia. General Electric has survived as a manufacturer of inexpensive audio products by centralizing its world production in Singapore.

A number of measures have been announced to facilitate private entry into areas of infrastructure which were formerly the prerogative of the public sector with a view to freeing scarce public resources for social sector. These include natural resource sectors, and non-tradable infrastructure services such as electricity, internal transport telecommunications.

1. The National Mineral Policy was revised and the Mines and Mineral Development Act amended to open up this sector to private and foreign investment. Thirteen minerals were de-reserved for exploitation by the private sector.

2. The R.B.I passed automatic approval policy for foreign investment was made applicable to mining (except for atomic minerals and mineral fuels) subject to a limit of 50% on foreign equity.

3. The power sector policy framework attracted 138 private proposals for creating 58,745 mega watts of capacity with an investment of Rs.2,19,927 crores. Of these, 41 proposals are from foreign investors or are joint ventures with foreign partners, of which thirteen have already been cleared by the government.

4. The National Tele-communication Policy, 1994 allows private provision of basic telecom services. Implementation has begun after announcement of rules and procedures.

5. The New Air Corporation Act, 1994 enables private Air Taxi Companies to operate as regular domestic airlines. Nine Air Taxi operators, complying with Aircraft Rules have been granted "scheduled airlines" status.

6. The National Highway Act, has been amended to enable levy of tolls on national highway users. Government intends further amendment of the Act of allow private participation in construction, maintenance and operation of roads on Build-operate-Transfer (BOT) basis.

Natural Environment

Geographical and ecological factors, such as natural resources endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities etc., are all relevant to business. Differences in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence the location of certain industries.

Natural Resource Availability

For example, industries with high material index tend to be located near the raw material sources. Climate and weather conditions affect the location certain industries like the cotton textile industry in Mumbai, Ahmedabad and Coimbatore. Topographical factors   They may affect the demand pattern.

For example, in hilly areas with a difficult terrain, jeeps may be in greater demand than cars.

Ports - Air ports and seaports offer an advantage in transport. Many commercial cities are those, which have this port advantage.

In India business has flourished near ports. For example, Visakhapatnam in Andhra Pradesh, which has a natural harbour, has many major industries like BHPV, steel plant, Hindustan Shipyard, Coromandel Fertilizers etc., located there due to the advantage of port.

Green concerns Government is becoming increasingly concerned about protecting the environment. Use of plastic bags is banned in several states and Union Territories like Andhra Pradesh and Sikkim. Government is investing on water harvesting schemes to conserve ground and natural water resources Cliamtic conditions   Variations in climatic conditions cause differences in demand for goods.

More number of air conditioners and refrigerators are sold in the South India during summer due to warm weather. Impact of macro environment on business   The trends in mega environment, from the viewpoint of a company, have long-term implications. Figure 4-2 shows some of the trends that impacted business.
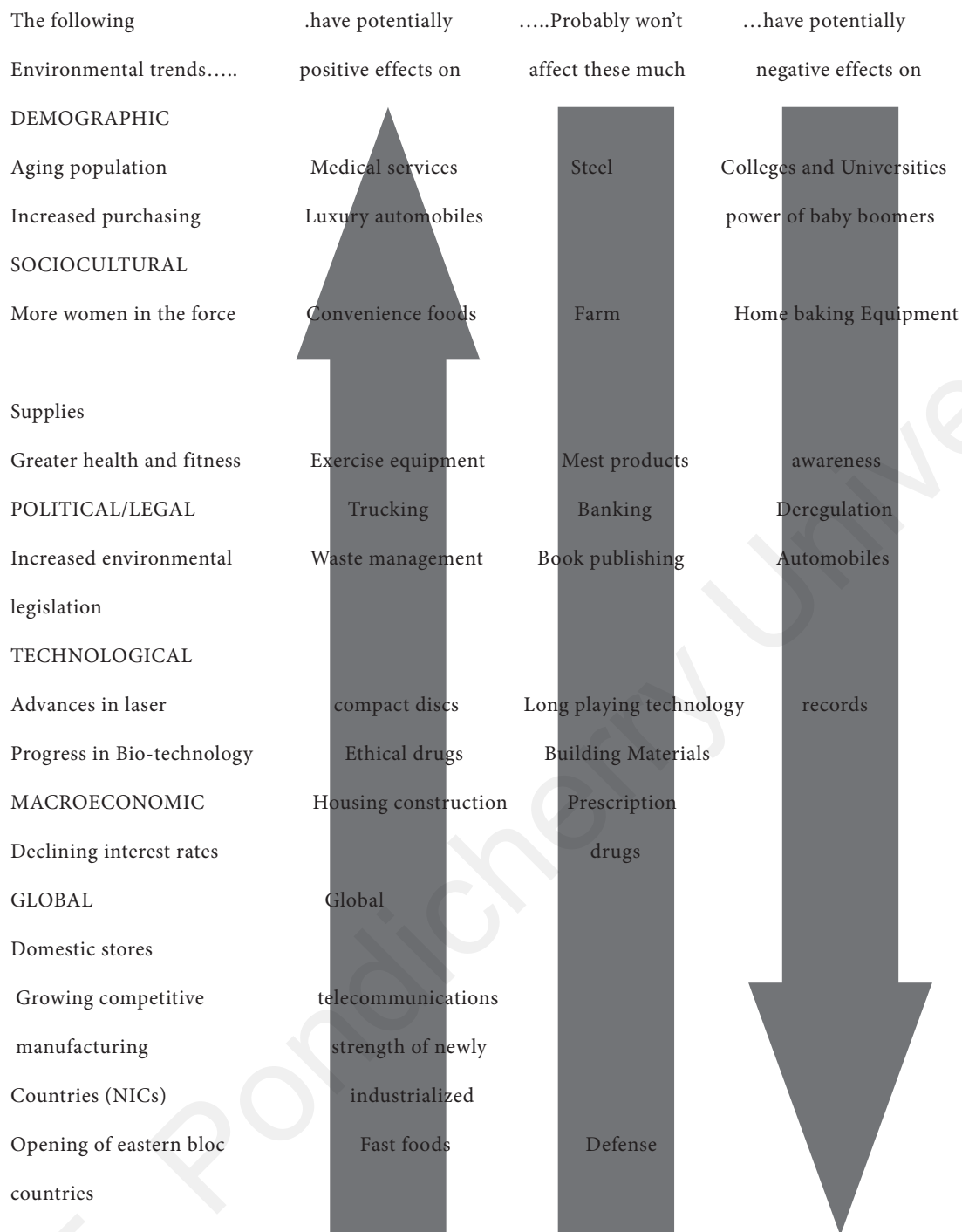
The following Environmental trends…..	.have potentially positive effects on	…..Probably won't affect these much	…have potentially negative effects on
DEMOGRAPHIC			
Aging population	Medical services	Steel	Colleges and Universities
Increased purchasing	Luxury automobiles		power of baby boomers
SOCIOCULTURAL			
More women in the force	Convenience foods	Farm	Home baking Equipment
			Supplies
Greater health and fitness	Exercise equipment	Mest products	awareness
POLITICAL/LEGAL	Trucking	Banking	Deregulation
Increased environmental legislation	Waste management	Book publishing	Automobiles
TECHNOLOGICAL			
Advances in laser	compact discs	Long playing technology	records
Progress in Bio-technology	Ethical drugs	Building Materials	
MACROECONOMIC	Housing construction	Prescription	
Declining interest rates		drugs	
GLOBAL	Global		
Domestic stores			
Growing competitive	telecommunications		
manufacturing	strength of newly		
Countries (NICs)	industrialized		
Opening of eastern bloc countries	Fast foods	Defense	

Figure 4-2: Trends in Environment and Their Impact

(Source: Alex Miller and Geogory G.Dess (1996), Strategic Management
McGraw - Hill, New York,P.61.)

Environment and Strategic Analysis

By the very principle of its operation, industry never reaches a point of equilibrium. Strategic analysis provides the framework on study, forecast, anticipates and prepares the organization to tackle the challenges posed by the changes, head on.

Organizations have to recognize the dynamic nature of the environment in which they operate. The environment is affected by a number of factors that include events and influences from a number of sources, resulting in a complex play of forces that are not easy to analyze in their totality.

Internal factors are those over which the business enterprise can exercise its control and are regarded as controllable variables. External environmental factors are regarded as uncontrollable factors. As the external factors of environment are beyond the control of a business enterprise, its progress, success and survival largely depends upon its capacity and ability to adapt successfully to environmental changes. In order to do this, it will have to reorganize, readjust its controllable internal factors to suit the external business environment.

Effective strategic management begins with assessment of business risk. Business risk arises as much from the likelihood that something good will not happen as it does from the threat that something bad will happen. Each organization has its own unique set of business risks and these risks keep changing constantly. Some risks are external, e.g. competitors, economic conditions, and capital availability etc. Others are internal, resulting from the company's own organization, processes, products, and relationship with customers, shareholders, suppliers and employees; information; and contractual commitments.

There are two mainstreams of thought on strategy. These are represented by the 'fit' concept of the 'positioning school' and the 'stretch' concept of the resource based' school. Each of these schools views strategy differently, as a result of which strategic capability is also viewed differently.

The 'Fit' Concept

The traditional concept of organizational strategy is based on the 'fit' concept. This concept is propagated by the 'positioning' school and more particularly by Michael Porter in his development of the theory of competitive strategy. According to this, strategies should aim at achieving fit between environment and organizations.

The 'Stretch' Concept

Gary Hamel and C.K. Prahlad opined that the conventional framework of strategy using the 'fit' concept is incomplete as a strategy for the organization. Though the long-term strategy should have a consistency and purpose and supplement the idea of 'fit', the importance of competitive strategy is not about how the organization fits its strategy to match its resources, but about how the organization marshals its resources. They said, "competitiveness is born in the gap between a company's resources and its managers goals. "The long term competitive success depends on managers' willingness to continually challenge their existing frames of reference. Leveraging resources can do this. Leveraging resources is as important as allocating them. This concept of leveraging resources so as to extend the capabilities of the organization and its competitiveness is called 'stretch'.

Summary

Business organizations are subject to its internal and external environmental factors. The internal factors are its personnel, physical facilities, organization structure, production system, marketing mix, technical facilities etc. These internal factors are those over which the business enterprise can exercise its control and are regarded as controllable variables.

The external factors are those over which the business organization has no control such as social and political atmosphere, economic environment etc. These environmental factors are regarded as uncontrollable factors. As the external factors of environment are beyond the control of a business enterprise, its progress, success and survival largely depends upon its capacity and ability to adapt successfully to environmental changes. In order to do this, it will have to reorganize, readjust its controllable internal factors to suit the external business

environment. There are two mainstreams of thought on strategy. These are represented by the 'fit' concept of the 'positioning school' and the 'stretch' concept of the resource based' school

Self Assessment Questions

1. What do you understand by environment? How do you classify it?
2. What is internal environment? Is it controllable?
3. What PESTEL means to you? Which of the external factors are controllable ?
4. What factors in social environment affect business and how?
5. Discuss the implications of political environmental forces in India?
6. Examine the impact of changing technology on business.
7. What are the major economic environmental factors?
8. Identify the major changes in Indian environment impacting domestic and foreign business.
9. How do strategists look at environment and take decisions?
10. Write a note on the long tem impact of microenvironment on business as given by Miller and Dess in the lesson.

Activities

1. Visit websites of any two companies and from the annual reports or publicity material and figure out the environment in which they are operating.
2. What steps are taken now a days by companies in response to green issues? Collect material from Vikalpa and other journals and make a 3 page report..

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Lesson 6 - Environmental Scanning Techniques

Lesson Outline

Learning Objectives

After reading this lesson you should be able to

- › Understand the importance of scanning techniques.

- › Describe the different scanning techniques

Since the Strategic Advantage Profile is a summary statement of corporate capabilities, in summarizing the functional competencies a comparative view needs to be taken in the light of external conditions

and the time horizon of projections. For example, while comparing the level of inventory holding, one may find it to be relatively higher than that of competing firms; as such it should be regarded as a weakness. But if the market demand shows an increasing trend, apparent weakness should be considered strength.

III. Functional – area profile and resource deployment matrix.

Developed by Hofer and Schendel, this method requires the preparation of a matrix of functional areas with characteristics common to each, e.g., focus of financial outlay, physical resource position, organizational system, and technological capability. The functional area profile of a manufacturing company is given by way of illustration. Following this exercise, it is required that the resource outlay and focus of efforts over time in the respective functional areas be presented also in the form of a matrix.

Techniques of Scanning

There are various scanning techniques used by organizations

i. Issues Priority matrix

ii. Environmental Threats and opportunities Profile (ETOP)

iii. Strategic advantage profile (SAP)

iv. Functional – area profile and resource deployment matrix

v. SWOT Analysis

vi. The opportunity and Threat matrices

vii. The Impact Matrix

viii. The Impact scale

ix. Gap Analysis

x. Balanced Score card

i) Issues Priority Matrix (IPM)

One way to identify and analyze developments in the external environment is to use the issues priority matrix (Figure 8-1) as follows:

1. Identify a number of likely trends emerging in the societal and task environments. These are strategic environmental issues – those important trends that, if they occur, determine what the industry or the world will look like in the near future.

2. Assess the probability of these trends actually occurring from low to high.

3. Attempt to ascertain the likely impact (from low to high) of each of these trends on the corporation being examined.

Figure 8-1s

Issues Priority Matrix

Probable Impact On Corporation

		High	Medium	Low
Probability Occurrence	High	High Priority	High Priority	Medium Priority
	Medium	High Priority	Medium Priority	Low Priority
	Low	Medium Priority	Low Priority	Low Priority

Source: L. L. Lederman, "Foresight Activities in the U.S.A: Time for a Re-Assessment?" Long – Range Planning (June 1984), p-46.

A corporation's **External Strategic Factors** are those key environmental trends that are judged to have both a medium to high probability of occurrence and a medium to high probability of impact on the corporation. The issues priority matrix can then be used to help managers decide which environmental trends should be merely scanned (low priority) and which should be monitored as strategic factors (high priority). Those environmental trends judged to be a corporation's strategic factors are then categorized as opportunities and threats and are included in strategy formulation.

II)Environmental Threats and Opportunities Profile (Etop)

Assessment of the environmental information and determining the relative significance of threats and opportunities require a systematic evaluation of the information developed in the course of environmental

analysis. For this purpose, preparation of a profile of environmental threat and opportunity (ETOP) is considered to be a useful device.

An illustrative profile is given in Figure 8-2 on the basic of environmental analysis carried out by Bharat Heavy Electricals Ltd.

BHEL: ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE (ETOP)

Environmental Sector	Impact (+) Opportunity (-) Threat
Socio – economic	(+_) continued emphasis on infrastructural development which includes power supply for industry, transport, and domestic consumption.(-) Severe resource constraints.
Technological	(+) High growth envisaged in industrial production and technology upgradation.
Supplier	(-) Sources of technology will become scarce due to formation of technology cartels.
Government	(+) Liberalization of technology import policy

Competition	(-) Customers will become more discerning in their requirements due to an increasing role of power plant consultants.
	(-) Public sector will find it increasingly difficult to retain specialists and highly qualified personnel.

Figure 8-2 Environmental analysis at BHEL

III.   Strategic Advantage Profile

A Profile of strategic advantages (SAP) is a summary statement, which provides an overview of the advantages and disadvantages in key areas likely to affect future operations of the firm. It is a tool for making a systematic evaluation of the strategic advantage factors, which are significant for the company in its environment. The preparation of such a profile presupposes detailed analysis and diagnosis of the factors in each of the functional areas (Marketing, Production, Finance and Accounting, Personnel and Human Resources, R& D). The relevant data for the critical areas may go as a supplement to the profile. The following Strategic Advantage Profile relates to a food processing company in India.

Figure 8-3   Strategic Advantage Profile (SAP) of ABC India Ltd.

Internal Area	(+) Strength (-) Weakness
Marketing	(+) Capable sales force; sales agents dispensed with.
	(-) Shrinking market for most products.
Operations	(-) Stagnating sales performance.
	(+) Profits after tax picking up after 1982.
	(-) Plant facilities are old.

| R&D | (-) No R&D effort so far. |
| | (+) Backing in R &D expected from parent US company. |

Finance	(-) No additional investment since 1980.
	(-) Heavy reliance on fixed deposits and bank loans.
	(+) Parent US company now interested in expansion.
Corporate Resources	(+) Management team comprises young, ambitious executives.

Since the Strategic Advantage Profile is a summary statement of corporate capabilities, in summarizing the functional competencies a comparative view needs to be taken in the light of external conditions and the time horizon of projections. For example, while comparing the level of inventory holding, one may find it to be relatively higher than that of competing firms; as such it should be regarded as a weakness. But if the market demand shows an increasing trend, apparent weakness should be considered strength.

IV. Functional – area profile and resource deployment matrix.

Developed by Hofer and Schendel, this method requires the preparation of a matrix of functional areas with characteristics common to each, e.g., focus of financial outlay, physical resource position, organizational system, and technological capability. The functional area profile of a manufacturing company is given by way of illustration. Following this exercise, it is required that the resource outlay and focus of efforts over time in the respective functional areas be presented also in the form of a matrix. Figure 8-4 Functional – Area Resource – Deployment Matrix

Figure 8-4 Functional – Area Resource – Deployment Matrix

Functional Area	Resource Deployment and Focus of Efforts	2005 - 06	2006 - 07	2007 - 08	2008 - 09	2009 - 10	2010 - 11	2011 - 12
Marketing	Development							
	Focus of Effort							
Production	Development outlay (%) Amount ₹)							
	Focus of Effort							
Finance	Development outlay (%) Amount ₹).							
	Focus of Effort							
R&D	Development outlay (%) Amount ₹)							
	Focus of Effort							
Management	Development outlay (%) Amount (₹)							
	Focus Effort							

V. SWOT Analysis

SWOT is an acronym for the internal Strengths and Weaknesses of a business and environmental Opportunities and Threats facing that business. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes a business's strengths and opportunities but at the same time minimizes its weaknesses and threats. This simple assumption, if accurately applied, has powerful implications for successfully choosing and designing an effective strategy.

Opportunities

An opportunity is a major favorable situation in the firm's environment. Key trends represent one source of opportunity. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplier relationships could represent opportunities for the firm.

Threats

A threat is a major unfavorable situation in the firm's environment. It is a key impediment to the firm's current and / or desired future position. The entrance of a new competitor, slow market growth, increased bargaining power of key buyers or supplier, major technologies change, and changing regulations could represent major threats to a firm's future success.

The second fundamental focus in SWOT analysis is identifying key strengths and weakness based on examination of the company profile. Strengths and weaknesses can be defined as follows:

Strengths

A strength is a resource, skill, or other advantage relative to competitors and the needs of markets a firm serves or anticipates serving. a strength is a distinctive competence that gives the firm a comparative advantage in the marketplace. Financial resources, image, market leadership, and buyer / supplier relations are examples.

Weaknesses

A weakness is a limitation (or) deficiency in resources, skills, and capabilities that seriously impedes effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image could be sources of weaknesses. Sheer size and level of customer acceptance proved to be key strengths around which IBM built its successful strategy in the personal computer market.

How is it useful?

Understanding the key strengths and weaknesses of the firm further aids in narrowing the choice of alternatives and selecting a

strategy. Distinct competence and critical weakness are identified in relation to key determinants of success for different market segments; this provides a useful framework for making the best strategic choice.

SWOT analysis can be used in at least three in strategic choice decisions. The most common application provides a logical framework guiding systematic discussions of the business's situation, alternative strategies, and ultimately, the choice of strategy. What one manager sees as an opportunity, another may see as a potential threat.

A second application of SWOT analysis is illustrated in Figure.8-5. Key external opportunities and threats are systematically compared to internal strengths and weaknesses in a structured approach. The objective is identification of one of four distinct patterns in the match between the firm's internal and external situation. The four cells in Figure 8-5 represent these patterns.

➢ Cell 1 is the most favorable situation; the firm faces several environmental opportunities and has numerous strengths that encourage pursuit of such opportunities. This condition suggests growth – oriented strategies to exploit the favorable match. IBM's intensive market development strategy in the personal computer market was the result of a favorable match between strengths in reputation and resources and the opportunity for impressive market growth.

➢ Cell 2, a firm with key strengths faces an unfavorable environment. In this situation, strategies would use current strengths to build long – term opportunities in other products/ markets.

➢ Cell 3 faces impressive market opportunity but is constrained by several internal weaknesses. Businesses in this predicament are like the question marks in the BCG matrix. The focus of strategy for such firms is eliminating internal weaknesses to more effectively pursue market opportunity.

➢ Cell 4 is the least favorable situation, with the firm facing major environmental threats from a position of relative weakness. This condition clearly calls for strategies that reduce or redirect involvement in the products markets examined using SWOT analysis.
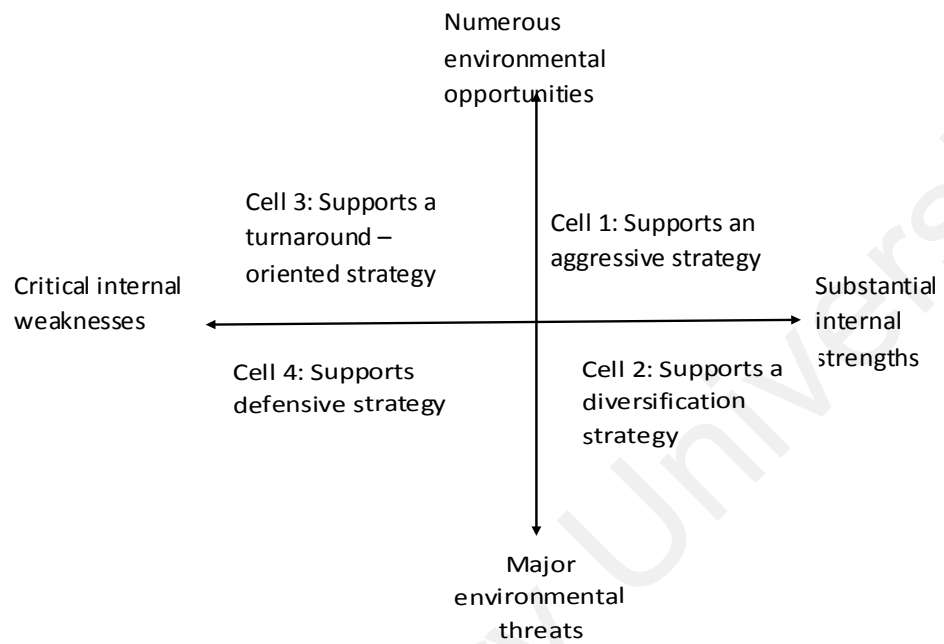
Figure 8-5 Swot Analysis

SWOT analysis helps resolve one fundamental concern in selecting a strategy: What will be the principal purpose of the grand strategy? Is it to take advantage of a strong position or to overcome a weak one? SWOT analysis provides a means of answering this fundamental question. And this answer is input to one dimension in a second, more specific tool for selecting grand strategies: the grand strategy selection matrix.

VI.   The Opportunity and Threat Matrices

A company, after identifying the threats, can use judgment to place the threats in any of the four cells shown in Figure 8-6

Figure 8-6 Threat Matrix

High

Seriousness	1 Majorthreat	2 Majorthreat
Low	3 Majorthreat	4 Majorthreat

High   Low

Probability of Occurrence

For an aluminum plant erratic and high cost of power can became a threat if the probability of occurrence is high (cell.1). There is a need to set up captive plant or shifting the plant to another location.

Figure 8-7 Opportunity Matrix

High

Seriousness	1 Very attractive	2 Moderately attractive
Low	3 Moderately attractive	4 Least attractive

High   Low

Probability of Occurrence

A company's success probability with a particular opportunity depends on whether to strength (distinctive competence) matches the success requirement of the industry.

Ex: - Entry into LCVs is an attractive opportunity for TELCO.

VII.   The Impact Matrix

The impact of various strategies   (opportunities and threats) is examined with the help of impact matrix. After identifying the trends in mega, micro and relevant environments the degree of impact can be measured on an impact scale. The impact matrix can be for a specific business unit or to overall company Eg. Diversified company.

Figure 8-8   The Impact Matrix

		Impact on strategies			
Trends	Pr. of Occurrence	S1	S2	S3	S4
T1					
T2					
T3					
T4					

VIII.   The Impact Scale

A futuristic orientation and an ability to synthesize are two critical requirements for strategic decisions. On studying the environmental issues, the major trends can be identified and examine for the degree of impact they make on the business. A 'five point ' scale can be used to assess the 'degree' and 'quality' of impact of each trend on different strategies. The scoring pattern can be:

+ 2   -   Extremely favorable impact

+1   -   Moderately favorable impact

0   -   No impact favorable impact

-1   -   Moderately unfavorable impact

-2   -   Extremely unfavorable impact

For each trend probabilities of occurrences can be assigned.

IX. Gap Analysis

It is a useful method to describe the process involved in deciding what course of action should be taken to remove any potential profit or sales gap or risk gap.

Figure 8-9 Gap analysis
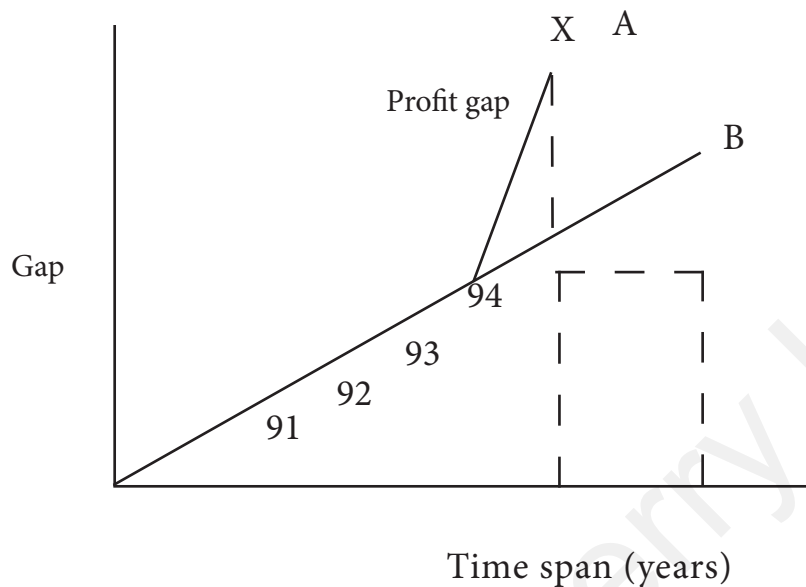
> **Profit Gap:** Gap between profit for the past few years and profit projection based on freehand projection, linear regression coefficient or exponential smoothing.

> **Sales Gap:** Gap between planned & actual sales.

> **Product gap:** Difference between what a firm offers in terms of product items and what the industry provides in terms of product line.

> **Risk gap:** Gap between anticipated risk with strategic decision and the actual happening.

X. Balanced Score Card

Balanced Scorecard is another useful tool to assess the internal strength and weakness of a company. This Balanced Scorecard attempts to examine firm's strengths and weaknesses from different perspective, instead of focusing on a narrow set of criteria. This Balanced Scorecard does not out weigh one perspective and underscores other, rather it balances all of them.

To generate superior return for shareholders, company should have competitive advantage that depends upon its ability to provide certain values to customers. These values can be provided by offering them better, cheaper and faster products or services. For this company requires development of operations that supports product development and responsiveness to fulfill orders. To facilitate quality operations, company needs organization with required creativity, skill and learning. Thus financial score board is dependent upon many dimensions which contribute to the strength and success of the company. It requires to delve deeper to those perspective (beyond financial perspective) to have balanced insight of the company's internal analysis.

Therefore we consider these four perspectives of the Balanced Scorecard: financial, Customer, Operations and Organizational.
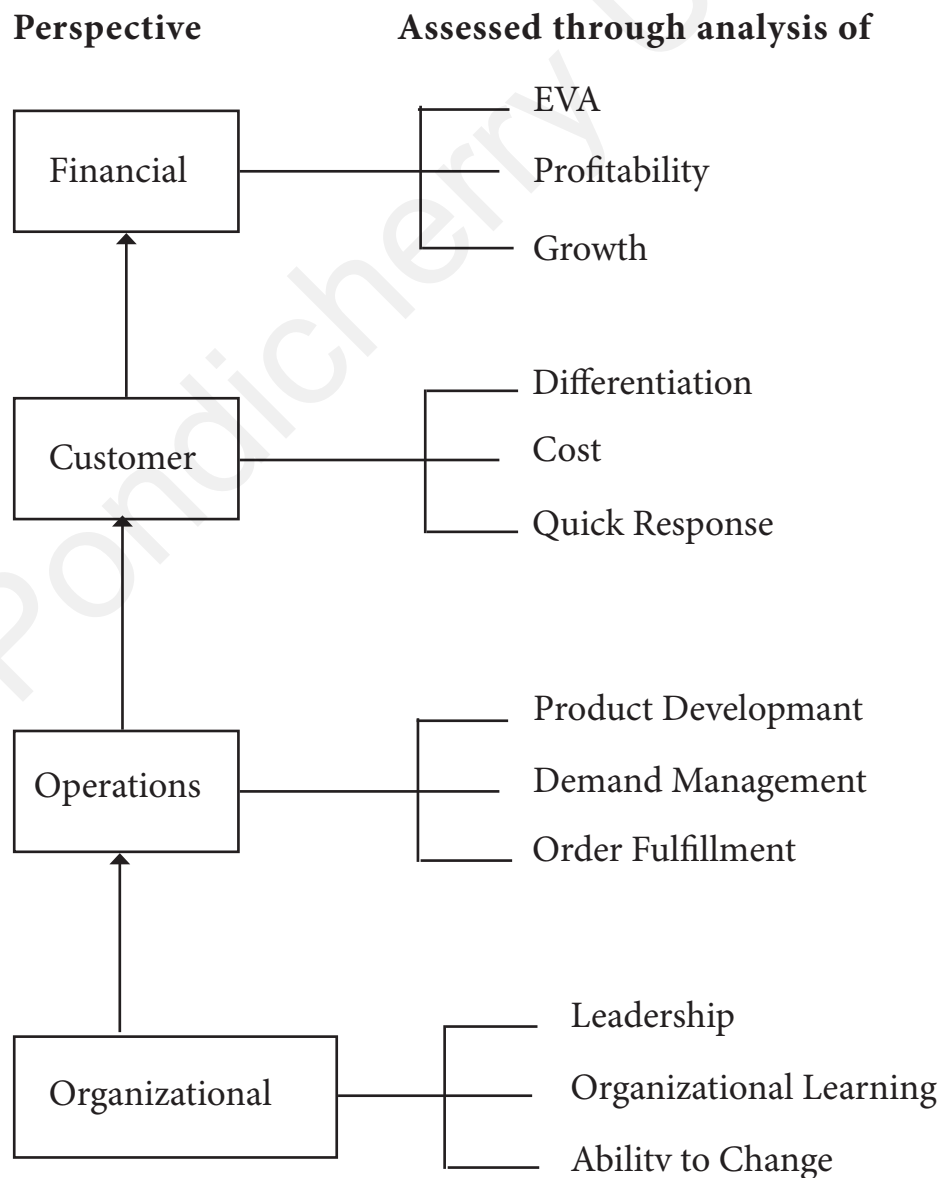
Perspective   **Assessed through analysis of**

Financial
- EVA
- Profitability
- Growth

Customer
- Differentiation
- Cost
- Quick Response

Operations
- Product Developmant
- Demand Management
- Order Fulfillment

Organizational
- Leadership
- Organizational Learning
- Ability to Change

This balanced scorecard, as a tool of internal analysis, provides definite advantages to the company.

First, it evaluates the strengths and weaknesses of a company by providing equal and balanced weight to different factors.

Second it "reflects the idea of a hierarchy of intent with elements linked in a series of means – ends relationship" (Alex Milles and Gregory G. Dess,1996).

Third, it explicitly cites competitive advantage as the core element for the success of a strategy.

Glueck's Scanning Techniques

Glueck Suggests three major search techniques for environmental scanning.

(A) Information gathering

(B) Spying

(C) Forecasting.

(A) Information Gathering

By gathering information, strategic manager can know about the business environment. The soures of information may be either written or verbal.

The written sources of information may be published in various publications

a. Business magazines like Business Today, Business India, Advertising and Marketing, Harvard Business Review, etc;

b. Newspapers like Economic Times, Financial Express, Business Line, etc;

c. Publications of Trade Directories, Reports, Guides;

d. Annual reports and profiles of companies; etc.

(B) Spying

Spying is one of the methods of collecting and analyzing the information required for business scanning. For this, specialized individuals can be employed to get trade secrets or clues about strengths of supplier, customer or competitor. These clues are further processed for scanning business environment. Here business has to ensure avoiding breach of law.

(C) Forecasting

"Good anticipation is the result of good strategic exploration." Joel Arthur Barker, author of the book Paradigms: The Business of discovering the future, rightly remarks. Like Peter Drucker, he also agrees that future managers will be more anticipators and proactive than problem solver or reactors.

Forecasting is the techniques of estimating those events that may occur in the future. Though future is uncertain and unexpected, yet it can be predicted to a certain extent by correlating the various parameters through their analysis and combining intuitions with that analysis.

Some of the popular techniques of forecasting include

- ‣ Time series analysis
- ‣ Casual modeling and
- ‣ Delphi Technique

Self Assessment Questions

1. Explain the significance of scanning techniques.

2. Describe Issues Priority matrix

3. Using Environmental Threats and opportunities Profile (ETOP), find the threats and opportunities a of a firm

4. What is Strategic advantage profile (SAP)?

5. Explain the utility of Functional – area profile and resource deployment matrix

6. Conduct SWOT Analysis for a firm of your choice.

7. What is the benefit of using opportunity and threat matrices?

8. Explain the Impact Matrix

9. How do you make use of the Impact scale

10. Explain Gap Analysis

11. Why do you think balanced score card is a better techniques of scanning?

Activities

1. Motorola is a company with a highly efficient scanning system. Visit its website to identify how they are using market research and technology research to scan their internal and external environment. Note them down.

2. Identify the scanning system of Hindustan Lever Limited by discussing with their local dealers and executives carefully record their observations.

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Lesson 7 - Internal Analysis

Lesson Outline

- Introduction
- Internal Analysis –Definition
- Companies With Strong Internal Environment
- Internal Analysis –Process
- Resource Audit
- Vrio Frame Work
- Grant's Approach
- Continuum Of Sustainability
- Value Chain Analysis
- Upstream
- Downstream
- Core Competence Identification
- Experience Curve
- Summary
- Self Assessment Questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Understand the concept importance and process of internal analysis
- Know the techniques of conducting internal analysis
- Identify firms with internal capabilities and their strategies

Introduction

Understanding the elements of external environment helps identify opportunities and threats and decide which opportunities to tap. But for formulation of strategy mere identification of the environment is not enough. A firm needs to identify its internal strengths and weaknesses and find ways to overcome the weaknesses. Therefore an integrated strategy must emerge from the combined assessment of market attractiveness and internal strength.

Internal analysis – Definition

Lawrence R. Jauch and William F. Gleuck define Internal analysis and Internal diagnosis in following words:

"Internal analysis is the process by which the strategists examine the firm's marketing and distribution, research and development, production and operations, corporate resources and personnel, finance and accounting factors to determine where the firm has significant strengths and weaknesses. Internal diagnosis is the process by which strategists determine how to exploit the opportunities and meet the threats the environment is presenting by using strength and repairing weakness in order to build sustainable competitive advantage."

Internal analysis is the process of reviewing organizational resources (resource audit), scanning organizational activities and linking them with creation of value to the organization (value chain analysis) and identifying the unique strengths and capabilities (core competences).

As is obvious from the above words, that the internal analysis involves three steps as shown in Figure 7-1:

1. Resource Audit.

2. Value Chain Analysis

3. Core-competence Identification.

Figure 7.1 Steps in Internal Analysis

```
┌─────────────────────────┐
│     Resource Audit      │
└────────────┬────────────┘
             │
             ▼
┌─────────────────────────┐
│  Value Chain Analysis   │
└────────────┬────────────┘
             │
             ▼
┌───────────────────────────────────┐
│  Core – Competence Identification │
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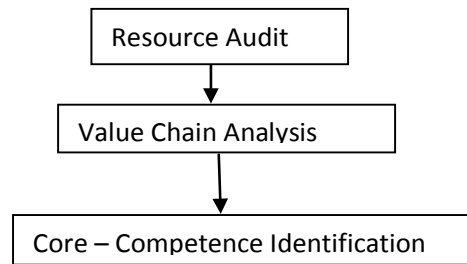
Companies With Strong Internal Environment

Examples of firms with strong strength which pertain to the internal environment are many. According a report in Business Today published in 1997 the strengths of Asia's top twenty companies and commons of Indian companies with internal distinctive competencies is given below.

Table: 7.1 Asia's 50 Most Competitive Companies

Rank	Company	Country	Industry	Competitive Strength
1	SONY CORP	Japan	Electronics	Possesses one of the world's best – known brand names
2	ACER INCE.	Tai wan	Com puters	Has become a global player with its user – friendly PCs
3	HONDA MOTOR CO.	Japan	Auto mobiles	Moving more and more production to North America
4.	TOYOTA MO-TOR CORP.	Japan	Auto mobiles	Combated rising costs at home with more factories abroad
5	CANON INC.	Japan	Electro nics	Thrives on cameras, printers, and PC-related products.

6	TAIWAN SEMI CONDUCTOR	Taiwan	Semiconductors	World's targets silicon – foundry, supplying global chip-makers.
7.	SUZUKI MO-TOR CORP.	Japan	Automobiles	Well – positioned to penetrate Asian mobiles markets.
8.	HYUNDAI MOTORS CORP.	South Korea	Automobiles	Executing major plans for automobiles in China and India
9	RELIANCE IN-DUSTRIES	India	Petro chemicals / textiles	A powerful Vertically – integrated textile manufacturer.
10.	ROHM CO.	Japan	Electronic components	Profitable niche player in resistors and LCD screens
11.	RANBAXY LABORATORIES	India	Petro chemicals	Has stepped up R & D and penetrated developing markets
12	SHANGRI – LA ASIA	Hong Kong	Hotels	Operates as many as 34 hotel chains in 12 Asian countries
13	SINGAPORE INTL AIRLINES	Singa pore	Aviation	Runs are of the world, most highly-rated airlines
14	GIORDANO INTL	Hong Kong	Retail clothing	Manager 450 high-profile fashion outlets in 12 countries
15	JOLLIBEE FOODS CORP	Philip pines	Food	Holds 55 per cent of the Philippines fast-food market

16	SUNDRAM FASTENERS	Indian	Auto pars	A prominent supplier of auto parts, notably radiator caps.
17.	VENTURE MFG.	Singa pore	Contract manu facturing	Produces over 200 varieties of electronic equipment
18.	UNITED MICROELEC.	Taiwan	Semi conductors	A fully – integrated firm, which is reverting to a foundry business
19.	ARVIND MILLS	India	Textiles	Soon to be the world's second-largest denim-maker
20.	BAJAJ AUTO	India	Auto mobiles	Leads scooter manufacture in India, with exports to Thailand
21.	MOSEL VITELIC INC.	Taiwan	Semi conductors	Makes specialized chips with a plant under way in China
22.	AYALA LAND INC	Philip pines	Real estate	A big developer in Hong Kong, Singapore, and the Philippines
23	TELE VISION BROAD CASDTS	Hong Kong	Media	Has the world's largest Chinese film library for TV
24	NINTENDO CO.	Japan	Electronic games	Has launched powerful game machines to fight competitors

25	SAMSUNG ELECTRONICS	Korea	Electronics	Has added global reach by buying AST Research
26	ASIA PACIFIC BREWERIES	Singa pore	Brewing	Is brewing foreign JVs to combat stagnant home sales
27	PT INDOFOODSM	Indo nesia	Food	Has a virtual monopoly in the home noodles marker
28	KEEPPEL LAND	Singa pore	Real estate	Thriving property arm of the well-known Keppel Corp.
29	GENTING BHD	Malay sia	Gaming/ leisure	Concentrating on expanding casino business abroad
30	HITACHI	Japan	Electronics	Business cover semicon- doctor, printing, and property
31	GOLD PEAK INDUSTRIES	Hong Kong	Electronics	Has achieved economicsof scale with battery – aking
32	EVERGREEN MARINE CORP.	Taiwan	Shipping/ aviation	One of the world's largest shippers with an airline in addition
33	SAN MIGUEL CORP	Philip pines	Food / brewing	Excels at training and is expanding its food Business

34	CREATIVE TECHNOLOGY	Singa pore	Electronics	Has set a new standard with its sound blaster cards
35	KOMATSU	Japan	Construction equipment	Operates a construction – tools business on four continents
36	SUNHUNG KAI PROPS	Hong Kong	Real estate	Owns a broad investment portfolio and substantial Land
37	TOSHIBA CORP.	Japan	Electronics	Very strong in laptop PCs, multimedia, and chips
38	KYOCERA CORP	Japan	Electronics	Leads the world in ceramic semiconductor components
39	AZTECH SYSTEMS	Singa pore	Electronics	Expanding into internet and PC photo-output products

40	CHAROEN POKPHAND	Thai land	Agro-business	A huge agricultural business, with interests in poultry
41	FUJI PHOTO FILM CO.	Japan	Electronics	Diversifying from photo-film into hardware
42	BROKEN HILL PROPRIETARY	Australia	Mining	A mining giant, with worldwide interests in exploration
43	BRIDGESTONE CORP.	Japan	Auto parts	Became the 'highest tyro-maker after buying Firestone
44	CHEUNG KONG	Hong Kong	Real Estate	Holds a controlling interest in Hutchison Whampoa
45	PT INDAH KIAT PULP	Indo nesia	Pulp and paper	A pulp and paper – maker, part of the Sinar Mas Group

46	PTPOLYSINDOEP	Indo nesia	Textilies	A major polyester – maker on a self – sufficiency Drive
47	AIR NEW ZEALAND	New Zealand	Aviation	Has broken out of its corner through a deal with UA
48	SWIRE PACIFIC LTD.	Hong Kong	Diversified / aviation	Investments include a majority holding in Cathay Pacific
49	SHINAWATRA COMPUTER	Thailand	Tele communications	Businesses cover cellophanes and Sitcom
50	POHANG IRON & STEEL	Korea	Steel	Has shrugged off the financial problems of its steel business

Source: Business Today, July 7-21, 1997.

Resource Audit

This audit reviews the resources of an organization for the purpose of assessing the inherent strengths of those resources. Resources include physical, financial, human and intangible assets of an organization, "a Resource is an asset, competency, process, skill or knowledge controlled by an organization". It can be a positive strength if competitors do not possess it or negative when a firm has lesser strength than competitors".

1. **Physical Resources**

The physical resources include plant and machinery, land and building, vehicles, stock, etc. Their numbers and book values are not as important as their expected benefits are. Therefore an assessment is made in terms of their potential benefits by examining their age, condition, location, capabilities, etc.

2. **Financial Resources**

Financial resources include cash, bank, debtors, marketable securities, etc. In assessing the financial resources, the various sources of finance like equity shares, debentures, retained earnings, long – term and short term loans are considered. Their cost of capital, availability and their effect on the overall liquidity and solvency of the firm is examined.

3. **Human Resources**

Human resources are the most valuable assets of the organization, especially in the present business scenarios – where we find people competing than corporations. Traditionally top management were grand strategists, junior managers were implementers and middle the administrators of the strategy. Now the trend has been changed.

Top managers are creators of vision for the organization and expect others to deliver. Therefore emphasis has shifted from 'strategy, structure and systems' model towards 'purpose process and people' model. To implement the second model you must have a lot of faith in your people. Companies like Asea Braun Boveri, General Electric, Intel, 3M or even Infosys have made that shift.

Sumantra Ghoshal remarks

Therefore the human resources audit is done to assess the quality of human resources. Their individual qualities like knowledge, capabilities, learning skill, etc. as well as their loyalty and commitment to organization are assessed.

Intangible Assets In the contemporary business world, organizations stress on building intangible assets such as brand, customer relationship, intellectual property, etc. Why so? Earlier capital, technology etc., are scarce and are difficult to obtain. Therefore, they were considered as competitive advantage.

Now hey are available and tradable. Something is of competitive advantage is to be hence created. It should be not openly available; not easily leverageable across businesses and not easily substitutable. Intangible assets meet all the three requirements, for example employee commitment or relationships are difficult to imitate."

Look at the tangible assets like machinery in a factory. If company has required capital, it can buy. Look at money which was considered as competitive advantage, is now easily available at inexpensive rates from any where on the globe.

Globalization and deregulation of markets have facilitated their easy and cheap accessibility. Only non-replicable and unique competitive advantages of the company are its intangible assets.

That is why companies like Reliance, BPL, Krebs Biochemical's, etc. are reporting about their intangible assets. Consider the aspects in Figure 7-2
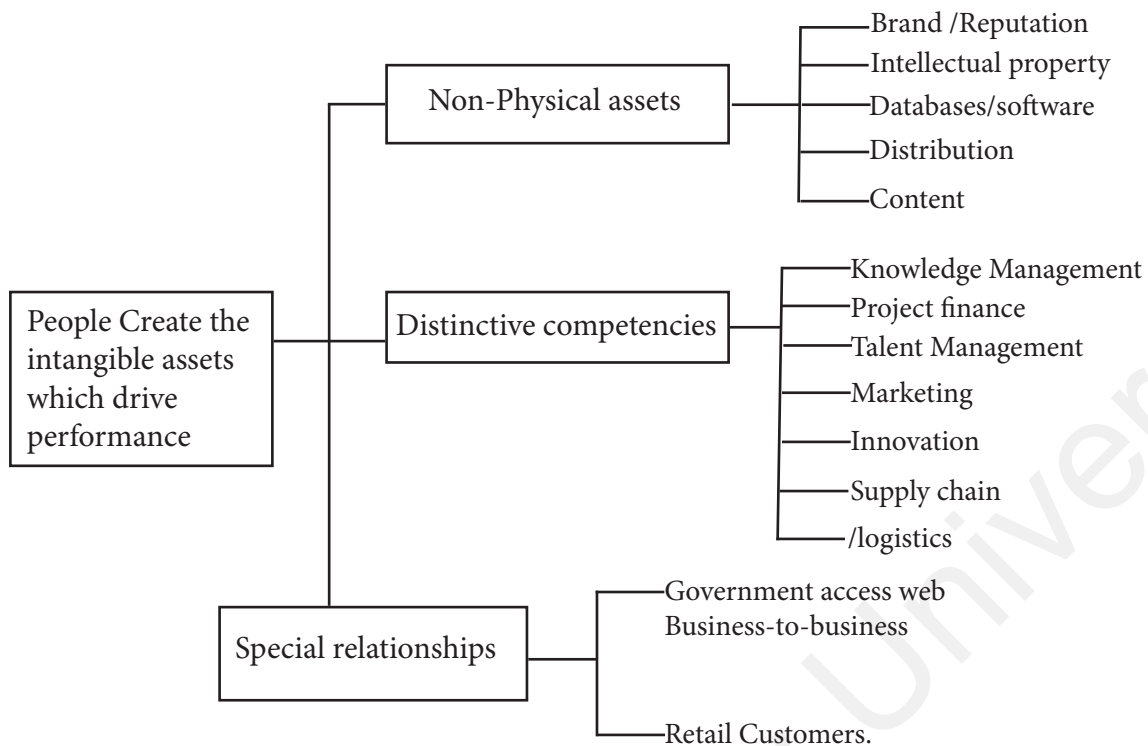
Figure 7-2 The Intangible Advantage

Source: McKinsey & Co.. adapted from Business World, 9-22 November – 6 December, 1998).

We will now consider the three approaches to internal analysis

- › VRIO framework
- › Grant's approach
- › Continuum of sustainability

Vrio Framework

The framework help raise the following questions.

- › VALUE: Does it provide competitive advantage?
- › RARENESS: Do other competitors posses it?
- › IMITABILITY: Is it costly for others to imitate?
- › ORGANISATION: Is the firm organized to exploit the resource?

If the answer is 'yes', there is distinctive competence. Measure these with

- › The company's past performance,
- › The company's key competitors, and
- › The industry as a whole

Grant's Approach

It is a five   step approach

1. Identify and classify a firm's strengths & weaknesses

2. Combine the strengths to core competencies

3. Appraise the profit potential of these resources and capabilities.

4. Select the strategy that exploits the firms resources and capabilities to external opportunities

5. Identify resource gaps and invest in upgrading weaknesses.

United Airlines is a very successful, full service international airline. However, South West Airlines was dominating in California due to low cost carriers. UA tried to imitate SWA and had to reduce flying costs form 10.5/- to 7.4/-, speed up boarding and take offs and reduce idle time on the ground. The same being 737 was introduced in 1994. By Feb, 1996 only 8/- cost per passenger mile could be discounted compared to SWAS 7.1/-. It had to pull out from all routes that did not connect with carrier's hubs in San Francisco and Los Angels. For shorter flights like San Francisco to California UA's tariff was higher by $30 while SWA's was $ 69. Slowly UA lost its loyal customers for short route flights to SWA.

So far, no one knows the competitive advantage of SWA. SWA had two capabilities:

> low costs per passenger mile

> Energizing its people to provide safe, on time flight service.

Continuum of Sustainability

Sustainability of an advantage can be determined by considering two factors

1. Durability—rate at which a firm's resources and capabilities depreciate or become   obsolete Ex: Intel's R&D weakness & mere imitation.

2. Imitability—Rate at which others can duplicate a firm's core competencies. It can duplicated early when it is

> Transparent Ex: Gillette's sensor blades, difficult to copy, expensive manufacturing equipment.

> Transferable Ex: French winery's land and climate.

› Replicable Ex: Brand Mgt of P&G cannot be replicable

An organization's resources and capabilities can be placed on a continuum as follows –

Level of Resource Sustainability

High		Low
(Hard to imitate)		(Easy to imitate)

SLOW CYCLE RESOURCES	STANDARD CYCLE RESOURCES	FAST CYCLE RESOURCES
• Strongly shielded • Patents, brand name Ex: Gillette's sensor razor	• Standardized mass production • Economies of scale complicated processes Ex: Chrysler Minivan	• Easy to duplicated • Idea driven Ex: Sony Walkman

Value Chain Analysis

The resources audit provides an understanding of an organization's capabilities. The next step is to identify how the organizational activities contribute to the value - the price the customers are willing to pay for the goods and services of the organization. If this value exceeds the costs of performing those activities, company is said to be profitable, otherwise it is a loss making company. Therefore to achieve the long run objective of maximization of wealth and short –run goals of generating reasonable profits, it is imperative that the company should gain a competitive edge over its competitors.

Charles W.L. Hill and Gareth R. Jones maintain

"To gain a competitive advantage, a company must either perform value – creation functions at a lower cost then its rivals or perform them in a way that leads to differentiation and a premium price. To do either, it must have a distinctive competence in one or more of its value – creation functions. If it has significant weaknesses in any of these functions, it will be at a competitive disadvantage"

Michael Porter suggested the concept of "value – chain" that sequences the activities related with creation of value (figure 7-3). These activities can be divided between

      (a)   Primary activities, and

      (b)   Support activities.

Swupport Activities ↓	Company Infrastructure	
	Information Systems	
	Human Resources	
	Research & Development	
	Materials Management	
	Manufacturing	Marketing service & Sales

Primary Activities ⟶
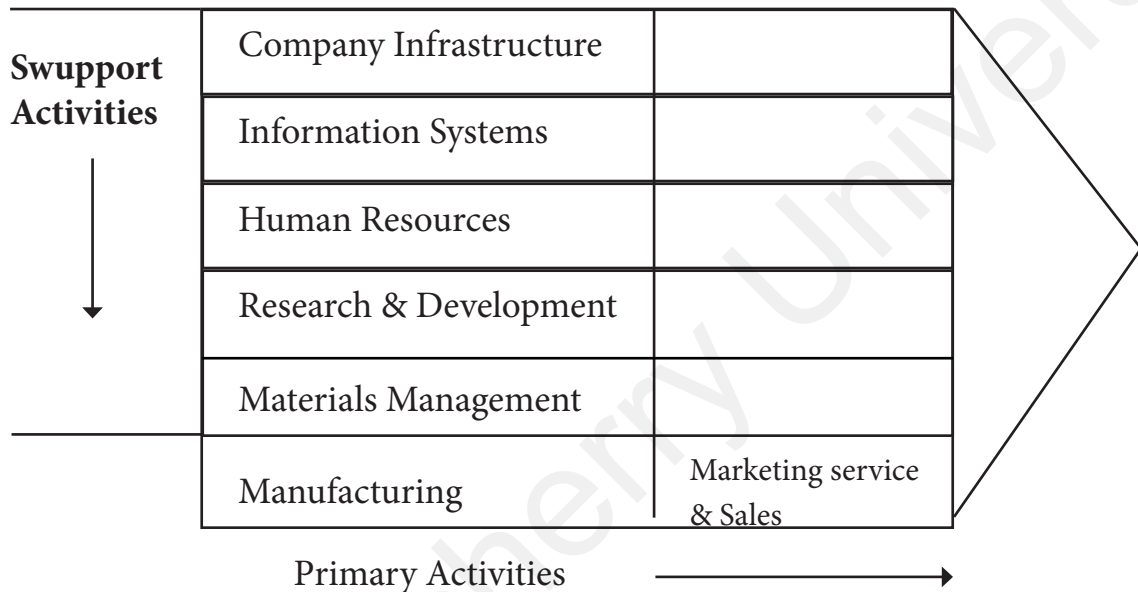
Figure 7-3 Value chain

The primary activities are concerned with physical creation of the product, its marketing and delivery to buyers and after-sales service. The support activities provide the inputs and infrastructure for the primary activities.

Primary Activities

Some authors classify primary activities into five categories

    a. Inbound logistics (activities concerned with receiving, storing and distributing the material, inventory control, warehousing, etc.)

    b. Operations (activities concerned with transformation of inputs into final product or service: for example, matching, packing, assembly testing etc.)

    c. Outbound logistics (activities concerned with collection, storage

and physical distribution of finished goods to the consumers)

d. Marketing and sales (activities concerned with advertising, selling, administration of sales personnel, etc.)

e. Service (activities that enhance or maintain the value of a product / service, such as installation, repair, training, etc.)

Some others classify primary activities into two main functions

a. Manufacturing (physical creation of the product)

b. Marketing (concerned with marketing, delivery and after sales service)

Support Activities

The support activities that provide inputs and infrastructure for primary activities of manufacturing and marketing are classified as follows

a. Material management activities

b. Research and Development activities

c. Human Resources activities

d. Information systems activities

e. Company infrastructure activities

Material Management activities are concerned with procurement, storage and issuance of material to the production departments. The inventory control that aims at keeping uninterrupted supply of material at minimum associated costs is undertaken under this function.

Research and Development activities permeate manufacturing as well as marketing activities. It aims at developing new products or process technology that provide additional benefits to customers, improve quality, lower the cost of manufacturing and ultimately contribute to the creation of value.

The human resource activities aim at meeting the personnel requirement of manufacturing and marketing departments by proper selection of staff, their training and development.

The information system activities ensure efficient and expeditious flow of needed information to the concerned managers for taking decisions and actions.

The infrastructure activities embrace all other activities like finance, legal, public relations, etc which are essential for the company.

Corporate Value Chain Analysis

It involves the following steps. Figure 7-4 depicts a corporate value chain.

➢ Examine each product lines value chain in terms of various activities involved in producing a product or service. Examine the S&W

➢ Identify the linkages in product lines value chain. Ex: quality control, check 100% instead of 10% to avoid repairs and returns

➢ Examine the synergies among value chains of different product lines or SBUS.   Ex: Cost of advertising, production etc jointly will be cheaper

Support Activities	Firm infrastructure (General Mgt, Accounting, Finance, Strategic planning)				
	Human Resource Management (Recruiting training, development)				
	Technology Development (R&D, Product and process improvement)				
	Procurement (Purchasing of materials, machines,supplies)				
In bound Logistics	Operations	Out bound Logistics	Marketing & Sales	Service
(Raw Materials Handling & Ware housing)	(Machining assembling testing)	(Ware housing distribution of finished product)	(Advertising promotion, pricingchannel relations)	(Installation repair, parts)

Figure 7.4   A Corporate value chain

Primary Activities

       JR Galbraith suggests the other method of analyzing a firm's value chain. This analysis helps ascertain where a firm's products are located in the overall value chain. An illustrative value chain is given in Figure 7-5 below. Henry ford I during 1920s and 1930s did this Value Chain analysis. Visitors watched the entire process from an elevated walk way.
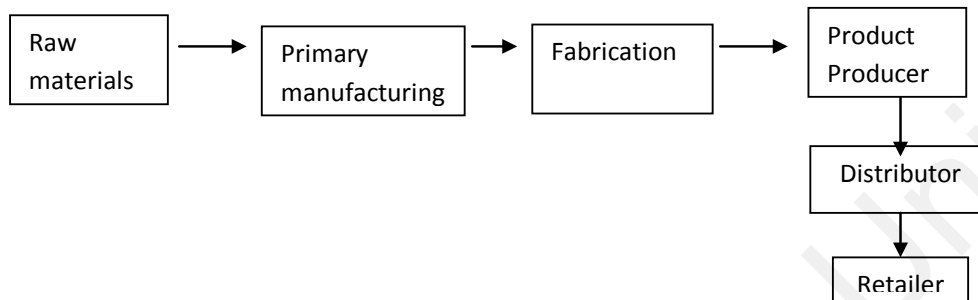
Figure 7-5 Corporate value chain

Industry Value Chain Analysis

This can be split into two

- **Upstream – Ex:** Refers to oil exploration, drilling, moving crude to refiners

- **Downstream – Ex:** Refining the oil + transporting and marketing to distributors & retailers.

Some companies are experts in down stream like P&G & Texaco and some in upstream like British Petroleum.

       According to Galbraith firm's centre of gravity is usually the point at which the company started. After a firm establishes well in this point it can move forward or backward along the value chain to reduce costs, access to raw material and guarantee distribution. This process is

VERTICAL INTEGRATION.

Core Competence Identification

A detailed discussion on the concept of core competence is given in lesson 4 of Unit I in this material. After identifying the resources and relating them to strategic purpose through value chain analysis, the next step is identification of company's core competence. The core competence refers to unique strength of the company that competitors cannot easily match or imitate.

To Gary Hamel and   C.K. Prahalad,

"A core- competence is a bundle of skills and technologies that enables a company to provide a particular benefit to customers". Following are the examples of core-competence at global level:

Company	Benefit to customer	Core – competence
Sony	Pocketability	Miniaturization
Federal Express	on –time Delivery	Logistics Management
Wal-Mart	Choice, availability, value	Logistics Management
E D S	Seamless Information	Systems Integration
Motorola	Unlettered' communication.	Wireless communication

According to C.K. Prahalad and Gary Hamel,

"The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers and fruit are end products. The root system that provided nourishment, sustenance, and stability is the core competence.   You can miss the strength of competition by looking only at their end products in the same way you miss the strength of a tree if you look only at its leaves."

Core competence provides strategic advantage to the company. In the short run, a company can achieve competitiveness from its price / Performance attributes; but in the long run core competence will provide profitability. With its core – competence, company can produce at lower

cost and more speedily than competitors and can differentiate. Thus the real strategic advantage to a company comes from its core competence. Thus core- competence is the bedrock of a company's strategy.

Features of Core Competence

Core competence exhibits the following features(Gary Hamel and C.K.Prahalad).

1. Core competence does not reside in one particular product or business unit. It underlies leadership in a range of products or services. "Core competencies transcend any single business unit within the corporation. Core competences are also longer lasting than any individual product or service." Sony's miniaturization competence is not only confined to walkman, but also other products like portable CD player, pocket television, etc.

2. As Core – competence contributes to competitiveness as winning or losing the battle for leadership is highly dependent upon it. "If Motorola lost its leadership position in wireless competencies, a broad spectrum of business would suffer including pagers, two – way mobile radios and cellular telephones."

3. A Core – competence is not a single discrete skill or technology, rather a bundle of skills and technologies. Thus a core competence "represents the sum of learning across individual skill sets and individual organizational units unlikely to reside in its entirety in a single individual or small team." This Core-competence has to be nurtured through collective learning of the team members.

Competitive Cannons of Indian Companies

Some of the Indian companies with ability to use internal strengths to make strategies effective are explained here.

Reliance
- Use vertical integration to control the market
- Attain global scales in each and every product –line
- Build production capacities ahead of demand
- Leverage technology for process efficiencies
- Manage project engineering to control costs
- Service the customer at his door- step.

Ranbaxy Laboratories

- Benchmark costs globally to keep them in check
- Focus relentlessly on only some chosen products
- Seek out niches unprofitable for the bigger players
- Use R &D to build unique, unmatched skills
- Seek differentiation in delivery, not product
- Integrate vertically to attain economies of scale

Sundram Fasteners

- Focus on only one segment of customers
- Adopt the customer's quality standards to avoid rejection
- Use demanding customers to raise quality levels
- Seek out large customers to operate on a global scale
- Develop a full range of products to meet complete buyer needs
- Build unique skills that are expensive to duplicate

Arvind Mills

- Create global capacities quickly to attack older players
- Target large commodity buyers for the benefits of scale
- Focus on one basic product, but diversify into new markets
- Use value – addition to provide a basket of related products
- Keep every element of cost below the level of competitors
- Integrate forward to cash in on low-cost in –house supplies

Bajaj Auto

- Control costs to keep the product affordable
- Reengineer processes to improve time utilization
- Forge relationships with vendors to minimize costs
- Build global capacities if the domestic market is large enough
- Steer clear of diversification even if synergies are available
- Focus on chosen segments without straying into new ones

Self Assessment Questions

1. What is internal resource analysis? How does it help in strategy formulation?

2. What is internal resource audit? Discuss the internal resources of a company.

3. What is competitive advantage of a firm? How a firm can have competitive advantage?

4. What is value chain analysis? Discuss in detail.

5. What is core- competence? How it can be exploited to have competitive advantage?

6. What is the relevance of the resource – based view of the firm to strategic management in a global environment?

7. How can value – chain analysis help identify a company's strengths and weaknesses?

8. In what ways can a corporation's structure and culture be internal strengths or weaknesses?

9. What are the pros and cons of management's using the experience curve to determine strategy?

10. Take a company of your choice and conduct SWOT analysis for it.

Activities

1. Take an industry and identify the major firms for three of them conduct SWOT analysis and identify core competencies

2. Visit websites of any two companies in pharma industry and identify the major threads and the strategies adopted by them to face them

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Lesson 8 - Competitive Analysis

Lesson Outline

- ‣ Introduction
- ‣ Concept And Types Of Competition
- ‣ Hyper Competition
- ‣ Analysis For Developing Competitive Strategy
- ‣ Porter's Analysis
- ‣ Mckinsey's Framework
- ‣ Key Factors For Success
- ‣ Competitive Strategies
- ‣ Generic Strategies Of Porter
- ‣ Marketing Warfare
- ‣ Summary
- ‣ Self Assessment Questions
- ‣ Activities
- ‣ Reference

Learning Objectives

After reading this lesson you should be able to

- ‣ Know the concept and types of competition
- ‣ Analyze competition from strategic point of view
- ‣ Illustrate and explain Porter's five forces analysis, Mckinsey's 7-s framework and Key success factor approach
- ‣ Outline the generic competitive strategies and explain marketing warfare

Introduction

Developing a competitive strategy is developing a broad framework for the business-how is it going to compete; what are its objectives; and what policies will be needed to carry out its objectives. The competitive strategy is a combination of 'ends' for which an organization is striving and 'means' by which it is seeking to get there.

Concept and Types of Competition

The exchange process between seller and buyer characterizes market. Seller has a product to offer at a price and buyer has a need that can be satisfied by the product. In this sense, the seller and buyer are major actors in the market. Competition is said to exist when there is more than one seller and more than one buyer. Thus there are two views of competition.

- ⟩ Economist's view of competition form seller point of view
- ⟩ Marketer's view of competition from buyer point of view

The economists view of competition

Economists have taken the resource distribution trough price mechanism as the keyhole and viewed competition. They analyzed competition, therefore, from sellers' point of view or the industry structure. Industry is defined as a collection of sellers who offer similar or same product to the same type of customers.

Take for example, toothpastes. There are several competitors. For instance, HUL (Close up), Colgate (Colgate), and Dabur Balsara (Promise) are in the race along with many others.

Economists describe the industry or market structures based on demand and supply forces. Table 7-1 shows the different market situations and describes their characteristics.

Type of competition/ Characteristics	Perfect competition	Monopoly	Oligopoly	Monopolistic
Number of sellers	Many	One	Few (around 20)	Many
Number of buyers	Many	Many	Many	Many
Type of product	Homogeneous	Unique	Homogeneous/Heterogeneous	Similar
Entry and Exit	Free. No restrictions	Barriers exist. Restrictions like patent laws and licensing	Barriers exist Restrictions like patent laws and licensing	Barriers exist Restrictions like patent laws and licensing
Transportation costs	Nil	Exist	Exist	Exist
Price of the product	Uniform and varies with changes in demand and supply forces.	High price with limited supply or Low price with large supply. Price discrimination is often found.	Kinky demand curve. Leadership of a firm or collusion of marketers fixes Price. Price rise is not followed. Secret discounts are common.	Non-price competition. Products are offered depending upon the quality in price range. Promotion and product differentiation (positioning) play a big role.
Examples	Vegetable markets and stock market	Electricity	Steel, oil and cement	Soaps, detergents, and TVs

Table 7-1. Market structures

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In this sense, even though 'physical products' may belong to different industries or technologies, they become competitors to each other to satisfy a specific need or desire. This ubiquitous view can be perceived as belonging to four types of competitors. Kotler((1988) has labeled them as desire competitors, generic competitors, form competitors and brand competitors.

Figure 7-1 provides an illustration for a situation where the need is to 'break monotony' at the 'desire level' and terminates into a specific 'brand' situation for a south Indian Restaurant.

Desire competitors

The alternative suppliers of different products that can satisfy a basic desire- the need expression of a consumer. For example, you desire to break monotony. You have several options and you choose to eat out.

Generic competitors

The suppliers of a specific product/service category. In this example, the next question is where and what? The physical product or service is visualized here. You have again options by variety of foods and places. You decide, say, in favor of restaurant.

Form competitors

The suppliers of different product/service form. They are explored here. Which form of restaurant? is the next choice problem. Say South Indian.

Brand competitors

Different marketers of different brands of a particular product form. The consumer now focuses on brand choices. Say India coffee house.

What desire do I want	What do I want to eat?	Which type of restaurant I	Which South Indian restaurant I
• Sports •Video Film •Eat Out	• Home Food •Restaurant •Fast Food	• South Indian •Mughlai •Chinese	• Lodhi Hotel •Andhra Pradesh Bhawan
Desire Competitor	Generic Competitor	Product Form Competitor	Brand Copetitor
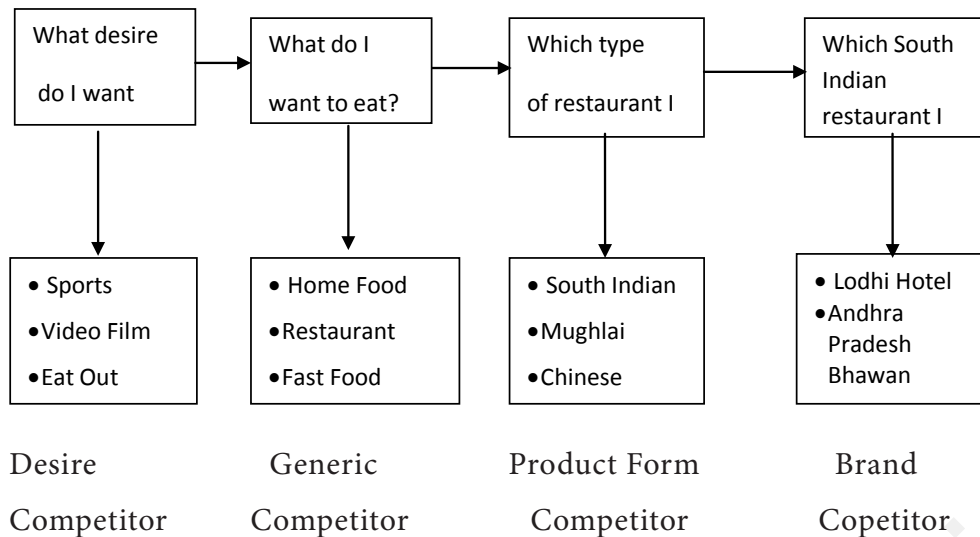
Figure 7-1 : The Marketing View of Competition

In the backdrop of this framework, the South Indian Restaurant owners will be myopic if they focus only on their brand competitors. A challenge to any marketer is to expand the primary demand and hence enhance the area of opportunities. To do this, the South Indian Restaurant owners have to be concerned about the trends in the 'eating-out' environment. And this has been done very successfully by some of the South Indian Restaurants in large cities. Having gained a wide popularity amongst a large segment, they have also started offering Non-South Indian dishes and have thus expanded their market size and fairly their opportunities.

This kind of a view provides a wide terrain to radar the competitive environment. Theodore Leavitt's classic article. "The Marketing Myopia", is an excellent illustration of shifting the focus from product to need to ensure long-term survival and growth of a firm.

Hyper Competition

Most industries today are facing an ever-increasing level of environmental uncertainty. They are becoming more complex and more dynamic. Industries that used to be multi domestic are becoming global. New flexible, aggressive, innovative competitors are moving into established markets to erode rapidly the advantages of previously dominant firms. Distribution channels vary from country to country and are being altered daily through the use of sophisticated information

systems. Closer relationships with suppliers are being forged to reduce costs, increase quality, and gain access to new technology. Companies learn to quickly initiate the successful strategies of market leaders, and it becomes harder to sustain any competitive advantage for very long. Consequently, the level of competitive intensity is increasing in most industries. Richard D'Aveni (1994) contends that as this type of environmental turbulence reaches more industries, competition becomes hyper competition.

According to D'Aveni

In hyper -competition the frequency, boldness, and aggressiveness of dynamic movement by the players accelerates to create a condition of constant disequilibria and change. Market stability is threatened by short product life cycles, short product design cycles, new technologies, frequent entry by unexpected outsiders, repositioning by incumbents, and tactical redefinitions of market boundaries as diverse industries merge. In other words, environments escalate toward higher and higher levels of uncertainty, dynamism, heterogeneity of the players and hostility.

In hyper-competitive industries such as computers, competitive advantage comes from an up-to-date knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage. Exhibit 7-1 describes how Microsoft is operating in the hyper competitive industry of computer software.

Exhibit 7-1:Hyper competition-The case of Microsoft

Microsoft is a hyper competitive firm operating in a hyper competitive industry.   It has used its dominance in operating systems (DOS and Windows) to move into a very strong position in application programs like word processing and spreadsheets (Word and Excel). Even though Microsoft held 90% of the market for personal computer operating systems in 1992, it still invested millions in developing the next generation – Windows 95 and Windows NT. Instead of trying to protect its advantage in the profitable DOS operating system, Microsoft actively sought to replace DOS with various versions of Windows. Before hyper competition, most experts argued against cannibalization of a company's own product line because it destroys a very profitable product instead of harvesting it like a "cash cow." According to this line of thought, a company would be better off defending its older products.

New products would be introduced only if it could be proven that they would not take sales away from current products. Microsoft was one of the first companies to disprove this argument against cannibalization.

Bill Gates, Microsoft's Confounder, Chairman, and CEO, realized that if his company didn't replace its own DOS product line with a better product, someone else would (such as IBM with OS/2 Wrap). He knew that success in the software industry depends not so much on company size but on moving aggressively to the next competitive advantage before a competitor does. "This is a hyper competitive market," explained Gates. "Scale is not all positive in this business. Cleverness is the position in this business." By 2000, Microsoft still controlled over 90% of operating systems software and had achieved a dominant position in applications software as well.

Analysis for Developing a Competitive Strategy

Every business has a competitive strategy. However, some strategies are implicit, having evolved over time, rather than having been explicit (evolved by deliberate planning process). Implicit strategies lack focus, produce inconsistent decisions, and unknowingly become obsolete. Without a well-defined strategy, organizations will be driven by current operational issues rather than by a planned future vision. The broad considerations in an effective competitive strategy can be extended into a generalized approach to the formulation of strategy. In order to do this, the organization must be in a position to answer the following questions:

1. What is the current strategy, implicit or explicit?

2. What assumptions have to hold for the current strategy to be viable?

3. What is happening in the industry, with our competitors, and in general?

4. What are our growth, size, and profitability goals?

5. What products and services will we offer?

6. To what customers or users?

7. How will the selling/buying decisions be made?

8. How will we distribute our products and services?

9. What technologies will we employ?

10. What capabilities and capacities will we require?

11. Which ones are core?

12. What will we make, what will we buy, and what will we acquire through alliance?

13. What are our options?

14. On what basis will be compete?

We will now discuss three analytical procedures given by Porter, Mckinsey and Ohmae in that order.

Porter's five forces analysis of competition

A useful approach to formulating business strategies is based on Michael Porter's "competitive analysis". Porter's model provides a process to make your competitive strategy explicit so it can be examined for focus, consistency, and comprehensive. Porter's approach is based on the analysis of five competitive forces (see Figure 7-2).

1. Threat of new entrants,

2. Bargaining power of suppliers,

3. Bargaining power of buyers,

4. Threat of substitute products,

5. Rivalry among existing firms.

Threat of New Entrants

Firms entering an industry bring new capacity and a desire to gain market share and profits, but whether new firms enter an industry depends on the barriers to entry. (A number of these are shown in Figure7-2). In addition, established firms in an industry may benefit from "experience curve" effects. That is, their cumulative experience in producing and marketing a product often reduces their per-unit costs below those of inexperienced firms. Is general, the higher the entry barriers, the less likely outside firms are to enter the industry.

Bargaining Power of Suppliers

Suppliers can be a competitive threat in an industry because they can raise the price of raw material or reduce their quality. Powerful suppliers can reduce the profitability of an industry if companies in the industry cannot pay higher prices to cover price increases that the supplier imposes. Some determinants of supplier power are listed in

Figure7-2

Bargaining Power Buyers

Buyers compete with the industry by forcing prices down, bargaining for higher quality or more services, and playing competitors off against each other all at the expense of industry profitability. Some determinants of buyer power are shown in Figure 7-2

Threat of Substitute Products

In a broad sense, all firms in an industry are competing with industries producing substitute products. Substitutes limit the potential return in an industry by placing a ceiling on the prices that firms in the industry can profitably chare. The more attractive the price-performance alternative offered by substitutes, the tighter the lid on industry profits. For example, the price of candy, such as Raisinettes chocolate-covered raisins, may limit the price Del Monte can charge for "healthy snacks," such as Strawberry Yogurt Raisins. Some determinants of the degree of substitution threat are shown in Figure 7-2

Rivalry Among Existing Competitors

Rivalry determinants include industry growth, product differences and barriers. This is the conventional type of competition in which firms try to take customers from one another. Strategies such as price competition, advertising battles, new product introductions, and increased customer service are commonly used to attract customers from competitors. The factors influencing intensity of rivalry are shown in Figure 7-2.

McKinsey's 7- s Framework

This framework developed in the 1970's by US based management consulting firm McKinsey and Company has received attention from strategists. The framework rests on the proposition that effective organizational change is best understood in terms of the complex relationship between the seven S's. as shown in Figure 7-3. Stated in general terms, the proposition of the7-S model suggests that there are multiple factors which influence an organization's ability to

change and its proper mode of change. Since the variables are interconnected, significant progress cannot be made in one area (e.g., strategy) unless corresponding progress is made in other areas too.
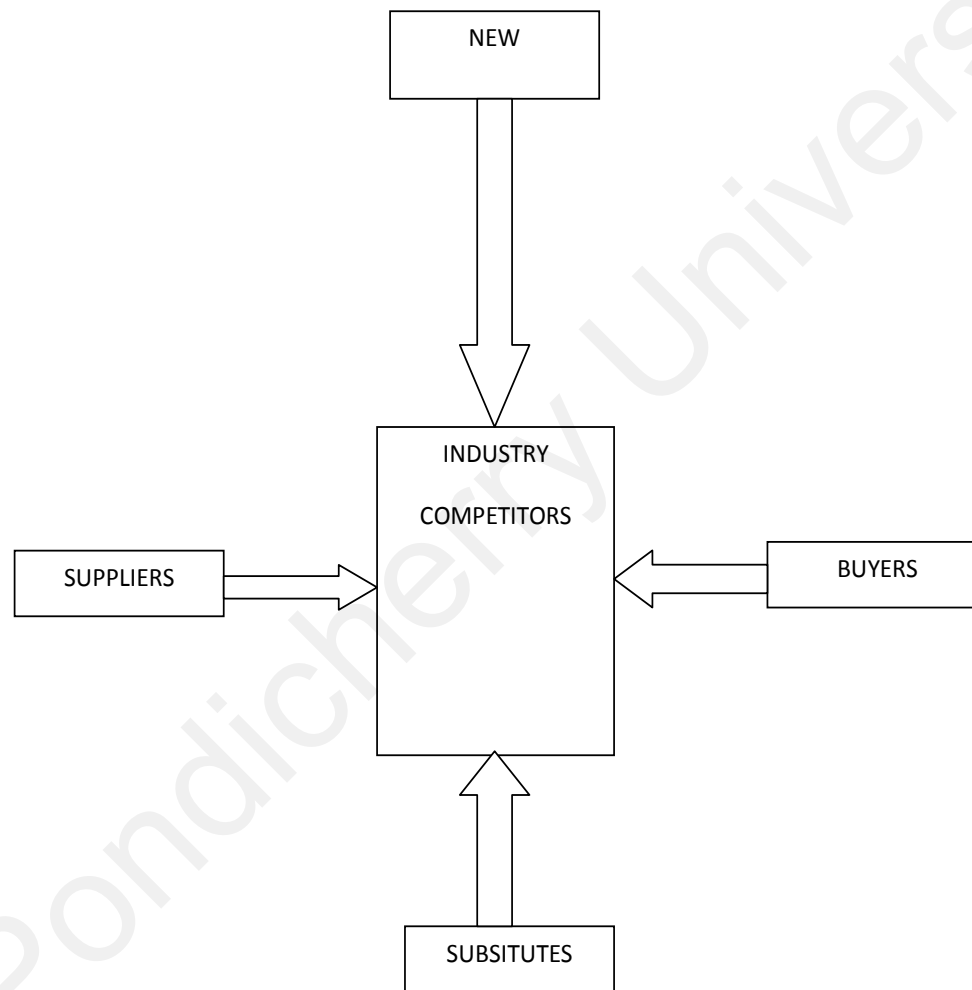
Figure 7.2 Rivalry factors
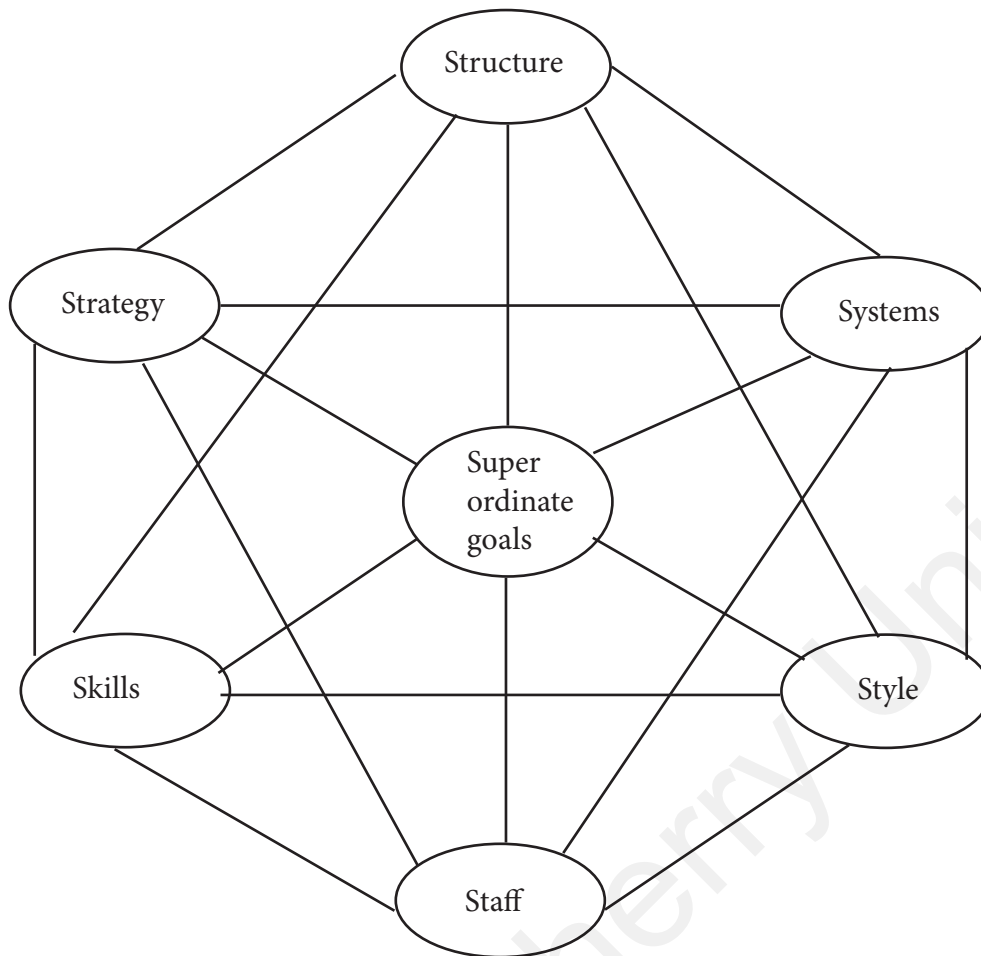
Figure 7-3 Mckinsey 7-s Framework

1. Structure refers to the authority relationships, the hierarchical arrangement of positions in the organization.

2. Systems' may be called the 'infrastructure' and include sub-systems relating to production planning and control, cost accounting procedures, capital budgeting, recruitment, training and development, planning and budgeting, performance evolution, etc. Rules, regulations and procedures constitute 'systems' in the framework, which complement the organizational structure

3. Strategy refers to the long range plan of action with a set of goals for accomplishment

4. Staff' carriers a specific meaning in the 7-S framework. It refers to the way organizations induct young recruits into the mainstream of activities and the manner in which they manage their careers as the new entrants develop into managers.

5. Skills refer to the 'distinctive competence' which reflects the dominant skills of an organization, and may consist of competence in terms of engineering skills, or competence in the area of new product development, customer service, quality commitment, market power, and so on.

6. Style is another variable, which may determine the effectiveness of organizational change effort. According to the 7-S framework, the style of an organization becomes evident through the patterns of actions of the top management team over a period of time, the emphasis laid on aspects of business, reporting relationships and aspects of organizational culture.

7. Shared values (or super ordinate goals) in the Mckinsey model refer to the set of values and aspirations that go beyond the formal statement of corporate objectives. In other words, these are fundamental ideas around which a business is built and which constitute its main values. Typical examples are: Hewlett-Packard's "innovative people at all levels in organization" as the dominant aspiration or value; A T & T's "universal services" goal; "customer service" which guides IBM's marketing drive.

Mckinsey's framework has significance in strategic planning. The following points explain it.

➤ It provides a good framework of the seven 's' and align them to energies and executive strategies

➤ It is an excellent multivariate model of organizational change

➤ It provides a convenient means of checking whether an organization has the necessary conditioning for implementing strategy

➤ Organizational capabilities (strengths and weaknesses may be evaluated along each of the seven dimensions)

Ohmae's Key factors for success

Ohmae suggests that in the event of limited resources, it may be wise to concentrate on key functional or operating areas that are the determinants of success for a particular business. This calls for identifying the key factors of success (KFS) for a given industry. There are two approaches to identify the KPS.

1. The first is to dissect the market as imaginatively as possible to identify its key segments.

2. The other is to discover what distinguishes successful companies from losers, and then analyze the differences between them.

The key factors for success of different industries may live in different functions, areas, distribution, channels and so on. These can be identified along the various functional activities of business starting from raw material to customer servicing. Table 7-2 provides the key factors for success to increase profit and gain market share for various industries.

Table 7-2 Key Factors for Success

Key factor or function…	….to Increase profit	…..to gain share
Raw materials sourcing	Uranium	Petroleum
Production facilities (economic of scale)	Shipbuilding, Steel-making	Shipbuilding, Steel making
Design	Aircraft	Aircraft, Hi-Fi
Production technology	Soda, Semiconductctors	Semiconductctors
Product rage/variety	Departmental stores	Components
Application engineering/engineers	Minicomputers	LSI, Microprocessors
Sales Force (quality & quantity)	ECR	Automobiles
Distribution network	Beer	Films, Home appliances

Servicing	Elevators	Commercial vehicles e.g. taxis

Ohmae Observes

Business history indicates that the "most effective shortcut to major success appears to be to jump quickly to the top by concentrating major resources early on a single strategically significant function, become really good and competitive at it, and then move to consolidate a lead in the other functions by using the profit structure that the early top status has been made possible. All of to-day's industry leaders without exception began by bold deployment of strategies based on KFS.

Competitive Strategies

We will now discuss the generic strategies given by Porter and the generally found marketing warfare strategies.

Generic Strategies

tAccording to Porter there are three potentially successful generic strategies (see Figure 7-3) to cope up with the five competitive forces as well as gain advantage (See Figure 7-2and Table 7- 3). These are:

‣ Overall cost leadership

‣ Differentiation and

‣ Focus

Figure 7- 2 Three Generic Strategies

Strategic Advantage

Differentiation	Overall Cost Leadership
FOCUS	

Low cost   the Customer

Overall Cost Leadership

In this strategy company makes all possible attempts to achieve the lowest costs in production and marketing. The aim is to gain a large market share. Efficiency is the keyword guiding all decisions to keep the costs low.

Differentiation

Here the aim is to achieve class leadership by creating something, which is perceived as unique. Creating highly differentiated products and marketing programmes-like design or brand image, customer service or dealer network, or any other feasible dimension can achieve it. Companies pursuing this strategy have major strengths in R&D design, quality control and marketing.

Chiragh Din Shirts, Bata Shoes, OTIS Elevators, Cini Fans are some examples where this strategy seems to be the dominant guiding force.

Focus

The underlying assumption in 'Focus' is that a firm should be able to serve a narrow strategic target effectively and efficiently. As a result the firm achieves either differentiation from meeting the need of a particular target, on both.

Genteel', a liquid detergent for expensive clothes by Swastik, and Ponds Talcum Powder are some handy examples for this strategy.

Table 7-3 Requirements for generic competitive strategies

Generic strategy	Commonly required skills and resource s	Common organizational requirements

Overall Cost Leadership	• Sustained capital investment and access to capital • Process engineering skills • Intense supervision of labour • Products designed for ease of manufacture • Low-cost distribution system '	• Tight cost control • Frequent, detailed control reports • Structured organization and responsibilities • Incentives based on meeting strict quantitative tares
Differentiation	• Storing marketing abilities • Product engineering • Creative fair • Strong capability in basic research • Corporate reputation for quality or technological leadership. • Long tradition in the industry or univque combination of skills drawn from other businesses • Storing cooperation from channels	• Strong coordination among fucntons in R & D product development, and marketing • Subjective measurement and incentives instead of quanttiate meastues • Amenities to attract hightly skilled labour, scientists or creative people.
Foucs	• Combination of the above policies directed at the particular strategic target	• Combination of the above policies directed at the particular strategic target.

Source: Adaped/reprinted with permission of The Free Press, an important of Simon & Schuster, from Competitive strategy. Techniques for Analyzing Industries and Competitors by Michael E. Porter, pp 40-41. Copyright © 1980, by The Free Press.

Marketing warfare strategies

Al Ries and Trout (1986) Observed

In the plan for future, many more pages will be dedicated to the competition. More and more successful marketing campaigns will have to be planned like military campaigns".

Four types of combat positions are identified here for discussion.

The Defensive Warfare

This is essentially recommended for market leaders. It aims at protecting against regulatory provisions like M.R.T.P industrial licensing restrictions, etc. according to authors, a leader has to spend more time in safeguarding its interests against government, social and public environment rather than the immediate next competitor. A leader should also be able to attack itself i.e., drop products, which may appear to make the leadership position vulnerable. The three principles of defensive warfare are:

1. Only the market leader should consider playing the defense,

2. The best defensive strategy is the courage to attract yourself,

3. Strong competitive moves should always be blocked.

The Offensive Warfare

'Offensive' warfare is almost like a mirror image of the defensive warfare. The numbers twos of the industry are suggested to follow the offensive strategy by identifying a weakness in leaders strength and at that point. The principles of 'offensive warfare' are

1. The main consideration is the strength of the leaders position,

2. Find a weakness in the leader's strength and attack at that point.

3. Launch the attack on as narrow a front as possible.

The Flanking Warfare

According to Ries and Trout, 'flanking' the most innovative form of marketing warfare. Over the years, most of the biggest marketing success has been flanking moves. It is recommended to firms with limited

resources. These firms cannot afford to fight the large firms holding number one or two positions on the same battleground. Flanking can be achieved in any manner such as flanking with low price, flanking with high price, flanking with small size, flanking with large size, flanking with distribution, flanking with product form. The principles of flanking warfare are:

1. A good flanking move must be made in an uncontested area

2. Tactical surprise ought to be an important element of the plan

3. Consider the pursuit as critical as the attack itself.

The Guerrilla Warfare

The last form is the guerrilla warfare. Most of the players in a marketing war would be fighting in the market place like the guerrillas. According to Ries and Trout, "smaller companies can be highly successful as long as they do not try to emulate the giants in their field, "Like flanking form there can be many guerrillas; geographic guerrillas, demographic guerrillas, industry guerrillas, product guerrillas and high end guerillas. The principles of guerrilla warfare are:

1. Find a segment of the market small enough to defend,

2. No matter how successful you become, never act like the leader

3. Be prepared to a buyout at a moment's notice.

Self-assessment Questions

1. Explain the concept of competition with suitable examples.

2. What are the competitive situations according to economists?

3. Identify the competitive situations from marketing point of view.

4. Explain the role of marketer in perfect and monopoly situations

5. Examine the role of marketer in oligopoly and monopolistic situations.

6. With example, explain how marketer identifies competition taking buyer point of view.

7. How do you analyze competition situation using porter model?

8. Using Mckinsey framework analyze competition.

9. What are merits of Key success factor method?

10. Identify and explain generic strategies.

11. Discuss military strategies used by marketer.

Activities

1. From marketing magazines, collect information about strategies of select companies of a specific product and analyze competitive situation and strategy directions.

2. Visit websites of companies and examine the competitive situation in which a company of you choice is. Gather information from business news papers on their moves regularly.

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CASE STUDY

SE Ltd is a defence contractor faced with a changing environment. In the past, all the work done by SE was for the government, and it was performed on a 'cost plus' basis. The company was exposed to minimal competition. Now, government believes that the 'cost plus' system encouraged inefficiency. In the future, SE will be required to quote fixed prices for government business, a Government defence contracts are being increasingly given to SE's foreign competitors, who have understanding SE's prices. In addition, SE is faced with a general contraction of defence expenditure by the government. SE's existing costing system is aggregated, that is, all overheads are recovered on direct labour cost. SE's has to have confidence in its costs, in order to get the government orders at an economic price, and to complete internationally.

Questions

1. State the factors that would influence SE in the formulates a strategic plan to meet the new situation.

2. State the strategic responses that are available to Se in the new environment.

3. State what SE's management accounting response should be?

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UNIT – III

Lesson 9 - Strategic Alternatives & Choice of Strategy

Lesson Outline

- Introduction
- Strategic Alternatives
- Generic Strategies
- Grand Strategies
- Growth Strategies
- Stability Strategies
- Retrenchment
- Portfolio Restructuring
- Summary
- Self Assessment Questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Identify generic and grand strategies.
- Understand generic strategies and know how to adopt in different strategic situations.
- Examine how portfolio restructuring helps in strategic choices.

Introduction

Most companies today including most successful Indian companies like Bajaj Auto, Reliance and ITC have embraced strategic

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planning fully in their quest for higher revenues and profits. In this process, there identify multiple strategies that they can adopt.

Strategic alternatives revolve around the question of whether to continue or change the business an enterprise is currently in or improve the efficiency and effectiveness of its current and future operations. Then, how do these companies make the choices? What factors influence their decisions?

Kent Nelson, former chair of UPS, explains why his company has created a new strategic planning department: "Because we're making bigger bets on investment in technology, we can't afford to spend a whole lot of money in one direction and then find out five years later it was the wrong direction".

Tomorrow always arrives. It is always different. And even the mightiest company is in trouble if it has not worked on the future. Being surprised by what happens is a risk that even the largest and richest company cannot afford, and even the smallest business need not run. Peter Drucker

DRUCKER

Strategic Alternatives

After analyzing the environment and assessing the internal environment, the next step in the strategic planning process is to develop strategic alternatives to help the organization in achieving its objectives. Different kinds of strategic alternatives are presented in Figure9-1.

```
                    Strategic alternatives


    Generic Strategies                          Grand Strategies


• Overall cost leadership
• Differentiation          Growth   Stability  Retrenchment   portfolio
• Focus
```

• Concentration	• Maintaining status quo	• Turnaround	• Restructuring
• Integration	• Sustainability growth	• Divestment	Combination strategy
• Deiversification		• Liquidation	
• Mergers & Acquisitions			
• Joint Ventures			

Figure 9-1 Types of strategic alliances

Generic strategies

According to Micheal E. Porter strategies allow organisations to gain competitive advantage from three different bases.

➤ Overall cost leadership

➤ Differentiation, and

➤ Focus.

Organizations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors and in ways the competitors find difficult to imitate. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities by which a firm seeks to achieve them, lead to three internally consistent generic competitive strategies that can be used

by the organization to outperform competition and defend its position in the industry. These strategies are:

- › Cost Leadership

- › Differentiation, and

- › Focus and Niche Strategies.

Each of these strategies is designed to give a firm a competitive advantage. The focus strategy has two variants, cost focus and differentiation focus as shown in Figure 9-2.

Competitive Advantage

Lower Cost	Differentiation
1. Cost Leadership	2. Differentiation
3. Cost Focus	4. Differentiation Focus

Figure 9-2 Strategies for competitive advantage

Overall cost leadership emphasizes producing standardized products at a very low per-unit for consumers who are price – sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of small groups of consumers.

Overall cost leadership yields a firm above – average returns in its industry despite the presence of strong competitive forces. However, this strategy often requires high relative market share or other advantages, such as favorable access to raw materials or the ready availability of cash to finance the purchase of the most efficient equipment. National Can Company, for example, is in a no-growth industry but depends on being the low-cost producer of cans and bottles to increase its profits.

Reliance became number one company of India because of its cost leadership strategy. Presently it is the lowest-cost polyester producer

in the world. Reliance's project management skills, among the best in its business anywhere in the world, and its competencies in mobilizing large amount of low-cost finance enables them to set up world –scale plants at the highest speeds and lowest capital costs.

"In the competition for markets, it has won through an aggressive strategy based largely on scale and pre-emption. By continuously investing in capacity, often ahead of manifest demand, Reliance has not only expanded its market share but has also wrested all investment initiative from its competitors. In essence, it has played a 'chicken game' to see who blinks first – and given its reputation of always putting its money where its mouth is, it is competitors who have blinked. The net result is that Reliance has come to command between 33 and 80% market share in India for all its key products. These market shares have translated into cost advantages making Reliance the most profitable company in its industry during an upswing and robust in a downswing." Sumantra Ghoshal profoundly remarks.

Ranbaxy laboratories, number two most competitive company of India (after Reliance) attained cost leadership through upgrading technology, vertical integration and benchmarking against international competitors.

Gujarat Ambuja made a success by following this cost leadership strategy. It benchmarked itself against the best practices of cement companies across the world.

Differentiation involves creating and marketing unique products for the mass market. Approaches to differentiation include developing unique brand images (Levi's jeans), unique technology (MacIntosh stereo components), unique features (Jenn – Air electric ranges), unique channels (Tupperware), unique customer service (IBM), or the like. In other words, the key to differentiation is obtaining a differential advantage that is readily perceived by the consumer. Differentiation is a viable strategy for earning above – average returns in an industry, because it creates a defensible position for coping with the five competitive forces.

Presently Titan and its sister company Timex together hold 77% market share while HMT has 12%. There was time when HMT had 90% share because of its low price strategy. Titan with its focus on exterior design, was able to charge a premium price and gain more market share.

Focus is essentially a strategy of segmenting markets and appealing to only one or a few groups of consumers or industrial buyers. The logic of this approach is that a firm that limits its attention to one or a few market segments can serve those segments better than firms that seek to influence the entire market. For example, products such as Rolls – Royce automobiles, Cross pens, and Hartmann luggage are designed to appeal to the upscale market and serve it well rather than trying to compete in the mass market.

Strategy of opening hotels in Himachal is focused strategy of Himachal Tourism Development Corporation, which is pursued on geographic grounds. Rolls – Royce pursues the strategy of selling cars to status conscious high –income consumers. Ranbaxy focused on just two categories of drugs – antibiotics and antibacterial (product – line)

Choices

The requirements for adopting the strategies are listed in Table 9-1 and risks associated with them are given in Table 9-2. Of course, the specific strategies that it is best to use depend on the characteristics of, and opportunities and constraints in, the industry.

Table 9-1 Porter's three Generic Strategies and their requirements

Generic strategy	Required skills and resources	Organizational requirements
Overall Cost Leadership	Sustained capital investment and access to capital Process engineering skills Intense supervision of labor Products designed for ease in manufacture Low-cost distribution system	Tight cost control Frequent, detailed control reports Structured organization and responsibilities Incentives based on meeting strict quantitative targets

Differentiation	Strong marketing abilities Product engineering Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong coordination among functions in R&D, product development, and marketing Subjective measurement and incentive instead of quantitative measures Amenities to attract highly skilled labor, scientists, or creative people
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target

Source:

Michael E. Porter, Competitive Strategy: Techniques for Analyzing Industries and Competitors. The Free Pres, New York

Grand Strategies

Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. Thus, they are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate how long-range objectives will be achieved, thus, a grand strategy can be defined as a comprehensive general approach that guides major actions. Grand strategies fall under four categories.

Table 9-2 Risks of the Generic Strategies

Risks of cost leader-ship	Risks of differentia-tion	Risks of focus
Cost leadership is not sustained • Competitors imitate • Technology changes • other bases for cost leadership erode	Differentiation is not sustained • Competitors imitate • bases for differentia-tion become less important to buyers	The focus strategy is imitated The target segment becomes structurally unattractive • Structure erodes • Demand disappears
Proximity in differen-tiation is lost	Cost proximity is lost	Broadly targeted com-petitors overwhelmthe segment • The segment's differ-ences from other segments narrow • The advantages of a a broad line increase
Cost focusers achieve even lower cost in seg-ments	Differentiation focus-ers achieve even great-er differentiation in segments	New focusers sub-segment the industry

Source:

Michael E. Porter, Competitive Advantage: Creating and Sustaining Superior Performance.

The Free Pres, New York.

1. Growth
2. Stability
3. Retrenchment

4. Portfolio restructuring

We will now discuss each one of them.

Growth Strategies

Organizations usually seek growth in sales, profits, market share, or some other measure as a primary objective. The different grand strategies in this category are:

- ‣ Concentration
- ‣ Integration
- ‣ Diversification
- ‣ Mergers and acquisitions
- ‣ Joint Ventures

Concentration

The most common grand strategy is concentration on the current business. A concentration strategy is one in which an organization focuses on a single line of business The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology. Some of America's largest and most successful companies have traditionally adopted the concentration approach. For example, Mc Donald's concentrates on the fast food industry and Holiday Inns. Other examples include W.K. Kellogg and Gerber Foods, which are known for their product; Shaklee, which concentrates on geographic expansion; and Lincoln Electric, which bases its growth on technological advances.

Concentration strategies succeed for so many businesses – including the vast majority of smaller firms – because of the advantages of business – level specialization. By concentrating on one product, in one market, and with one technology, a firm can gain competitive advantages over its more diversified competitors in production skill, marketing know-how, customer sensitivity, and reputation in the marketplace. The reasons for selecting a concentration grand strategy are easy to understand. Concentration is typically lowest in risk and in additional resources required. It is also based on the known competencies of the firm. On the negative side, for most companies concentration tends

to result in steady but slow increases in growth and profitability and a narrow range of investment options. Further, because of their narrow base of competition, concentrated firms are especially susceptible to performance variations resulting from industry trends.

Integration

Integration may take two forms: vertical and horizontal integration.

Vertical Integration

Vertical integration strategy involves growth through acquisition of other organizations in a channel of distribution. When an organization purchases other companies that supply it, it engages in backward integration. The organization that purchases other firms that are closer to the end users of the product (such as wholesalers and retailers) engages in forward integration. Vertical integration is used to obtain greater control over a line of business and to increase profits through greater efficiency or better selling efforts.

Horizontal Integration

This strategy involves growth through the acquisition of competing firms in the same line of business. It is adopted in an effort to increase the size, sales, profits, and potential market share of an organization. This strategy is sometimes used by smaller firms in an industry dominated by one or a few large competitors, such as the soft drink and computer industries.

BHEL had undertaken the path of backward integration for the manufacture of assorted equipments such as, switchgears and transformers, to the full-fledged production of thermal, hydel, and nuclear power generation equipment.

Diversification

This strategy involves growth through the acquisition of firms in other industries or lines of business as explained below.

1. Organizations in slow-growth industries may purchase firms in faster-growing industries to increase their overall growth rate.

2. Organizations with excess cash often find investment in another industry (particularly a fast-growing one) a profitable strategy.

3. Organizations may diversify in order to spread their risks across several industries.

4. The acquiring organization may have management talent, financial and technical resources, or marketing skills that it can apply to a weak firm in another industry in the hope of making it highly profitable.

Diversification may be of different types

Related or concentric diversification When the acquired firm has production technology, products, channels of distribution, and /or markets similar to those of the firm purchasing it, the strategy is called concentric diversification.. This strategy is useful when the organization can acquire greater efficiency or market impact through the use of shared resources. A case of related or concentric diversification is the tie-up of McDonald with Coco-cola.

McDONALD'S India Pvt Ltd (MIPL), the wholly-owned subsidiary of the US-based fast-food giant McDonald's Corporation, along with Coca-Cola, is developing a fruit-based beverage, to be retailed exclusively at McDonald's outlets. The beverage will be made available under the Maaza brand name, but will be different from the regular Maaza brand.

McDonald's has an international tie-up with Coca-Cola, which extends to the domestic market as well. Apart from Coca-Cola, in India, McDonald's has an existing tie-up with Cadbury India, for McSwirl ice-cream cones. McDonald's India is also running a promotion with foods major Nestle, specific to the KitKat chocolate brand. The quick service chain, meanwhile, is in talks with synergistic marketers for similar associations. McDonald's currently operates through 48 outlets in the country, and has set a target of 100 restaurants by 2005.

The quick service chain is looking to set up larger format restaurants for now, rather than exploring the option of setting up smaller format convenience outlets. The company will consider the

small format stores option in the second stage of expansion. For the time being, the focus is on setting up larger restaurants. In addition to setting up standalone outlets in residential areas and entertainment complexes, they have set up outlets on highways and railway stations

Unrelated or conglomerate diversification   When the acquired firm is in a completely different line of business, the strategy is called unrelated or conglomerate diversification An example of unrelated conglomerate diversification is Marico's venture into cooling oil segment.

TAKING a cue from Dabur's recent entry into the cooling oil segment with its Himsagar brand, the market leader in hair oils, Marico Industries, has decided to venture into the same segment with its Shanti brand. Under the sub brand of `Thanda Tel', the Shanti brand will soon see an extension from its existing Amla hair oil. Pegged at Rs 38 for 100 ml, the `value-added' oil will have ingredients such as neem and camphor to induce the cooling effects.

"Cooling oil is the fastest growing segment under hair oils pegged at 16 per cent. It is a category that is growing even faster than shampoos." Even the coconut oil market is pegged to grow at 0-2 per cent while the hair oil segment has been generally stagnant. The market leader in hair oils with its leading brand of Parachute has thus decided to venture into the category previously untapped except for a few players with brands such as Himsagar, Himtej and Navratan. They intend spending heavily behind this brand and the ad agency Triton is developing a new campaign for the brand. Its existing Shanti Amla brand of hair oil enjoys a 13 per cent volume and has a second position in the amla segment after Dabur Amla. Besides, in the overall non-coconut oil segment, the company enjoys a 15 per cent share together with its brands such as Mediker. In fact, in the recent past, Mediker did stretch the franchise of its Mediker shampoo with an anti-lice oil, including the same cooling ingredients such as neem and camphor. Marico claims it has made a success of its Parachute Jasmine variant with a turnover of Rs 23 crore. It also withdrew Parachute anti-dandruff hair oil since it was not generating the necessary volumes

Mergers and Acquisitions

In a merger, a company joins with another company to form a new organization.

There are several examples of mergers. Ponds, Lakme, Lipton, Brooke bond India, Milk food ice creams etc have merged with Hindustan Lever Ltd. More examples are given in the lesson on Mergers and Acquisitions in the same Unit..

Joint Ventures

In a joint venture, an organization works with another company on a project too large to handle by itself, such as some elements of the space program. Similarly, organizations in different countries may work together to overcome trade barriers in the international market or to share resources more efficiently.

For example, GMF Robotics is a joint venture between General Motors Corporation and Japan's Fanuc Ltd. to produce industrial robots.

Stability Strategy

The organization that adopts a stability strategy focuses on its existing line or lines of business and attempts to maintain them through one of the following ways.

➤ Maintaining status quo-continue to do what it has been doing
➤ Sustainability- reinforcing the organization with more competencies to carry on things in a better or innovative way.

This is a useful strategy in several situations.

➤ An organization that is large and dominates its market(s) may choose a stability strategy in an effort to avoid government controls or penalties for monopolizing the industry.
➤ Another organization may find that further growth is too costly and could have detrimental effects on profitability.
➤ Finally, an organization in a low- growth or no-growth industry that has no other viable options may be forced to select a stability strategy.

Hindusthan Lever keeps its Lux soap updated to retain its hold in market. According to a press release, recently the soap has been enriched with nourishing natural ingredients, which are visible in the soap. There are four variants - Rose extracts, Almond oil, Fruit extracts and Sandal saffron with a base of rich milk cream. The last is a completely different and new variant. These soaps are packed in a metallic wrapper to retain the freshness and fragrance for a longer period than usual, the press release said. The content of TFM (Total fatty matter) has been raised from 60 per cent to 71 per cent.

Retrenchment Strategies

When an organization's survival is threatened and it is not competing effectively, retrenchment strategies are often needed. The three basic types of retrenchment are

> Turnaround,
> Divestment, and
> Liquidation.

Turnaround

Strategy is used when an organization is performing poorly but has not yet reached a critical stage. It usually involves getting rid of unprofitable products, pruning the work force, trimming distribution outlets, and seeking other methods of making the organization more efficient. If the turnaround is successful, the organization may then focus on growth strategies.

Divestment

Strategy involves selling the business or setting it up as a separate corporation. Divestment is used when a particular business doesn't fit well in the organization or consistently fails to reach the objectives set for it. Divestment can also be used to improve the financial position of the divesting organization.

Liquidation

Strategy involves closure of the business, which is no longer profitable. It may be technologically obsolete or out of times with market trends.

Choices

How do firms choose strategies?

Stability strategy is adopted because

1. It is less risky, involves fewer changes and people feel comfortable with things as they are
2. The environment faced is relatively stable
3. Expansion may be perceived as being threatening
4. Consolidation is sought through stabilizing after a period of rapid expansion.

• Expansion strategy is adopted because

5. It may become imperative when environment demands increase in pace of activity
6. Psychologically, strategists may feel more satisfied with the prospects of growth from expansion: chief executives may take pride in presiding over organizations perceived to be growth-oriented.
7. Increasing size may lead to more control over the market vis-à-vis competitors
8. Advantages from the experience curve and scale of operations may accrue

• Retrenchment strategy is adopted because:

9. The management no longer wishes to remain in business either partly or wholly due to continuous losses and inviability
10. The environment faced is threatening
11. Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

• Combination strategy is adopted because:

12. The organization is large and faces a complex environment
13. The organization is composed of different businesses, each of which lies in a different industry requiring a different response

Portfolio Restructuring

Large, diversified organizations commonly use a number of these strategies in combination. For example, an organization may simultaneously seek growth through the acquisition of new businesses, employ a stability strategy for some of its existing businesses, and divest itself of other businesses. Clearly, formulating a consistent organizational strategy in large, diversified companies is very complicated, because a number of different business – level strategies need to be coordinated to achieve overall organizational objectives. Business portfolio models are designed to help managers deal with this problem.

Business portfolio models are tools for analyzing (1) the relative position of each of an organization's businesses in its industry and (2) the relationships among all the of the organization's businesses. Two well-known approaches to developing business portfolios include:

‣ Boston Consulting Group (BCG) growth – share matrix
‣ General Electric's (GE's) multi-factor portfolio matrix.

BCG's Growth – Share Matrix

The Boston Consulting Group, a leading management consulting firm, developed and popularized a strategy formulation approach called the growth – share matrix, which is shown in Figure 9-3. The basic idea underlying this approach is that a firm should have a balanced portfolio of businesses such that some generate more cash than they use and can thus support other businesses that need cash to develop and become profitable. The role of each business is determined on the basis of two factors: the growth rate of its market and the share of that market that it enjoys.
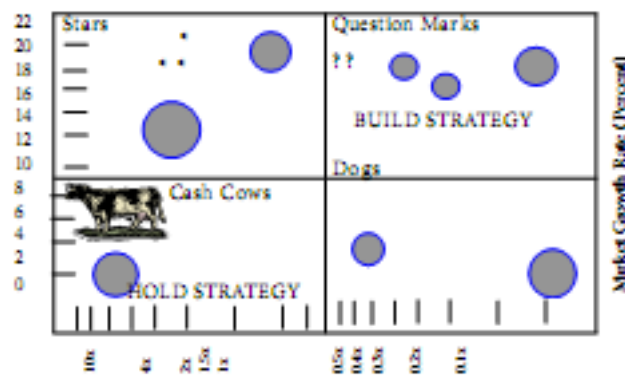
Relative Market Share

Figure9-3 BCG's Growth – Share Matrix (Source: Adapted from B. Hedley, "Strategy and the Business Portfolio," Long Range Planning, February 1977, p.12.

The vertical axis indicates the market growth rate, what is the annual growth percentage of the market (current or forecasted) in which the business operates. The horizontal axis indicates market share dominance or relative marker share. It is computed by dividing the firm's market share (in units) by the market share of the largest competitor).

The growth – share matrix has four cells, which reflect the four possible combinations of high and low growth wit high and low market share. These cells represent particular types of businesses, each of which has a particular role to play in the overall business portfolio. The cells are labeled:

1. **Question marks (sometimes called problem children)** Company business that operate in a high-growth market but have low relative market share. Most businesses start off as question marks, in that they enter a high – growth market in which there is already a market leader. A question mark generally requires the infusion of a lot of funds. It has to keep adding plant, equipment, and personnel to keep up with the fast – growing market, and it wants to overtake the leader. The term question mark is well chosen, because the organization has to think hard about whether to keep investing funds in the business or to get out.

2. **Stars**   They are question – mark businesses that have become successful. A star is the market leader in a high – growth market, but it does not necessarily provide much cash. The organization has to spend a great deal of money keeping up with the market's rate of growth and fighting off competitors' attacks. Stars are often cash – using rather than cash –generating Even so, they are usually profitable in time.

3. **Cash cows** Businesses in markets whose annual growth rate is less than 10 percent but that still have the largest relative market share. A cash cow is so called because it produces a lot of cash for the

organizations. The organization does not have to finance a great deal of expansion because the market's growth rate is low. And the business is a market leader, so it enjoys economies of scale and higher profit margins. The organization uses its cash-cow businesses to pay its bills and support its other struggling businesses.

4. **Dogs** Businesses that have weak market shares in low-growth markets. They typically generate low profits or losses, although they may bring in some cash. Such businesses frequently consume more management time than they are worth and need to be phased out. However, an organization may have good reasons to hold onto a dog, such as an expected turnaround in the market growth rate or a new chance at market leadership.

After each of an organization's businesses is plotted on the growth – share matrix, the next step is to evaluate whether the portfolio is healthy and well balanced. A balanced portfolio has a number of stars and cash cows and no too many questions marks or dogs. This balance is important because the organization needs cash not only to maintain existing businesses but also to develop new businesses. Depending on the position of each business, four basic strategies can be formulated:

1. **Build market share** This strategy is appropriate for question marks that must increase their share in order to become stars. For some businesses, short-term profits may have to be forgone to gain market share and future long-term profits.

2. **Hold market share** This strategy is appropriate for cash cows with strong share positions. The cash generated by mature cash cows is critical for supporting other businesses and financing innovations. However, the cost of building share for cash cows is likely to be too high to be a profitable strategy.

3. **Harvest** Harvesting involves milking as much short-term cash from a business as possible, even allowing market share to decline if necessary. Weak cash cows that do not appear to have a promising future are candidates for harvesting, as are question marks and dogs.

4. **Divest** Divesting involves selling or liquidating a business because the resources devoted to it can be invested more profitably in other businesses. This strategy is appropriate for those dogs and question

marks that are not worth investing in to improve their positions.

However the growth share matrix is not fool proof. It has the following loopholes.

- Focuses on balancing cash flows only but organizations are mostly interested in return on investments.
- Is not always clear what share of what market is relevant in the analysis.
- Believes that there is a strong relationship between market share and return on investment. But research proves that only a 10% change in market share is associated with only 'percent change in return on investment.
- The other factors like size and growth profile of the market and distinctive competences of the firm, competition etc is not considered.
- It does not provide direct assistance in comparing different businesses in terms of investment opportunities. For example it is difficult to decide between two question marks and decide which should be developed into a star.
- Offers only general strategy recommendations without specifying how to implement them.

Ge Multi-Factor Port Folio Matrix

This approach has a variety of names, including the nine -cell GE matrix, GE's nine-cell business portfolio matrix, and the market attractiveness – business strengths matrix. The basic approach is shown in Figure 9-4. Each circle in this matrix represents the entire market, and the shaded portion represents the organization's business market share

Each of an organization's businesses is plotted in the matrix on two dimensions, industry attractiveness and business strength. Each of these two major dimensions is a composite measure of a variety of factors. To use this approach, an organization must determine what factors are most critical for defining industry attractiveness and business strength. Table below lists some of the factors that are commonly used to locate businesses on these dimensions.

The next step in developing this matrix is to weight each variable on the basis of its perceived importance relative to the other factors (hence the total of the weight must be 1.0). Then managers must indicate, on a scale of 1 to 5, how low or high their business scores on that factor.

Table 9-3   Factors Contributing to Industry Attractiveness and Business Strength.

INDUSTRY ATTRACTIVENESS	BUSINESS STRENGTH
Market Factors	
Size (dollars, units or both)	Your share (in equivalent terms)
Size of key segments	Your share of key segments
Growth rate per year:	Your annual growth ratae:
Total	Total
Segments	Segments
Diversity of market	Diversity of your participation
Sensitivity to price, service features, and external factors	Your influence on the market
Cyclicality	Lags or leads in your sales
Seasonality	Bargaining power of your suppliers
Bargaining Power of Upstream Suppliers	Bargaining power of your customers
Bargaining Power of Downstream Suppliers	
Competition	

Types of competitors	Where you fit, how you compare in terms of products, marketing capability, service, production strength, financial strength, management
Degree of concentration	
Changes in type and mix	Segments you have entered or left
Entries and exits	
Changes in share	Your relative share change
Substitution by new technology	Your vulnerability to new technology
Degrees and types of integration	Your own level of integration
Financial and Economic Factors	
Contribution margins	Your margins
Leveraging factors, such as economies of scale and experience	Your scale and experience
Barriers to entry or exit (both financial and non-financial)	Barriers to your entry or exit (both financial and non-financial)
Capacity utilization	Your capacity utilization
Technological Factors	
Maturity and volatility	Your ability to cope with change
Complexity	Depths of your skills
Differentiation	Types of your technological skills
Patents and copyrights	Your paten protection
Manufacturing process technology required	Your manufacturing technology
Socio-Political Factors in Your Environment	

Social attitudes and trends Laws and government agency regulations Influence with pressure groups and government representatives Human factors, such as unionization and community acceptance.	Your company's responsiveness and flexibility Your company's ability to cope Your company's aggressiveness Your company's relationships.

Figure 9-4 GE Matrix General Electric's nine- cell planning grid

LEGEND

Invest /grow

Selectivity / earning

Harvest /divest

Market size and growth rate	Cyclical Economies of scale
Industry profit margins	Technology Social,
Competitive intensity	environmental, legal,
Seasonality	and human impacts

Industry (product – market) attractiveness

High   Medium   Low

Relative market share	Competitive strengths and weaknesses
Profit margins	
Ability to	Technological
Compete on	capability
price and quality	Caliber of
Knowledge of	management
Customer and market	

Business strength

100

Weak Average Strong

Relative market share	Competitive strengths and weaknesses
Profit margins	
Ability to	Technological
Compete on	capability
price and quality	Caliber of
Knowledge of	management
Customer and market	

Business strength

100

Weak Average Strong

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Depending on where businesses are plotted on the matrix, three basic strategies are formulated

- ➤ Invest/grow,
- ➤ Selective investment, and
- ➤ Harvest/divest.

Businesses falling in the cells that form a diagonal from lower left to upper right are medium-strength businesses that should be invested in only selectively. Businesses in the cells above and to the left of this diagonal are the strongest; they are the ones for which the company should employ an invest/grow strategy. Businesses in the cells below and to the right of the diagonal are low in overall strength and are serious candidates for a harvest/divest strategy.

This approach has several advantages over the growth-share matrix.

- ➤ First, it provides a mechanism for including a host of relevant variables in the process of formulating strategy.
- ➤ Second, as we have noted, the two dimensions of industry attractiveness and business strength are excellent criteria for rating potential business success.
- ➤ Third, the approach forces managers to be specific about their evaluations of the impact of particular variables on overall business success.

However, the multifactor portfolio matrix also suffers some of the same limitations as the growth –share matrix.

- ➤ It does not solve the problem of determining the appropriate market, and it does not offer anything more than general strategy recommendations.
- ➤ The measures are subjective and can be very ambiguous, particularly when one is considering different businesses.

Portfolio models provide graphical frameworks for analyzing relationships among the businesses of large, diversified organizations, and they can yield useful strategy recommendations. However, no such model yet devised provides a universally accepted approach to dealing with these issues. Portfolio models should never be applied in a mechanical fashion, any conclusion they suggest must be carefully considered in the light of sound managerial judgment and experience.

Self -Assessment Questions

1. "Grand strategies are intended to provide basic direction for strategic actions" – Discuss.
2. Identify generic and grand strategies that firms adopt.
3. Explain the generic strategies given by Michel E. Porter with Indian examples.
4. Examine the significance of Gluek's grand strategies and discuss how they help achieve overall objectives of a firm.
5. Explain horizontal and vertical integration strategies.
6. What is diversification? Explain why it is followed.
7. What are stability strategies? When do firms employ them?
8. What are the methods adopted for turnaround?
9. Explain retrenchment strategy? Do firms employ it?
10. Examine the significant of portfolio strategies.

Activities

1. Go to a business firm near your college. Discuss with the Managing Director and top level strategists and identify the generic strategies you believe they are using.
2. Identify the Indian companies that have adopted the grand strategies in India from www.blonnet.com website of The Hindu – Business Line and list them briefly.

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Lesson 10 - Strategic Alliances And Joint Ventures

Lesson Outline

- ‣ Introduction
- ‣ Strategic Alliances
- ‣ Reasons For Forming Alliances
- ‣ Types Of Alliances
- ‣ Typology Of Alliance
- ‣ Continuum Of Alliances
- ‣ Mutual Service Consortia
- ‣ Joint Venture Licensing Arrangement
- ‣ Value-Chain Partnership
- ‣ Forms Of Alliances In India
- ‣ Managing Strategic Alliances

Learning Objectives

After reading this lesson you should be able to

- ‣ Understand and define strategic alliances
- ‣ Examine the reasons for forming alliances
- ‣ Outline the types of alliances
- ‣ Know how Indian companies have formed alliances
- ‣ Explain the methods of managing alliances

Introduction

Intense competition, changing technology and need for expansion drive firms to look out for opportunities to take over other firms or form alliances. When geographical boundaries are open for business operations, international tie-ups are common. Strategic alliances may take different forms from just marketing or production tie-ups to mergers. Managing alliances requires special caution, and managers should be aware of the principle of managing them.

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Strategic Alliances – Defined

Strategic alliances are cooperation arrangements between two or more companies for achieving a common objective. Yoshino and Rangan define strategic alliances in terms of three necessary and sufficient characteristics

1. Two or more firms unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance,

2. The partner firms share the benefits if the alliance and control over the performance of assigned tasks –perhaps the most distinctive characteristic of alliances and the one that makes them so difficult to manage,

3. The partner firms contribute on a continuing basis on one or money key strategic areas, for example, technology, product, and so forth.

In similar words , Lando Zeppi, Managing partner of Booz, Allen and Hamilton, defines strategic alliance as :

a cooperative arrangement between two or more companies where:

› A common strategy is developed in unison and a win-win attitude is adopted by all parties

› The relationship is reciprocal, with each partner prepared to share specific strengths with each other, thus lending power to the enterprise.

› A pooling of resources, investments, and risks occurs for mutual (rather than individual gain)

Strategic alliances can be defined simply as:

"a cooperation between two or more independent firms involving shared control and contributing contributions by all partners for mutual benefit".

Some alliances are short term and some are long term leading to full mergers of companies.

Reasons for Forming Strategic Alliances

The basic reason for entering into strategic alliance is to enhance their organizational capabilities and there by gain competitive advantage. Towards this they strive to gain access to new markets and new supply

resources sufficiently they enter into strategic alliances. Specifically speaking the following are the principal reasons.

1.   To obtain technology and / or manufacturing capabilities

For example, Intel formed a partnership with Hewlett-Packard to use HP's capabilities in RISC technology in order to develop the successor to Intel's Pentium microprocessor.

2.   To obtain access to specific markets

Rather than buy a foreign company or build breweries of its own in other countries, Anheuser-Busch chose to license the right to brew and market Budweiser to other brewers, such as Labatt in Canada, Modelo in Mexico, and Kirin in Japan.   The alliance of coco cola Inc. with local bottling mergers in the global market and even in India.

3.   To reduce financial risk

To reduce the risk of financial investment a company may join hands with another company or companies

Because the costs of developing a new large jet airplane is becoming too high for any manufacturer, Boeing, Aerospatiale of France, British Aerospace, Constucciones Aeronautics of Spain, and Deutsche Aerospace of Germany planned a joint venture to design such a plane.

4   To reduce political risk

Political risk is another important factor. Besides cultural factors, political factors are complex and difficult to mange. It is better to tie up with a local firm to find way s of overcoming such risks.

To gain access to China while ensuring a positive relationship with the often restrictive Chinese government, Maytag Corporation formed a joint venture with the Chinese appliance maker, RSD.

5   To achieve or ensure competitive advantage

Alliances may be formed for mutual advantage to use of the specialized nature of resources or skills.

General Motors   and Toyota formed Nummi Corporation as a joint venture to provide Toyota a manufacturing facility in the United States and GM access to Toyota's low-cost, high-quality manufacturing expertise.

IBM's strategy

IBM's current alliance strategy in large measure is due to several key driving factors:

(1)To enter new markets,

(2) To fill gaps in its product line with other firm's offerings,

(3) To shorten product development time,

(4) To learn new technologies,

(5) To restructure some existing operations, and

(6) To block other key rivals from encroaching on the U.S. and European markets too quickly.

IBM has formed more than 500 strategic alliances (of varying degrees of complexity) with partners around the world. These strategic alliances involved not only shared marketing and software development efforts, but also major commitments of investment funds to build ultra-modern facilities that are beyond the financial means of any one company. The following Table 10-1 portrays some of the most significant alliance relationships the IBM has entered as of December 1997.

Table 10-1: IBM Alliance Strategy

Personal Computers	Semiconductor Technology	Software and Processing
• Matsushita (Lowend PCs) • Ricoh (Hand-held PCs) **Computer Hardware/ Screens** • Toshiba (Display tech) • Mitsubishi (Main-frames) • Canon (Printers) • Hitachi (Large printers) **Factory Automation** • Texas Instruments • Sumitomo Metal • Nippon Kokan technology • Nissan Motor **Telecommunications** • NTT (Value-added Networks) • Motorola (Mobile data mets)	• Micron Technology • Motorola (X-ray lithography) • Motorola (Micro processor designs) • Sematech (U.S. Consortium) • Intel (Microprocessor designs) • Siemens (16 M and 64 Megabit chips) • Apple Computer (Operating Systems and multimedia • Integration • Elec (Electron bean technology) • Toshiba & Siemens (256 Megabit chips) • Toshiba (Flash memories) • Advanced Micro Devices (Microprocessors) • Silicon Valley Group (Photo-lithography)	• Microsoft • Oracle • Sun Microsystems • Silicon Graphics • Metaphor • Hewlett-Packard • Netscape Communications **Customer Linkages** • Mitsubishi Bank • Eastman Kodak • Baxter Healthcare • Xerox **Consumer Electronics** • Philips Electronics • Sega • Blockbuster Entertainment • Sony

Typology of Strategic Alliances

        Several typologies of strategic alliances are available in business literature. One such classification is by Yoshino and Rangan. This is a two-dimensional model with the two dimensions being, the extent of organizational interaction and conflict potential between alliance patterns. The classification is shown in Figure 10-1.

Figure 10-1 Typology of Strategic Alliances

Low   **Conflict**   High

interaction

Non-competitive	Competitive
Pro-competitive	Pre-competitive

Pro-Competitive Alliances

        These are generally alliances within the industry exemplified by vertical value-chain relationships between manufactures and their suppliers and distributors. Such relationships are advantageous to both parties. Supplier and buyer organizations entering upon long-term contracts constitute pro-competitive alliances.

Noncompetitive Alliances

        These are partnerships within the industry. Such alliances are entered upon by organizations that operate in the some industry yet do not perceive each other's as rivals. This can be because their areas of activity do not coincide and/or their products and services are sufficiently dissimilar to prevent competition. Organizations that have carved out distinct areas in the industry geographically or otherwise, adopt the noncompetitive alliances. For example, a number of automotive manufacturers in Europe have entered into a strategic alliance for engine development.

Competitive Alliances

These are relationships that bring rival organizations in a cooperative arrangement. These alliances may be intra –industry or inter-industry.

For example Coca-Cola entered into an agreement with Parle Products, the manufacturers of Thumps Up their main competitors in western India.

Pre-competitive Alliances

These partnerships bring two organizations from different, often unrelated industries to work on well-defined activities. This is often seen in activities such as, mass awareness campaigns or environmental and social issues. Sometimes inter industry and inter disciplinary cooperation is necessary for development.

For example, Intel has pre-competitive alliances with software, hardware and other manufacturers.

Continuum of Alliances

The types of alliances range from mutual consortia to value chain partnerships as described below.

➤ Mutual service consortia- A mutual service consortium is a partnership of similar companies in similar industries who pool their resources to gain a benefit that is too expensive to develop alone, such as access to advanced technology. For example, IBM of the United States, Toshiba of Japan, and Siemens of Germany formed a consortium to develop new generations of computer chips.

➤ Joint venture – A joint venture is a "cooperative business activity formed by 2 or more separate organizations for strategic purposes, that creates an independent business entity and allocates ownership, operational responsibilities, and financial risks and rewards to each member, while preserving their separate identity autonomy.

➤ Licensing arrangement – A licensing arrangement is an agreement in which the licensing firm grants rights to another firm in another country or market to produce and / or sell a product. The licensee

pays compensation to the licensing firm in return for technical expertise.

➤ Value-chain partnership – The Value-chain partnership is a strong and close alliance in which one company or unit forms a long-term arrangement with a key supplier or distributor for mutual advantage.

Forms of Alliances in India

A statistical sample of different strategic alliances in India with number of companies in different alliances and their percentage is listed in Table 10-2.

Table 10-2 Type of alliances in India

Type of alliance	Number of Companies	Percentage (%)
Marketing tie ups	34	26.3
Operations handling	21	16.2
Joint ventures	15	11.6
Technology licensing	14	108
Manufacturing	14	10.8
MOUs	9	6.9
Services	6	4.6
Supply	6	4.6
Setting up new business	6	4.6

After liberalization, JVs are less since MMCs can set up a 100% subsidiary after 1991. Therefore Indian market is witnessing breaking up of joint ventures. On the other hand, Indian firms are going for JV abroad for reasons like.

➤ Source of learning and development

➤ Access to better infrastructure

➤ Access to greater market share

➤ Availability of raw materials

Delta Industries took over Netherlands Jute Industries (NJI) in 1994 which led to cost effective production in the country with advanced technology. Several alliances such as TVS-Sujuki, Mahindra-Ford, BPL-Sanyo and Videocon- Sansui have withstood the test of the time. Ranbaxy went into a strategic alliance with Eli Lilly of the US to realize its mission of becoming a research based international and pharmaceutical company.

The opening up of infrastructure sector in India led to forming of a number of alliances.

- The telecommunications sector has witnessed the coming together of several local and global firms such as Crompton Greaves and Millicom, the SPIC group and Telstra, Max (GSM) and Brtisih Telecom, Usha Martin and Telecom Malaysia, among several others.

- The roads and highways sector has created conditions for several global giants joining hands with reputed Indian companies like the alliances of Unitech and Hyndai, Engineering and Constructions, THC India and Trafalgar House International, Tarmat and Samsung, and others.

Liberalization and globalization have spurred the growth of strategic alliances. A good example of synergetic benefits arising out of a strategic alliance is that of Taj Hotels and British Airways, where both create advantages for each other through complementarities of airline and hotel services.

Besides this, other reasons, which lead to strategic alliances, are the availability of professional management expertise, international reputation, global brand name and brand equity, and confidence to gain a foothold in the international markets.

Alliances are often used by not- for- profit organization as a way to enhance their capacity to serve clients or to acquire resources while still enabling them to keep their identity services can be provided efficiently through cooperation with other organizations them if they are done alone.

Four Ohio Universities agreed to start a new school of international business at a cost of $ 30 million. This cannot be done singly.

Managing Strategic Alliances

The following guidelines will be of help in successfully managing alliances.

- Have a clear strategic purpose. Integrate the alliance with each partner's strategy. Ensure that mutual value is created for all partners.
- Find a fitting partner with compatible goals and complementary capabilities
- Identify likely partnering risks and deal with them when the alliance is formed.
- Allocate tasks and responsibilities so that each partner can specialize in what it does best.
- Create incentives for cooperation to minimize differences in corporate culture or organization fit.
- Minimize conflicts among the partners by clarifying objectives and avoiding direct competition in the market place.
- If an international alliance, ensure that those managing it should have comprehensive cross-cultural knowledge.
- Exchange human resources to maintain communication and trust. Don't allow individual egos to dominate
- Operate with long-term time horizons. The expectations of future gains can minimize short-term conflicts.
- Develop multiple joint projects so that any failures are counterbalanced by successes
- Agree upon a monitoring process. Share information to build trust and keep projects on target. Monitor customer responses and service complaints.
- Be flexible in terms of willingness to renegotiate the relationship in terms of environmental changes and new opportunities.
- Agree upon an exist strategy for when the partners' objectives are achieved or the alliance is judged a failure

Self -Assessment Questions

1. What do you understand by strategic alliances?
2. Why are strategic alliances necessary?
3. What are the forms of strategic alliances?
4. Illustrate and explain the continuum of Alliances
5. What are joint ventures? When are they formed?
6. With examples of Indian companies, discuss the significance of joint ventures
7. Examine the advantages and disadvantages of join ventures.
8. Why do joint ventures fail? Explain with examples.
9. In the globalization era, which form of alliances work?
10. How do you make strategic alliances successful?

Activities

1. Describe the long-term strategy of the firm or institution in which you are working or studying. Identify the alliances needed to make the institution strong in the globalized set up.
2. Identify the companies that have entered into mutual service consortia, joint venture licensing agreement and value chain partnerships in India.   Visit a library, search dailies and business, weeklies and identify some of them and prepare a list.

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Lesson 11 - Diversification Strategies

Lesson Outline

- ➤ Introduction
- ➤ Why diversify?
- ➤ Types of diversification
- ➤ Advantages and disadvantages of Diversification
- ➤ Diversifications in India
- ➤ Planned Diversification
  - • Assessment of industry attractiveness
  - • Assessment of degree of mesh
  - • Combination of attractiveness And mesh
- ➤ When to diversify
- ➤ When not diversify
- ➤ Summary
- ➤ Self assessment questions
- ➤ Activities
- ➤ References

Learning Objectives

After reading this lesson you should be able to

- ➤ Understand the concept of diversification
- ➤ Describe the types, merits and demerits of diversification
- ➤ Know how to assess systematically for diversification
- ➤ Know when to diversify and not diversify

Introduction

Diversification is one of the grand strategies, which basically is a growth strategy. Basically diversification involves a substantial

change the business definition in terms of product range, customers or alternative technologies. Diversification strategies have been adopted a number of business groups and individual companies both in the public and private sectors. In the 1960s and 1970s, the trend was to diversify so as not to be dependent on any single industry, but the 1980s saw a general reversal of that thinking. Overall, diversification strategies are becoming less popular as organizations are finding it more difficult to manage diverse business activities. Diversification is now on the retreat. Michael Porter of the Harvard Business School says, "Management fount [it] couldn't manage the beast." Hence, businesses are selling or closing, less profitable divisions in order to focus on core business.

Why Diversify?

Organizations diversify due to the following reasons. Some of the common reasons are as follows.

Synergy

Synergy is cited in the most common cause of diversification. Synergy occurs when two or more activities produce their combined effect greater than the sum of its parts i.e., $2 + 2 =$ More than 4.

- Related diversification produces synergies rooted in production technology. With the additional technical facilities, a by-product or joint product may be produced.
- Both related and unrelated enable the companies to sell the products with same distribution network and advertisement facilities. The advertisement of one product spontaneously advertises other products with enhanced brand loyalty. This is marketing synergy.
- Synergetic effect can also be noticed in financial operations, when the positive cash flow of one business utilized in other business helps to generate more positive cash flows.

Spreading of Risk

Diversification helps to avoid over dependence on one product/ market. It spreads the risk associated with one product line or few products.

Better opportunities

With diversification, company can exploit the better opportunities in new product line. Every product has it own product life cycle. To gain better market share, company has to either differentiate or diversify.

Better utilization of Resources

With diversification, company can better use hitherto unexploited resources like finance, market channels, production facilities, technological capabilities, managerial knowledge, etc. The idle retained earnings could be utilized to produce new products. Their marketing may not be a problem because the same dealers will sell the new products. Same production facilities and technology can be utilized sometimes adding more capacity to it.

Competitive Strategy

Diversification is a good competitive strategy. A company may enter new product lines of business to gain a competitive edge over the competitors or discourage them by entering before their arrival.

Market Dominance

Diversification take place to exploit tremendous market opportunities in home as well as in foreign countries with the objective of gaining market dominance.

Finnish producer Nokia leads the world in sales of cell-phone handsets. When the telecom industry crashed in 2000. Chairman Jorma Ollila invested heavily to turn Nokia into a major mobile phone software player. Under his leadership, the organization licensed its interface software to cell-phone competitors. It also invested heavily in billing and messaging service software. The result: millions of customers using Nokia and other software can now use their handsets to get e-mail, send photos, and download games. Research organization IDC forecasts that global mobile-data business will increase almost 47% in 2003 to $29.5 billion. Diversifying into mobile phone software helped keep Nokia on top of a troubled industry.

Types of Diversification

There are three general types of diversification strategies: concentric horizontal, and conglomerate.

Concentric Diversification

Under concentric diversification new products and services are added to the line with the condition that these products and services are related to their existing products/services carried by the organization. For concentric diversification it becomes necessary that the products or services that ate added must be within the framework of the know how and experience in technology, product line, distribution channels or customer base of the organization.

When the industry grows, the organization will get strength where concentric diversification becomes an important strategy for its survival and growth. A study of 460 corporations accounting for two/thirds of the US corporate industrial assets concluded, "that diversification that has led to relatively rapid rates of corporate growth has been to markets that are related to the entering organization's original market. Concentric diversification has been successfully practiced by a large number of organizations in India. For instance "Amul" has diversified in chocolates, Ice creams, Butter, Ghee etc. On the same pattern, "Milk Food" has diversified. Similarly, Honda has diversified into to Motor Cycles, Cars etc. In conclusion, it may be stated that concentric diversification has been quite successful in the past; it is expected to be successful in future also.

Horizontal Diversification

Where an organization adds unrelated products and services for existing customers, this is called horizontal diversification. The strategy is comparatively less risky because the customers are known.   The organization is fully acquainted with their consumers' preference and their expectations about the quality and price of the goods and services.

Horizontal diversification can be accomplished by acquiring the shareholding of the competitor, by the purchase of the assets or by pooling of the interests of two organizations. .Horizontal diversification seeks to eliminate competitors.

In our country a T.V. manufacturing company Uptron has created a new division for spreading computer education in the country. It is a combination of hardware and software.

Conglomerate Diversification

Conglomerate diversification is a growth strategy in which new products and services are added which are significantly different from the organization's present product and services. Conglomerate diversification is effected in the hope that the addition of new products and services may bring about some turnaround by way of conversion of losses into profits. Mechanics for adopting conglomerate diversification has been summarized as follows:

1. Supporting some divisions with cash flow from other divisions during the period of development or temporary difficulty.

2. Using the profits of one division to cover the expenses of another division without payment of taxes from the first division.

3. Encouraging growth for its own sake or to satisfy the values and ambitions of management or the owners.

4. Taking advantage of unusually attractive growth opportunities.

5. Distributing risk by serving several different markets.

6. Improving overall profitability and flexibility of the organization by moving into industries that have better economic prospects than those of the acquiring organizations.

7. Gaining better access to capital markets and better stability or growth in the earnings.

8. Increasing the price of an origination's stock

9. Reaping the benefits of synergy. Synergy results from "a conglomerate merger when the combined organization is more profitable than the two organizations operating independently.

The scheme of Conglomerate Diversification should be implemented with caution and patience. It will create big business and will bring in turn, the problems of management associated with big businesses. Big businesses involve greater risk in the event of abnormal economic situation like recession or stagflation. In the light of the above, the success of the conglomerate diversification will depend on the following factors:

1. A clear definition of organizational objectives.

2. A determination of the organization's ability to diversify, which includes an analysis of its present operations (internal organizational analysis) and resources available for diversification.

3. Establishment of specific criteria for purchasing other organizations

4. A comprehensive search for organizations and their evaluation against the criteria.

Examples of companies that have diversified into related business concentric diversification

GILLETTE

- Blades and razors
- Toiletries (Right Guard, Foamy, Dry Idea, Soft & Dry , White Rain)
- Oral-B toothbrushes
- Braun shavers, coffeemakers, alarm clocks, mixers, hair dryers, and electric toothbrushes
- Duracell batteries.

JOHNSON & JOHNSON

- Baby products (powder, shampoo, oil, lotion)
- Band-Aids and other first-aid products
- Women's health and personal care products (Stay free, Carefree, Sure & Natural)
- Neutrogena and Aveeno skin care products
- Nonprescription drugs (Tylenol, Motrin, pepcid AC, Mylanta, Monistat)
- Prescription drugs

- Prosthetic and other medical devices
- Surgical and hospital products
- Accuvue contact lenses

PEPSICO

- Soft drinks (Pepsi, Diet Pepsi, Pepsi One, Mountain Dew, Mug, Slice)
- Fruit juices (Tropicana and Dole)
- Sports drinks (Gatorade)
- Other beverages (Aquafina bottled water, SoBe, Lipton ready-to-drink tea, Frappucino-in partnership with Starbucks, international sales of 7UP)
- Snacks foods (Fritos, Lay's Ruffles, Doritos, Tostitos, Santitas, Smart Food, Rold Gold pretzels, Chee-tos, Grandma's cookies, Sun Chips, Cracker jack, Frito-Lay dips and salsas)
- Cereals, rice, and breakfast products (Quaker oatmeal, Cap'n Crunch, Life, Rice-A-Roni, Quaker rice cakes, Aunt Jemina mixes and syrups, Quaker grits)

Examples of companies that have diversified into unrelated business.
THE WALT DISNEY COMPANY

- Theme parks
- Disney Cruise Line
- Resort properties
- Move, video, and theatrical productions (for both children and adults)
- Television broadcasting (ABC, Disney Channel, Toon Disney, Classic Sports, Network, EPSN and EPSN2, E!, Lifetime, and A&E networks)
- Radio broadcasting (Disney Radio)
- Musical recordings and sales of animation art
- Anaheim Angles major league baseball franchise (25 percent ownership)
- Books and magazine publishing
- Interactive software and Internet sites
- The Disney Store retail shops.

THE TVS GROUP

- Auto & auto parts
- Coach body building
- Transport
- Fasteners
- Brake linings & clutch facings
- A citation systems for commercial vehicles
- Hire purchase
- Wheel structure & parts
- Foundation brakes
- Two wheelers
- Automobile electrical parts
- Tyres & tubes.

Advantages and Disadvantages of Diversification

A company planning to diversification should define its business, conduct SWOT analysis, Risk analysis, competition and Gap analysis and also assess the advantages and disadvantages of diversification. The following Table11-1 briefly outlines the advantages and disadvantages of different types of diversification.

Table 11-1 Advantages and disadvantages of diversification strategies

Diversification strategy	Advantages	Disadvantages
Horizontal integration	Eliminates competitors. Access to new markets.	Less flexibility. Increasing risk and commitment.
Concentric diversification	Synergy by sharing skills and resources. Economics of scale and tax benefits.	Reduction is flexibility. Additional investment. Untried markets and technologies.

Conglomerate diversification	Better management and high ROI. Reducing risk by spreading business.	Lack of concentration. Risks of managing entirely new business.

Diversifications in India

Diversification strategy is widely adopted in India. Some examples are given here.

- A public sector giant, Oil India Ltd. (OIL), which had been operating in oil exploration and production, diversified into related areas, such as, gas cracking.

- The reputed multinational affiliate, ITC Ltd. has diversified into hotels, papers, agri-business packaging, and priming from its original cigarette business in response to national objectives and priorities.

- Smaller companies, like, Blowplast in the moulded luggage industry is in plastic seating systems, and marketing of branded toys.

- Unitech in civil engineering is into steel-making, exports, consumer electronics, power transmission, and real estate.

- The service sector has not been left untouched by the motivation to diversify.

- LIC in the insurance business is also in a related area of mutual funds.

- Banks, like SBI and Canara Bank too have moved from traditional banking to merchant banking and mutual funds.

- Peerless General Finance & Investment Co, one of the country's larger non-banking investment companies, has moved into related areas of finance, adopting a defensive diversification strategy to generate more resources to contain rising establishment costs.

Planned Diversification

The one best way of diversifying an organization is to carry the work through systematic planning. Though many organizations have

diversified without any systematic planning, the chances for a successful outcome are considerably increased when diversification decision is organic part of the comprehensive strategic planning.

In this process, it is preferable to constitute a tasks force, which is entrusted with the total work of diversification because it requires separate emphasis on some aspects at least for some period of time. When this task force is created, it can move in the direction of thinking about possible diversification. The work of the task force becomes easier if it has the full support of top management. The role of this task force may be to collect and analyze relevant information, which helps in arriving at diversification decision.

The basic problem in a diversification strategy is to identify the suitable industry sector, which meets basic criteria of diversification. Figure 11-1 presents a process thorough which identification of diversification opportunities becomes systematic. The process provides the facility for assessing and measuring each business sector against a number of different criteria so that judgment can be reached on two separate factors .

- Attractiveness of the sector as an investment in its own right and
- The extent to which the qualities required for success in the sector match the own strengths of the organization.

There are basically three major measurements involved in this process.

- Measurements of industry attractiveness,
- Measurement of mesh, and

Combination of attractiveness and mesh to arrive at some strategic alternatives

(i) Assessment of Industry Attractiveness

At the initial stage, various sectors of the industry can be taken for identifying diversification opportunities. Such criteria may be in the form of:

i.   Acceptable product groups or functions,
ii. Minimum sales volume within a specified period of time, say five years or so,

iii. Minimum projected growth rate in the market

iv. Minimum profitability criteria,

v. Maximum and minimum investment required in the project, and so on.

Figure11-1 Process for identifying diversification opportunities
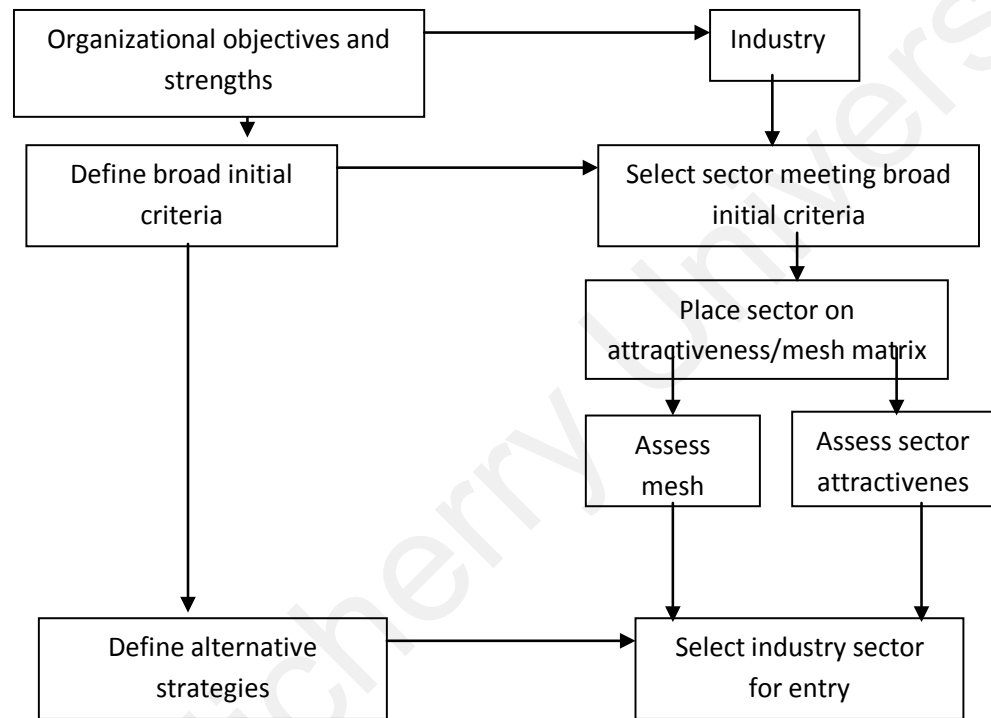
These criteria may be used in weeding out the industry sectors which cannot be considered.   The assessment of the attractiveness of a sector as an area for potential investment is based on its profitability and maturity. The profitability of a sector is measured in terms of return on investment (ROI) of the principal companies within the sector. The profitability ratio may be assigned scores. Scoring pattern may differ from organization to organization depending on manager's preference and interpretation.   For example, following scores may be given to various levels of profitability:

Business Policy: Strategic Management

ROI per cent	Scores
Less than 10	2

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10 -15	4
15-20	6
20-25	8
25-30	10
Above 30	12

The maturity of industry is taken on the basis of level of growth and future potential. Thus industry sectors can be classified into growing, maturing, ageing. In growing sector, the rate of growth is more than the rate of gross national product; in maturing industry, the rate of growth is almost similar to gross national product; while in ageing sector, the rate of growth is lower than the rate of gross national product. These stages can further be classified on the basis of time taken by a sector to move from one stage to another and scores can be assigned in the following way.

Maturity level	Scores
Ageing	0
Late mature	2
Early mature	4
Late growth	6
Growth	8
Early growth	10

Adding the scores for profitability to the sector maturity arrives at the scoring for over all attractiveness of each sector.

(ii) Assessment of Degree Mesh

Degree of mesh suggests the extent to which a particular organization can match the requirements of an industry sector. It is assess on the basis of organizational strengths and critical success factors (CSFs) required for success in the industry sector. CSFs are those

characteristics, conditions, or variables that when properly sustained, maintained, or managed can have a significant impact on the success of an organization competing in a particular industry. From the structure and maturity of sector, certain general conclusions can be drawn on CSFs and its investment characteristics.

1. In growth sector, high market share at the time of entry is not crucial because opportunities exist for rationalization and consolidation. Further investment is normally needed.

2. In mature sector, high market share at the time of entry is critical; cost cutting and control is important and further investment is generally not appropriate.

3. In ageing sector, a high market share at the time of entry is critical. Little or no further investment is desirable.

Taking both the factors-organizational strengths and CSFs, mesh matrix can be constructed as depicted in Figure 11-2.

	Critical (4)	High (3)	Medium (2)	Low (1)
(4)	16	12	8	4
(3)	12	9	6	3
(2)	8	6	4	2
(1)	4	3	2	1

Figure11-2   Mesh Matrix

High score in the matrix will increase the upside potential of investment because

- The organization can add something to the operation of the new business, and

- Will decrease the downside risk because the management will have experience of the sort of problems that are likely to occur.

(iii)   Combination of Attractiveness and Mesh

Having rated each sector's attractiveness and mesh, we can combine both to form another matrix. Because two measures are independent of each other, we can expect some sectors to score high on attractiveness but low on mesh whereas other sectors score low on attractiveness and high on mesh. The attractiveness/mesh matrix has been presented in Figure 11-3 below

According to this matrix, best diversification opportunities are those that score high on both characteristics having score of 9; least proffered is with low degree of both characteristics having score of 1. The selection of sectors from elsewhere depends on the strategy the organization selects.

- If it wishes to go for growth and earnings, pays low regard to the relationship which a sector has with the organizational strengths may select the alternatives in order of sectors failing in 6,3,8,5,7 and 4 in that preference order. In such a case, the rate of growth and profitability may be high but the risk involved is also high.

- If the organization wishes to minimize mesh risk and pursues business in those sectors which mesh high with its own strengths, it would select sectors in the order of 8,7,6,5,4,3 and 2. These strategies are low-risk ones for the organization.

- If the organization wishes to select business on the basis of both measures, it would select in the order of 9,6,8(6 and 8 equal) 5.

- In the remaining sector, the preference would be in the order of 3,7 (equal) and 2,4 (equal). The strategies in the third alternatives would be balanced ones.

<div align="center">

Degree of mesh

High (3)   Medium (2)   Low (1)

</div>

9	6	3
8	5	2
7	4	1

Figure 11-3 Attractiveness/mesh matrix

When To Diversify

Diversification merits strong consideration whenever a single-business company is faced with diminishing market opportunities and stagnating sales in its principal business. But there are four other instances that signal the for diversifying:

- When it can expand into industries whose technologies and products complement its present business.

- When it can leverage existing competencies and capabilities by expanding into businesses where these same resource strengths are valuable competitive assets.

- When diversifying into closely related businesses open new avenues for reducing costs.

- When it has a powerful and well-known brand name that can be transferred to the products of other businesses.

When Not Diversify?

All the organizations cannot think of diversification as a strategy. Organizations do not diversify under the following conditions.

- When they are small and cannot afford to try

- When they have no power to sustain

- When they anticipate some pitfalls

- When they are the first to bell the cat in that area.

- When on checking they find their functional skills are insufficient to diversify

- When they don't want to gamble with public investments

- When they do not have attractive tax benefits after diversification

Summary

Pursuing a single-or dominant-business may be preferable to seeking a more diversified business strategy, unless a corporation can develop competitive advantage. The primary reasons for diversification

are value creation through economies of scope, financial economies, or market power; some actions are taken because of government policy, performance problems, uncertainties about future cash flow, or managerial motivations (e.g. to increase compensation). Managerial motives to diversify can lead to over diversification. On the other hand, managers can also be good stewards of the firm's assets.

The level of a firm's diversification is a function of the incentives the firm has to diversify, its resources, and the managerial movies to diversity. Related diversification can create value by sharing activities of transferring core competencies. Sharing activities usually involves sharing tangible resources between businesses. Transferring core competencies involves transferring the core competencies developed in one business to another business. Efficiently allocating resources or restructuring a target firm's assets and placing them under rigorous financial controls accomplish successful unrelated diversification.

Self -Assessment Questions

1. What do you understand by diversification? Is diversification now popular?

2. What motivates a company to diversify?

3. What are the major considerations in diversification?

4. What are the advantages and advantages of various diversification strategies?

5. Explain why unrelated diversification is often said to be riskier than related diversification.

6. What advice would you like to give to a small business owner who is planning to diversify his business?

7. What are the major areas of synergy in related diversification? Is it possible to develop any synergistic effects in case of unrelated diversification? If yes, how?

8. What step as an entrepreneur would you like to take before, actually embarking upon diversification scheme? Discuss the importance of planned diversification in today's business.

9. Critically examine the corporate diversification activity in India.

10. What suggestions you would like to make so that diversification activity in India proceeds on a sound basis?

Activities

1. Study the product/service portfolio of ITC group. ITC is considered to be one of the most diversified firms in India. List its major products and services.

2. Find out from different published sources and the website of Shri Ram group of companies or contact its local office in your place and identify its diversification activity. Record it carefully in writing.

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Lesson 12 - Turnaround Strategies
&
Corporate Restructuring

Lesson Outline

- › Introduction
- › Turnaround Defined
- › Signals Of Turnaround
- › Turnaround Process Models
- › Turnaround Management
- › Corporate Restructuring
- › Forms Of Restructuring
- › Types Of Restructuring
- › Process And Barriers
- › Summary
- › Self Assessment Questions
- › Activities
- › References

Learning Objectives

After reading this lesson you should be able to

- › Define turnaround strategy
- › Identify the signals of corporate sickness
- › Know the process models of turnaround and analyze turnaround management issues
- › Understand the forms, types, process and barriers of corporate restructuring

Introduction

Turn round strategy is often necessitated during recession times in an industry or in the economy as a whole. It is aimed at halting the present declining trend in performance while improving the long run efficiency of operation.

Turnaround Defined

Turnaround derives its name from the action involved that is reversing a negative trend. Turnaround management refers to the measures, which reverse the negative trends in the performance indicators of the company. In other words, turnaround management refers to the management measures which turn a sick-company back to a be healthy one or those measures which reverse the deteriorating trends of the performance indicators such as falling market share, sales (in constant rupees), and profitability and worsening debt-equity ratio.

Examples of turn around

During 1970-80 IBM dominated the computer industry world wide particularly the PCS. During early 1990s computer sales were falling. HP, Dell, Compaq, Gateway etc entered the market PC clones in IBM style were offered cheaply by them. Industry experts called IBM "bureaucratic dinosaur" and profits kept on falling in 1992-93. The BOD hired a new CEO, Louis Gerstner to lead a 'Corporate turn around' who leads the 'BIG BLUE' strategy following the rigid dress code. The work force was reduced to 40%. Emphasis was on quicker decision making and strong customer orientation. The CEO spoke to atleast one customer a day. A new mainframe was released once in a year. PC business increased its market share to 8.9% in 1996. Stock price moved from $ 40 in 1990 to $ 140 in 1996. Revenue increased by 40% and profits rose by 3.6%. IBM is still in the process of turning around.

Gram co, a subsidiary of UK based EMI UK was successful in the early seventies with brand name HU. The cassette boom hit the company and EMI UK reduced its equity from 38.9% to 20%. RPG was given an equity participation of 16%, financial institutions 26%. Udayam Bose was appointed as MD to run on profit sharing that is from credit capital Finance Corporation. Grams co expanded to consumer electronics

& cassette making and diversified into domestic kitchen equipment, furniture, pumps and automotives. It planned to revive its packaging section also. However the turnaround is a failure

Signals of Turnaround

We need to examine whether companies suddenly turn sick or qualify as potential candidates for turnaround. Sometimes the companies themselves may not be able to identify that they are turning into red. If recognized early prevention can be tried instead of curing the problem. Though the factors leading to industry varies from one firm to the other, there are some common signals of sickness which herald on the onset of sickness. Companies becoming sick would exhibit one or more of the following characteristics.

1. *Decreasing market share* This is the most significant symptom of a major sickness. A company, which is losing its market share to competition, needs to sit up and take careful note. Regular monitoring of market share helps companies to keep a tab on their performance in the market vis-a-vis their competitors. Any indication of declining market share should trigger-off immediate corrective action.

2. *Decreasing constant rupee sales* *Sales* figures, to be meaningful, should be adjusted for inflation. If constant rupees sales figures are showing a declining trend, then this is a danger signal to watch out.

3. *Decreasing profitability* Profit figures are a good indication of a company's health. Care must be taken to interpret the profit figures correctly, so as to avoid any misjudgments. Decreasing profitability can show up as smaller profits in absolute terms or lower profits per rupee of sale or decreasing return on investment or smaller profit margins.

4. *Increasing dependence on debt* A company overly reliant on debts soon gets into a tight corner with very few options left. A substantial rise in the amount of debt, a lopsided debt to equity ratio and a lowered corporate credit rating may cause banks and other financial institutions to apply restrictions and become reluctant to lend more. Once financial institutions are hesitant to lend money, the company's rating on the stock market also slides and it becomes very difficult for the company to raise funds from the public too.

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5. ***Restricted dividend policies*** Dividends frequently missed or restricted dividends signal danger. Often such companies may have earlier paid substantially higher proportion of earnings as dividends – when in fact they should have been reinvesting in the business. Current inability to pay dividends in an indication of the gravity of the situation.

6. ***Failure to reinvest sufficiently in the business*** For a company to stay competitive and keep on the fast growth track, it is essential to reinvest adequate amounts in plant, equipment and maintenance, when a business is growing, the combinations of new investments and reinvestments often warrants borrowing. Companies, which fail to recognize this fact and try to finance growth with only their internal funds, are applying brakes in the path of growth.

7. ***Diversification at the expense of the core business*** It is a well-observed fact that once companies reach a particular level of maturity in the existing business they start looking for diversifications. Often this is done at the cost of the core business, which then starts to deteriorate and decline. Diversification in new ventures should be sought as a supplement and not as a substitute for the primary core business.

8. ***Lack of planning*** In many companies, particularly those built by individual entrepreneurs, the concept of planning is generally lacking. This can often result in major setbacks as limited thought or planning go into the actions and their consequences.

9. ***Inflexible chief executives*** A chief executive who is unwilling to listen to fresh ideas from others is a signal of impending bad news. Even if the CEO recognizes the danger signals, his unwillingness to accept any proposal from his subordinates further blocks the path towards recovery.

10. ***Management succession problems*** When nearly all the top managers are in their mid-fifties there may be a serious vacuum at the second line of command. As these older managers retire or leave because of perception of decreasing opportunities there is bound to be serious management crisis.

11. *Unquestioning board of directors* Directors who have family, social or business ties with the chief executive or have served every long on the board, may no longer be objective in their judgment. Thus these directors serve limited purpose in terms of questioning or cautioning the CEO about his actions.

12. *A Management team unwilling to learn from its competitors* Companies in decline often adopt a closed attitude and are not willing to learn anything from their competitors. Companies, which have survived tough competitive times continuously, analyze their competitors' moves.

13. *Legal requirements for turnaround* Turnaround is applicable to sick industrial units. An organization is sick when the accumulated losses at the end of a financial year exceed 50% of the peak net worth attained during the preceding five years. In order to an Indian company to quality for turnaround, it has to be first declared as a sick company. This declaration is required under the Sick industrial Companies (Special Provisions) Act (SICA), 1985 which provides for the Board for industrial and Financial Reconstruction (BIFR) to act as the 'corporate doctor' whenever companies fall sick. Though this act was initially envisaged to be applicable to private sector units only, as a part of restructuring of public sector enterprises, the SICA was amended to bring Central and State public sector units under its purview.

Turn Around Process Models

Hoffer has identified choice of strategies that include changes in management, organizational process, improved financial controls, growth via acquisition and new financial strategies in addition to the strategic and operating turnaround suggested by him. Figure12-1 below presents the causes of decline and the appropriate strategies required.
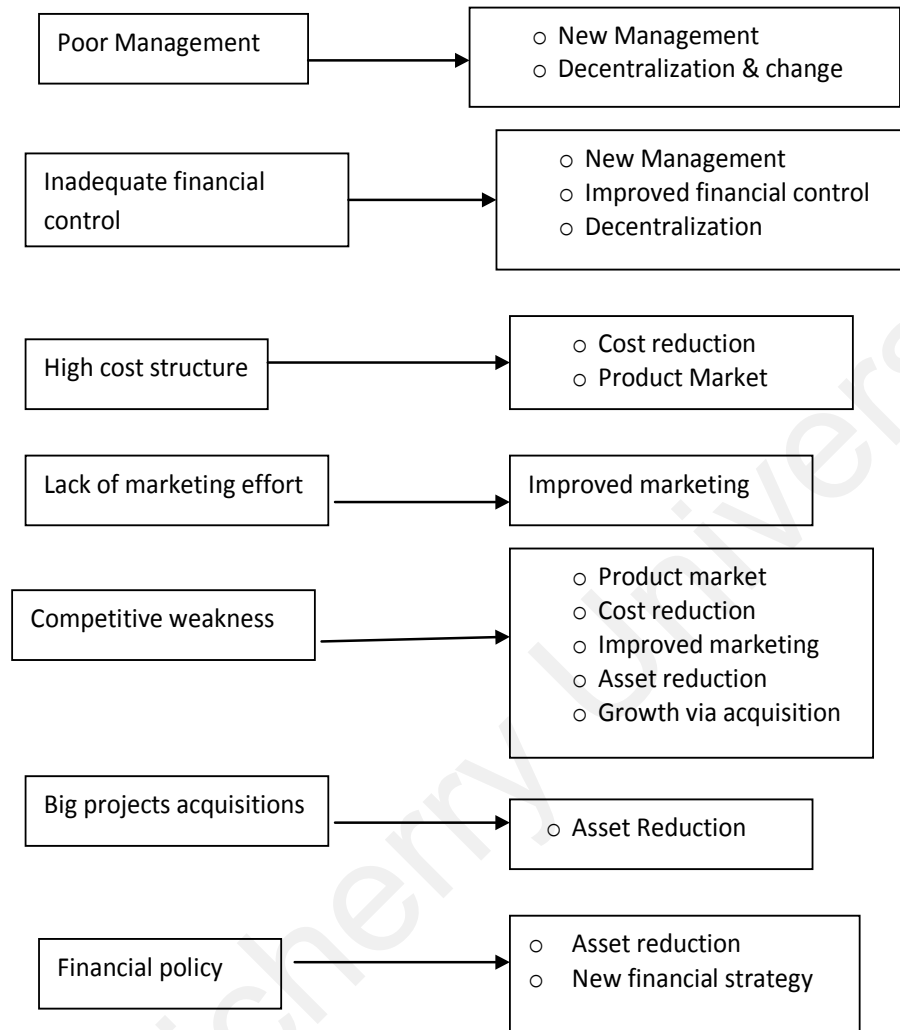
Figure12-1 Causes of decline and appropriate strategies

Grinyer and spender have suggested a process of turnaround shown in Figure 12-2. As soon as the parameters of corporate performance are indicative of unsatisfactory corporate performance, it becomes necessary to immediately tighten the controls within the organization. Effective controls have a positive impact on cost-reduction, that is, profit improvement and also on the net cash-flows of the firm. But this tightening of the financial and administrative control do not guarantee a stable turnaround process. In fact-controls coupled with poor quality image of the product may hasten the process of corporate failure. So while the controls are being affected, it is necessary that the strategic posture of the company may also be overhauled. This involves major changes in the product-mix, customer-mix and the patterns of resources deployment in the company. These two stages of change further need to be complemented by changes in top management and may organizational processes. If these changes produce early results which are satisfactory,

then for long-term effects it is necessary to reinforce these changes.
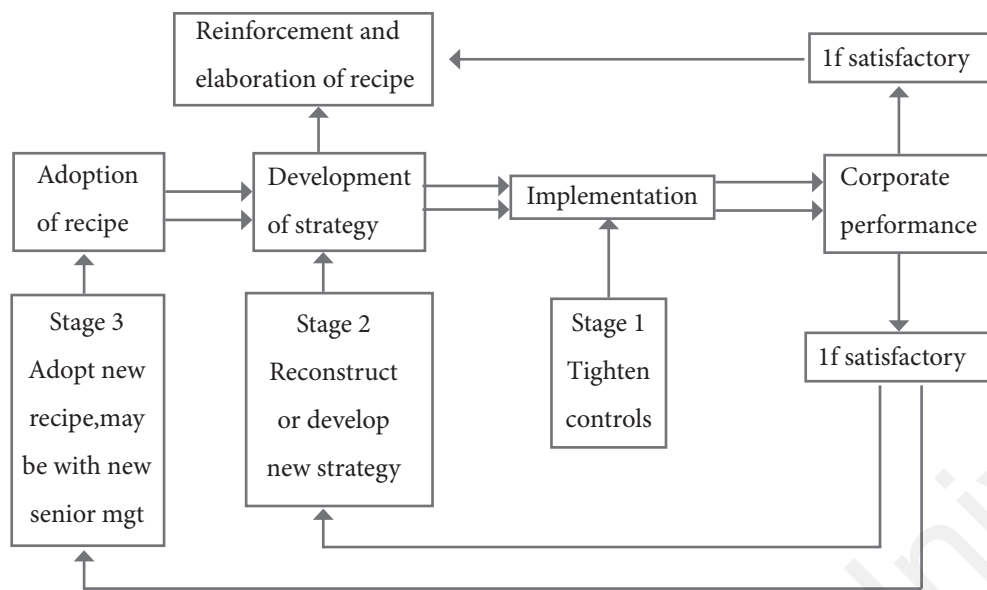
Figure 12-2 A Model of Turnaround Process

Source : O.H. Grinyer and I.C Spender , "Recipes, Crises and Adaptation in Mature Business", International Studies of Management and Organization. Vol. IX No.3

Turnaround process can be summarized as a five-step change process as shown in Figure 12-3
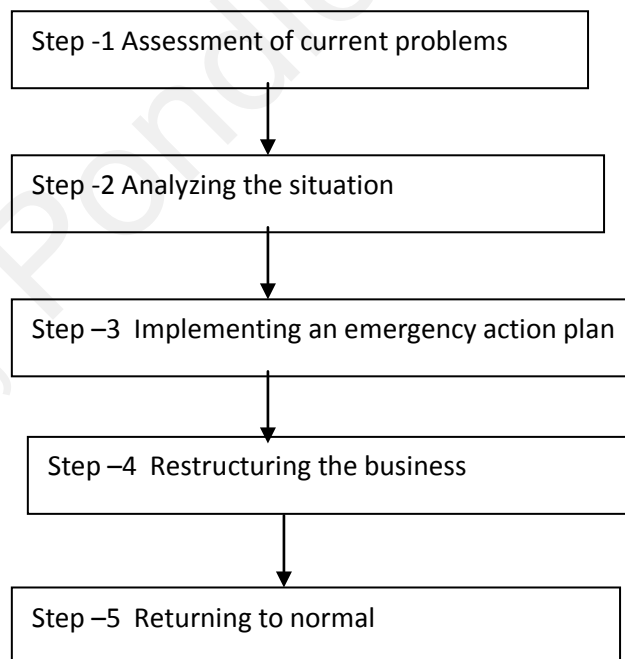
Figure 12-3: Turnaround as change process model

Turnaround Management

The focus of turn around is on reduction in assets and costs and increases in revenues and profits. This is similar to a weight reduction direct where two basic issues are :contraction and consolidation.

Contraction – "Stop the bleeding" attempt. Cutting back size and costs. It involves harsh decisions like the following.

- **Rid of** unprofitable products, pursuing workforce, trimming distribution outlets and seeking methods to make the organization more efficient

- **Divestment,** which involves selling the business and setting up a new corporation. This strategy improves the financial performance of a company and is opted when fit well to reach the organization's objectives.

- **Liquidation** is termination of assets and selling off. This is less preferred since it involves losses to stockholders and employees. But in a multi- business firm the impact of liquidation of one business may not be much.

Consolidation – A programme to stabilize a leaner corporation. Reducing overheads to make the firm cost effective

Another way of carrying turnaround may be as follows.

Stage One – Cost Cutting

A cost cutting program should be preceded by careful thought and analysis. The possibilities are that some departments or projects may need additional funding, while others need modest cuts, and still others need drastic cuts or need to be eliminated altogether. If you consider cost cutting as part of your strategy implantation in a case, be sure to specify exactly how it would be implemented across the organization. Support why the cost cutting should take the form you propose.

Stage Two-Re-engineering

Reengineering involves casting aside old assumptions about how an organization's business processes should be done and starting form

scratch to design more efficient processes. This may cut costs. This is easiest to see in a manufacturing process, where each step of assembly is scrutinized for improvement or elimination. Be sure to recommend wise use of reengineering. It is better to abandon processes that are not efficient.

Stage Three -Downsizing

Downsizing means laying-off people. It is a good way to cut costs quickly. But unless downsizing is tied to a rational strategy, problems can result. Cutting staff without changing the amount and type of work may result in costs cuts, but product quality and customer service may suffer, if they do, the organization's performance measures will suffer. The downsizing plan you recommend should fit logically with the strategy proposed.

Measures

The ten elements of turnaround strategy as identified by Pradip N. Khandwalla are as follows.

1. Changes in the top management

2. Initial credibility-building actions

3. Neutralizing external pressures

4. Initial control

5. Identifying quick payoff activities

6. Quick cost reductions

7. Revenue generation

8. Asset liquidation for generating cash

9. Mobilization of the organizations

10. Better internal coordination

These ten elements are identified based on the case studies of turnaround of 10 companies in India.The following are the factors that are commonly employed in turnaround management.

Management Factor   Managerial inefficiency is the root cause of the problems in a number of cases.   Therefore, improvement of the management becomes a prerequisite. For carrying out the turnaround management, a new efficient chief executive officer is usually appointed. The new CEO should streamline things and in many cases will have to change the organizational culture. This was true of several successful cases of turnaround management such as E.I.D Parry and Travancore Cochin Chemicals (TCC).

Human Resource Factor In many of the companies, which are in very bad shape, the human resource is redundant, demoralized and surplus. The surplus manpower should be got rid of, morale should be restored and the quality of the manpower should be improved through training and recruitment of competent people for the key positions, if needed.

Production Facilities Modernization and other improvements of plant, equipments etc., are also often an important part of the turnaround management. Such measures helps to achieve uninterrupted production flow and better capacity utilization, quality improvement, and reduction in wastage, increase in productivity and cost reduction. Proper management of the plant and equipments like preventive maintenance etc., have also been found to be absent in several sick units.

Finance Management   Arranging additional finance, financial discipline, financial restructuring (described under Business Reorganization) etc., are usually an inevitable part of the turnaround management.

Product Mix Modification A number of turnaround management cases involve modification of the product mix. Unprofitable products may have to be dropped and new products may have to be introduced. Sometimes current products require quality improvement or some other modification. In some cases new models may have to be introduced.

Marketing Strategy   Absence of a proper marketing strategy is a major reason for the problems of several companies. An appropriate marketing strategy could help improve such cases. Even product mix modification may form a part of such strategy. Marketing strategy may also involve market modification like entering new markets or market segments, withdrawing from certain markets/segments, developing new customers etc.

Miscellaneous Turnaround management may also involve several measures like liquidation of assets which are not in use, closing down of some divisions or lines of business, restraints on emoluments of employees, better management of procurement of raw materials etc.

Corporate Restructuring

Corporate restructuring may involve expansion or contraction of the portfolio or changes in the nature and volume of business. Change in the business conditions may necessitate restructuring of the business.

Restructuring strategies involve divesting some businesses and acquiring other so as to put a whole new face on the company's business line up. Performing radical surgery on the group of businesses a company is in becomes an appealing strategy alternative when a diversified company's financial performance is being squeezed or eroded by:

- Too many businesses in slow-growth, declining, low-margin, or otherwise unattractive industries.
- Too many competitively weak businesses.
- Ongoing declines in the market shares of one or more major business units that are falling prey to more market-savvy competitors.
- An excessive debt burden with interest costs that eat deeply into profitability.
- Ill-chosen acquisitions that haven't lived up to expectations.

Over the past decade corporate restructuring has become a popular strategy at many diversified companies, especially those that had diversified broadly into many different industries and lines of business. One struggling diversified company over a two-year period divested four business units, closed down the operations of four others, and added 25 new lines of business units, closed down the operations of four others and added 25 new lines of business to its portfolio (16 through acquisition and 9 through internal start-up).

During Jack Welch's first four years as CEO of General Electrical (GE), assets: these divestitures, coupled with several important acquisitions, provided GE with 14 major business divisions and led to Welch's challenges to the managers of GE's divisions to become number

one or number two in their industry. Ten years after Welch became CEO, GE was a different company, having divested operations worth $9 billion, made new acquisitions totaling $ 24 billion, and cut its workforce by 100,00 people.   Then, during the 1990-2001 period, GE continued to reshuffle its business lineup, acquiring over 600 new companies including 108 in 1998 and 64 during a 90-day period in 1999. Most of the new acquisitions were in Europe, Asia, and Latin America and were aimed at transforming GE into truly global enterprise.

Forms Of Corporate Restructuring

The important forms of restructuring are:

- Mergers & Acquisitions
- Tender Offers
- Joint Ventures
- Divestitures
- Spin-Offs
- Corporate Control
- Changes in Ownership Structure
- Exchange Offers
- Share Repurchases
- Leveraged Buy-outs

Mergers and Acquisitions

An organization can expand through mergers and acquisitions. In a merger a company joins with the other company to form a new organization   Acquisitions occur between firms in the same basic industry.   For example Nestle acquired Richardson Vicks (both in Consumer Products). The acquiring firm not only obtains new product and markets but also confronts legal problems, structural deficiencies and diverse values.

Tender offers

Alternatively a public Tender Offer may be made to the shareholders for purchase of shares. These are easy only when the shareholding by the management and directors is comparatively very

low. In many Indian companies such shareholding is comparatively very low and, they are easily vulnerable to hostile takeovers.

Joint ventures

Joint ventures occur when an independent firm is created by at least two other firms. In an era of globalization, joint ventures have proved to be an invaluable strategy for companies looking for expansion opportunities globally.

Divestitures

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

Spins offs

Spin - off refers to creation of new legal entity by the parent company. The existing shareholder of the parent company will be allocated shares in the new entity on a prorata basis. Unlike in a divestiture, the parent company does not receive any payment in case of a spin-off.

Spin-offs are resorted mostly for the purpose of better focus on different businesses. The new entity can develop its own strategies for the development of its business. The original parent, on the other hand, can now concentrate more on its core businesses. There are two variations of Spin-off: Split-off and split-up.

In the case of a Split-off, a portion of existing shareholders receives stocks in a subsidiary in exchange for parent company stock.

In the case of a Split-up,   the entire firm is broken up in a series of spin-offs, so that the parent ceases to exist.

Corporate Control

There are several means of consolidating and enhancing corporate control. "Premium buy-backs represent the repurchase of a substantial stockholder's ownership interest at a premium above the market price (called greenmail). Often in connection with such buy-back, a standstill

agreement is written. This represents a voluntary contract in which the stockholder agrees not to make further attempts to take over the company in the future. When a standstill agreement is made without a buy-back, the substantial stockholder is simply agrees not to increase his or her ownership which presumably would put him or her in an effective control position.

Anti-takeover amendments seek to make an acquisition of the company more difficult or expensive. These include (1) supermajority voting provisions requiring a high percentage (for example, 80 percent) of stockholders to approve a merger, (2) staggered terms for directors which can delay change of control for a number of years, and (3) golden parachutes which award large termination payment to existing management if control of the firm is changed and management is terminated.

The proxy contest is a dubious way by which the management of a company seeks to undermine the control position of the 'incumbents' or existing board of directors. This is sought to be achieved by an outside group, referred to as dissidents or insurgents obtaining representation on the board of defectors of the company.

Changes in Ownership Structure

The ownership structure of a firm may be changed due to various reasons. As a firm grows the ownership structure may undergo change. For example, a sole proprietorship may be converted into a partnership, when a partnership firm grows and when more ownership capital needs to be brought in a private limited company may be formed.

Exchange Offers

Exchange offer may involve exchange of debt or preferred stock for common stock, or conversely, of common stock for more senior claims. Several cases of turnaround involve exchange of debt for equity. For example, the government loan to a public or joint sector unit may be converted into equity. Such a measure helps to reduce the interest burden and reduces cash outflow by loan repayment also.

Share Repurchase

Buy-back of shares by a company help tilt the management control. If the company buys back shares from those who hold substantial

shares it could tilt the control in favour of the promoters, although the percentage of shares they hold does not increase. Buy back of shares can also guard against take-overs to some extent. It can also help stabilize the share prices. A major objection to the buy back of shares is that it provides scope for manipulation of share prices by the management.

Buy-Outs

Management buy-out may involve the purchase of a division of a company or even a whole company by a new entity formed specifically for this purpose. When such a purchase is financed by large debt (i.e., highly leveraged) it is referred to as Leveraged buy-out(LBO). LBOs are very risky because of the high interest burden and loan repayment obligation. A default in repayment would aggravate the interest burden and cash flow problem. LBOs have landed many companies is serious crisis.

Types of Restructuring

1.   Portfolio restructuring
2.   Organizational restructuring
3.   Functional restructuring
4.   Financial restructuring

Portfolio Restructuring

Portfolio restructuring refers to change in the portfolio of businesses of the company. This has become widespread since the liberalization ushered in 1991. The increase in competition has provoked many companies to divest businesses in which they are not competitive and to concentrate on their core businesses in which they tend to grow by setting up new capacity and/or by acquisition. The dismantling of the entry barriers (de-licensing, de-reservation, liberalization of policy towards foreign technology and capital participation, etc.) has opened up enormous new opportunities for expanding the business.

Organizational Restructuring

Decentralization, de-layering or flattering and regrouping of activities are important organizational restructuring measures.
Changes in corporate strategy, such as portfolio strategy, sometimes call for organizational restructuring. Often, structure follows strategy.

Increase or decrease in activity levels, expansion or contraction of portfolio or functions etc. may cause modification of organizational structure.

Functional Restructuring

The AMA survey reveals that restructuring of corporate functions (marketing operations, personnel and finance) has been very significant both in the public and private sectors.

1. Marketing Function: The survey results show that the revamping of the marketing function meant the creating of a product management team, building up sales force, restructuring distribution system, and creating marketing research cell.

2. Financial Function: As far as the modifying of the financial function was concerned the emphasis was on improving the financial reporting system.

3. Operations . Restructuring of operations has been very significant. Re-engineering has become very popular. Technological up gradation has been an important concern. The acceptance of total quality management and the requirements of ISO 9000 certification etc. have had significant influence on operational restructuring.

4. Personnel Function. Personnel function was found to receive high priority in restructuring. The emphasis in both public and private sectors was on training and succession planning. The private sector also gave the creation of appropriate rewards and punishments for performance high priority. This was, however, not so in the case of the public sector.

Process and Barriers of Restructuring

According to the American Management Association (AMA) survey, the common process adopted by a majority of the responding units was decentralization of decision making. Retraining and redeployment of staff was the second most important process of corporate restructuring in the private sector.

Flattering of organizational hierarchies was found to be the next important restructuring process adopted by companies. This was of

greater importance in the private than in the public sector. The public sector has, because of rigidities due to its ownership, far less flexibility in this action. Along with these were measures to improve quality, creating strategic business units, and creating representation in more market segments. These processes are giving importance. Considered to be of even less importance in the public sector. Other factors revealed by the survey include going for joint ventures, overseas expansion, acquisition of synergistic businesses etc.

The major barrier to restructuring has been   the cost of doing it. In private sector lack of accountability for key performance indicators is also one reason. Some top managements lacked entrepreneurial skills. Salary structures based on seniority, which need to be changed to performance, related structures are the next immediate barriers. Contrary to general impressions problems of labour are not serious barriers to restructuring

Summary

Turnaround strategy is adopted when an organization is performing poorly but has not yet reached a critical stage. It involves getting rid of unprofitable products, pruning the workforce, training distribution outlets and seeking all the measures to make organization efficient. An organization may concentrate on focus only after successful turnaround. Industrial sickness is growing in India due to increasing competition, obsolete technology, poor product quality, lack of financial and administrative disciple and poor mgt. Turnaround is the most appropriate way of reviving sick units. Corporate restructuring strategies involve divesting some businesses and acquiring other so as to put a whole new face on the company's business line up. Four types of restructuring are found: portfolio restructuring, organizational restructuring, functional restructuring and financial restructuring. The forms of restructuring are :Mergers & Acquisitions, Tender Offers, Joint Ventures, Divestitures, Spin-Offs, Corporate Control, Changes in Ownership Structure, Exchange Offers, Share Repurchases and Leveraged Buy-outs.

Self -Assessment Questions

1. Define turnaround strategy and outline its significance.
2. What are the various indicators of industrial sickness?
3. What could be the major issues in turn around management?
4. Explain the process of turnaround management.
5. Explain any one model of turnaround.
6. What is corporate restructuring?
7. Discuss the different forms of restructuring
8. Explain the process and barriers to restructuring
9. Examine the different types of restructuring with examples
10. Explain: (i) leveraged by outs (ii) Spin offs (iii) Divestitutes

Activities

1. Visit the state Finance Corporation. Discuss with the executives and find out how the organization could turnaround sick units.
2. Identify a sick unit and interview its manages about the reasons for its   sickness
3. Visit the website of Board for Industrial Financial Reconstruction (BIFR) and examine their successful cases of turnaround.

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Lesson 13 - Mergers and Acquisitions

Lesson Outline

- ➤ Introduction
- ➤ Corporate growth strategies
- ➤ Concept and types of mergers
- ➤ Mergers and acquisitions in India
- ➤ International scenario
- ➤ Merger motives
- ➤ Screening and valuation process
- ➤ Summary
- ➤ Self Assessment questions
- ➤ Activities
- ➤ References

Learning Objectives

Improve valuation theory(last sub head)

After reading this lesson you should be able to

- ➤ Understand corporate growth through mergers and acquisitions
- ➤ Describe the types of mergers
- ➤ Discuss Indian and international examples of mergers and acquisitions
- ➤ Explain why mergers takes place
- ➤ Describe the screening and valuation processes of mergers and acquisitions

Introduction

Mergers and acquisitions as external growth strategies have been the regular feature of corporate enterprises in all developed countries. The largest number of mergers took place at the turn of the century, which transformed many industries. The Indian business environment

has altered radically since 1991 with the changes in economic policies. The Indian corporate though benefited due to decontrol and deregulation has been threatened by hostile takeovers. Pharmaceuticals and ad agencies are the primary targets of merger and acquisitions in India. Family businesses are finding it hard to survive with low profiles and credit availability.

Corporate Growth Strategies

Growth can be achieved by different means. One approach is form within and another is from outside –that is combinations. Different forms of combinations are:

1. *Amalgamation/Merger* Merger take place when there is a combination of two or more organizations. Merger does create a new corporation.

2. *Acquisition/takeovers* One Company acquires another company's controlling interest. The acquired company operates as a separate division or subsidiary by offering cash or securities in exchange for majority of shares of another company.

3. *Sales of Assets* A company can sell its assets to another and cease to exist.

4. *Holding company acquisition* This is a quasi merger. Either the total or majority of a firm's stock will be acquired. The purpose is only management and control of other.

Concept and Types of Mergers

A merger is a combination (other terms used: amalgamation, consolidation, or integration) of two or more organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organizations are dissolved, and the assets and liabilities are combined and new stock is issued. In mergers, all the combining firms relinquish their independence and cooperate, resulting in common cooperation.

For the organization, which acquires another, it is an acquisition. For the organization, which is acquired, it is a merger. If both organizations dissolve their identity to create a new organization, it is consolidation More time is taken for merger than acquisition. Mergers are three types: horizontal mergers, vertical mergers and concentric mergers.

1.   Horizontal mergers take place when there is a combination of two or more organizations in the same business, or of organizations engaged in certain aspects of the production or marketing process.

For instance a company making footwear combines with another retailer in the same business.

2.   Vertical mergers take place when there is a combination of two or more organizations not necessarily in the same business, which complement either in terms of supply of materials (inputs) or marketing of goods and services (outputs).

For instance a footwear company combines with a leather tannery or with a chain of she retail stores.

3.   Concentric mergers take place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups, or the alternative technologies used.

A footwear company combining with a hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, and so on.

4.   Conglomerate mergers take place when there is a combination of two more organizations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used. A foot wear company combining with a pharmaceuticals firm.

Mergers carried out in reverse are known as demergers or spin-offs. Demerger involves spinning off an unrelated business/division in a diversified company into a stand-alone company along with a free distribution of its shares to the existing shareholders of the original company.

There are a few cases of demergers in India namely the demerger of Hoechst Schering Agrevo Ltd. From Hoeschst India Ltd, Ciba Specialty from Hindustan Ciba Geigy Ltd., from Sandoz renamed as Chariant India, and Aptech from Apple Industries Ltd.

Mergers and Acquisitions in India

Mergers and acquisitions in India are as given below.

The Murugappa group and RPG group have benefited of merger and acquisitions by becoming conglomerates of diverse businesses into one group. There are several examples of mergers in the Indian corporate world, such as, Polyolefin Industries with NOCIL, TVS Whirlpool Ltd with Whirlphool of India ltd., Sandoz (India) Ltd with Hindustan Ciba Geigy Ltd., and Shiva Soaps and Detergents Ltd with Nirma Ltd. Other examples are:

- Spartek acquired Neycer India a sick company under BIFR in 1985. It acquired Styles India in 1998.

- Godrej soaps acquired Transelektra Domestic Products Ltd (TDPL) and formed Godrej Hicone. TDPL has good brand equity and wide distribution network. It wanted a partner with strong finance, managment and systems competencies

- Tata Telecom merged with Tata Keltron in 1995. Tata Keltron was named Tatafone and made it profitable which was earlier with BIFR

- Sterlite communications & Sterlite industries merged to cross Rs, 1,000 crore turnover mark in June 1996.

Murugappa group: Growth of Acquisition 1980-95

Company	Products
EID Parry	Fertilizers, sugar, ceramics confectionery
Coromandal Fertilizers	Fertilizers
Bharat Pulverizing Mills	Pesticides
Pugalur syars	sugar
Falcon Gulf ceramics	Sanitayware
Parma Agro	Plantation
Wedt (India)	Cutting tools
Press Metal corp.	Metal sections
Satavahara Chains	chains
Sterling Abrasives	Abrasives
Eastern Abrasives	Abrasives
Cut fast Abrasives	Abrasives

RPG has grown from Rs 80 crore in 1979-80 to Rs 5,600 crore in 1996. RPG Groups acquisitions include cables, tyres, transmission and electronics. The list includes

- Asian cables
- Ceat Ltd
- Calcutta Electric Supply Corporation Ltd
- Carbon & Chemicals industries

UB group acquired

- Tamil channel GEC (Vijay TV)
- Berger Jenson & Nicholson UK with manufacturing base in 21 countries
- Sold away petrochemicals to SPIC
- Acquired Best & Crompton

The other groups include Shaw Wallace, Rajarathinam group, Manu Chabbria group, JVG, etc MA Chidambaram group, BPL, Sri ram group, Videocan, Maxworth Orchards,

HLL growth map is as given below

1992—Acquires Kothari foods
1993—Dollops from Cadburys
      Kissan from UB groups &
      Brooke Bond & Lipton (BBLIL)
1993—Merges with TOMCO
1994—Alliance with Quality ice cream
1995—Acquired Milk food
1995—Alliance with Lakme to form Lakme lever Ltd
    - Ponds

International Scenario

We will now survey different nations to have a feel of mergers and acquisitions taking place globally.

USA

The US government promotes free competition. However M & A result in monopolistic situations where barriers are created for entry of small firms. The Sherman Anti Trust Act of 1890 restricts building up

monopoly beyond a market share of 75%. US law prohibits horizontal mergers. In the US 75% of the M&As are failure while in UK 8 out of 9 is failures. In US M&As resulted in legal battles. Huge legal costs and waste of time are common.

Japan

Adopted from US and revised in 1977, the Japanese policy allows break up of powers to companies with a large market share. However, the extent of litigation is low.

Europe

Market domination is restricted in Rome at 40%, in UK at 25% and in West Germany at 33%. The Federal cartel office may divorce a merger after one year in West Germany. Tax levies on premium values above books values are there. In UK the Monopolies & Mergers Commission tends to delay and restrict creation of monopolies. The Restrictive Trade Practices Act of 1956 & Company Fair Trading Act of 1975 and Consolidating Act of 1975 control the power of concentrated private companies. In 1978, it was reviewed that concentration is required for international trade in UK

In France, Control of merger started in 1977. Mergers (horizontal) causing market share of 40% and mergers with companies of a market share of over 25% are allowed when advantages out weigh disadvantages. Take over bids are to be submitted to bankers, chamber syndicates and stock brokers appointed by the ministry of economy. The proposals should be published in newspapers and must undergo extended legal formalities. The share holders should be informed and the stock movements regulated.

India

The companies Act brought the system misused by British to an end in 1956. The Government also controls the number and remuneration of Board of Directors. The companies are restricted in loans given to other companies to avoid interlocking of funds.

The MRTP Act of 1970 and FERA of 1973 impose control in the conduct of companies. MRTP act restricts concentration of economic power and encourages free trade. The asset limit for MRTP firms is raised to   Rs.1000 million.

FERA gives guidelines for foreign business in India. Permissible foreign shareholding is 74% and in other manufacturing items' like construction, consultancy & non tea plantation the limit is 40%.

Merger Motives

Sellers opt for mergers and acquisitions to reduce taxes, to diversify, to restrict working capital financing, for technological synergies, when worthy successor is not there and due to the inability to cope with competition. Buyers go for mergers to acquire new product or capacities or permanent, or more synergy, to achieve economies of scale, when outside capital is available; there is more control of patents and tax advantages.

Organizations opt for merges with the following motives.

- Improving economies of scale
- Gaining managerial expertise
- Market supremacy
- Acquiring a new product or brand name
- Diversifying the Portfolio
- Reducing risk and borrowing costs
- Taxation or investment incentives

Screening and Valuation Process

A Taker over company scans the environment to find out the right candidate for take over. The process involves following steps.

- Identification of industries
- Selection of sectors
- Choosing companies (which are 5 to 10% of size bidding companies)
- Finding cost of acquisition and returns: compare candidates with respect to ROIs.
- Ranking of candidates
- Identify good candidate(s)

After going through the screening process the fooling considerations merit attention.

- Funds availability
- Likely positive synergies
- Negative synergies an weaknesses
- Appropriate timing
- Availability of required management style.

Next step is valuation. Valuation determines the worth or value of the M & A. Mergers & Acquisitions involve share of stocks of different companies and exchange. The valuation procedures are similar to the capital budgeting procedures.

(1)   Valuation by P/E Ratio.

$$= \frac{\text{Market price per share}}{\text{Net earnings after tax per share}}$$

If market price of a share is Rs 40/- and EPS is Rs 2/- the PE ratio = 40/2=20.

This means this company would have to sustain profit at this level for 20 years to pay back its current price. The differences in P/E ratio for different companies are attributed to differences in the following.

- Growth rate of a company
- Risk associated with investment
- Competition & environment

Essential commodities have shorter business cycles and more uniform earning compared to sectors like heavy Engineering which are linked with growth of the economy.

(2)   Earnings Per Share (EPS)

Compare the EPS of acquirer and acquired and two together. Refer the balance sheet and profit and loss account for sources and uses of funds.

(3) Divest loss making operations

The acquirers should divest loss making subsidiaries and reduce cash drain to invest in attractive ventures. Unwanted assets should be disposed off at book value.

(4) Use ratio analysis: Calculate key ratios

(a) Current ratio = Current Assets /Current liabilities

This should be checked with industry's average to know if it is on the higher side. If high, the individual assets and liabilities should be checked. If current assets are high excess money will be with debtors or stocks may be high. This should be checked with industry's average. Reduce current liability like bank over draft and working capital loans to save on interest charges.

(b) Level of stock (in months) = (Stocks/Cost of goods sold) x 12

If the firm's level of stock is 8 months and industry's average is 6 months then the stock level should be reduced. The funds should be deployed for better purposes.

(c) Average age of debtors (in days) = (Debtors / Sales) x 365

If the acquiring company's average age of debtors is low follow the same policy of the acquired one.

(d) Revise Balance sheet and profit & loss account-

The new EPS after merger should be better for the new company.

(5) Incorporate growth and expectation rates

Prepare proforma statements with expected growth rates.

(6) Market value of assets: Find the current market value of assets. It is a good measure of strength.

(7) Replacement value (RV) of assets

Replacement cost is better than historical cost particularly in an inflationary economy.

Replacement value of an asset = 1- Age of Assets/ Total Economic life of Asset) x Current value of asset.

Self -Assessment Questions

1. Explain the concept of mergers and acquisitions.
2. Describe the process of merger as a method of corporate growth
3. Examine the different types of mergers and acquisitions
4. Describe the screening process of mergers and acquisitions
5. Evaluate and assess the suitability of a merger proposal.
6. Why do sellers opt for mergers
7. Examine why buyers opt for mergers
8. Explain the international scenario of mergers and acquisitions

Activities

1. Visit the website of Hindustan Lever Ltd and list the companies that are merged with it. Also evaluate the reasons for the mergers.
2. Examine how NRIs like Lakhsmi Mittal have additional advantages to work out mergers and acquisitions in India than their Indian counterparts.

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Lesson 14 - Functional Strategies

Lesson Outline

- ➤ Introduction
- ➤ Functional strategies
- ➤ R & D strategy
- ➤ Operation strategy
- ➤ Logistics /supply chain strategy
- ➤ Information systems strategy
- ➤ Coordination of strategies
- ➤ Summary
- ➤ Self Assessment questions
- ➤ Activities
- ➤ References

Learning Objectives

After reading this lesson you should be able to

- ➤ Examine the characteristics of functional strategies
- ➤ Understand functional strategies in R&D and operations
- ➤ Coordinate the strategies for maximum effectiveness

Introduction

Strategic management process involves determining appropriate courses of action for achieving objectives. In the process of formulation it is necessary to gear the organization in such a way that all the functional areas are synchronized viz, finance, marketing, human resources and operations. Off late logistics is also included as a key functional area. Further the functional strategies must cover all the three levels of management – top, middle and lower. It is in this context that we need to study functional strategies in detail.

Functional Strategies

Functional experts like R&D, operations, finance, marketing and human resources devise functional strategies. The characteristics of functional strategies are as follows.

➤ Short term
➤ They provide short-term operational details for achieving long-term objectives systematically.
➤ Limited scope

Functional strategy deals with a relatively restricted plan, which provides the objectives for a specific function, for the allocation of resources among different operations within that functional area and for enabling coordination between them for an optimal contribution to the achievement of the business-and corporate-level objectives.

Derivative

Functional strategies are derived from business and corporate strategies. Functional strategies specify the grand plans in different functional areas in time horizons and help operationalize the strategies. They cascade down the hierarchy and percolate from corporate strategies to divisional strategies and further down to departmental strategies. Hindustan Lever Ltd's functional strategies at the above three levels can be depicted as follows in Figure 14-1.
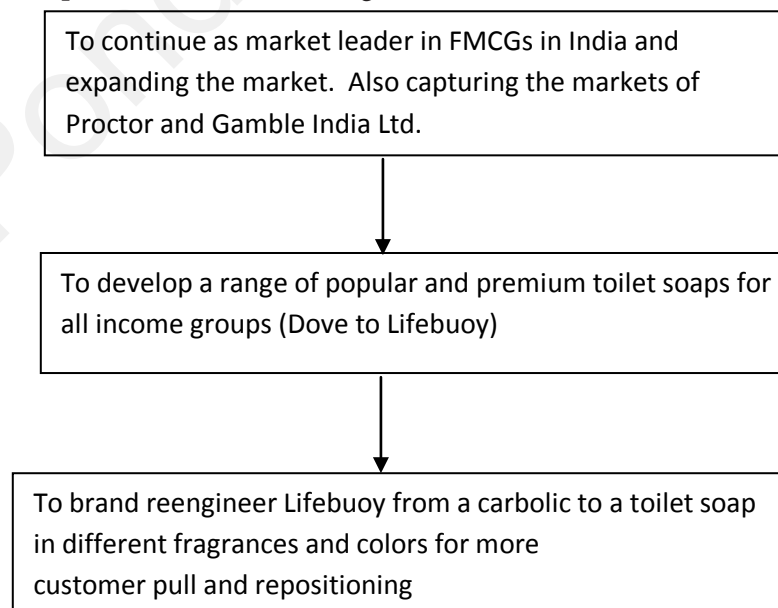
Figure 14-1 Derivative nature of functional strategy

R & D Strategy

New technologies may make the business obsolete like the way Photostat technology rooted out the carbon paper technology. Software and pharmaceutical companies need good R & D strategies for survival itself.

Motorola recently announced that it had figured out how to combine silicon and gallium arsenide in one semiconductor chip. The company said this discovery will greatly reduce manufacturing process costs and result in smaller, faster products. The discovery is expected to yield products by the end of 2003 and may lead to cell phones as small as shirt buttons. Intel and Microsoft are continuing to increase their expenditures on research and development. Intel spent just over $4 billion on R&D in 2001, nearly 15 percent of sales, while Microsoft spent $4.8 billion, up 37 percent from two years earlier. Both companies expect to increase R&D spending an additional $500 million in 2002. Intel is developing more powerful and smaller chips to power computers, while Microsoft is improving its Windows XP operating system. In India we can take the example of companies like Dr. Reddy's Laboratories who are spending huge amounts for developing new drugs and vaccine.

But the disadvantage of R & D strategy is the high costs and time involved, also the risk associated with. According to a finding an average of 30 to 35 percent of new products fail after being put on the market, so innovation strategies –those that focus heavily on developing new products-can be very risky. For this reason, many organizations use imitation strategies, that is, they rapidly copy new competitive products that are doing well.

A number of Japanese electronics companies were quite successful in copying American technology and, by avoiding many R&D costs, improved their competitive positions significantly.

Operations Strategy

This strategy adds value to the raw materials to create a product or service. This value addition should be cost effective, fast and without quality rejects or reworks. The emphasis should be on cost-reduction while enhancing quality. Areas like safety, breakdown, downtime,

inventory control scheduling etc. should be adequately covered with policies and strategies at functional level.

Table 14-1: Categories of Strategy Decisions in Manufacturing Operations

1. **Capacity** – amount, timing, type

2. **Facilities** – size, location, specialization

3. **Technology** – equipment, automation, linkages

4. **Vertical integration** – direction, extent, balance

5. **Work force** – skill level, wage polices, employment security

6. **Quality** – defect prevention, monitoring, intervention

7. **Production planning materials control** – sourcing polices, centralization, decision rules

8. **Organization** – structure, control/reward systems, role of staff groups.

(a)   Inventories

India is known for high cost of inventories. Companies spend huge amounts on storage and warehousing in this country unlike countries like Japan which follow 'Just in time (JIT) in production and operations.

Raw materials arrive eight hours before they are put in process for making finished goods in Japan. This is true with M/S Toshiba of Japan, where they can get the required plates from just across the waters from M/S Nippon steels unlike many companies in India who have to order thick plates at least eight to ten months in advance.

(b)   Training to workers

Many Japanese manufacturers have also provided extensive training and cross training of their workers so that they will have multi- skilled workers. This versatile work force, coupled with plant arrangements and equipment that can easily changed over from one product to another, provides greater flexibility without a significant increase in cost.

(c)   Low cost materials by strategic location

Regarding procurement of materials, strategies on right qualities of material, at the right qualities of material, at the right time and price, the number of sources, their reliability and price patterns analysis and decision, vendor relationships, forward buying etc. must be chalked down to enable managers to work according to them.

Industries like Bharat Heavy Plates and Vessels which are strategically located closer to steel plant in Visakhapatnam in Andhra Pradesh have the advantage to get raw materials like steel and coke with less carrying cost and storage cost. Industries located closer to ports like Chennai, Mumbai and Calcutta have also strategic advantage of location not only for getting raw material but also for shipping finished products.

(d)   Product Design – Technology and Marketing Concerns

The product, or output, desired from the operations system will certainly affect the type of inputs needed and the capabilities that must be available to transform the inputs into the desired goods or services. As the product is designed, a cost-benefit evaluation should be performed, taking into account the kind and amount of materials, labour and processing equipment that each alternative design will require.

The company must also recognize that the potential consumer will also perform some sort of cost-benefit evaluation before deciding whether to purchase the product. Some processes and materials are more expensive and should be used only if the functions of the product make them necessary or the aesthetic appeal of the results justifies the expense.

Myriad alternative designs for a product are usually possible, and alternative production methods may be possible even after the product is designed. Production engineers often serve as advisers to designers, helping them develop product designs that are reasonably economical to produce.

Here is an example of retail firm design of products and operations for consumer acceptance The Loft, the first of its kind multi brand footwear store in India, is based in Mumbai. The Loft is a one-stop shop for anyone who is looking for a good pair of footwear. It has found favour with many first time, visitors, thanks to its unique services, intensely

trained sales men who understand shoes and customer preferences intimately and all that it takes to give the right footwear to the discerning customer.

Spread over 18,000 sq.ft of space, The Loft stocks almost 100 plus brands, has facilities like pedicure, cobbler, and jogging track. It also boasts of the biggest socks shop which houses a staggering 15,000 pairs of stocks from over ten brands and all price points. The Loft also stocks numerous footwear accessories like, shoe polishes, shoe trees, brushes, shoe cleaners, shoe shiners, insoles, laces, shoe norms, shoe bags etc. In short, The Loft is the destination if one is looking for anything in footwear or foot care. (Source: www.thelofitnindia.cpm)

Information Systems Strategy

Corporations are increasingly adopting information system strategies in that they are turning to information systems technology to provide business units with competitive advantage.

Multinational corporations are finding that the use of a sophisticated intranet for the use of its employees allows them to practice follow – the –sun management, in which project team members living in one country can pass their work to team members in another country in which the work day is just beginning. Thus, night shifts are no longer needed.

The development of instant translation software is also enabling workers to have online communication with coworkers in other countries who use a different language. Lotus Translation Services for Same time is a Java –based application that can deliver translated text during a chart session or an instant in 17 languages. Software, e-lingo (www.e-lingo. com) offers a multilingual search function and Web surfing as well as text and e-mail translation.

The use of information systems for improving competitive advantage has become common. The case of Wal-Mart described in Exhibit 14-1 exemplify this argument.

Exhibit 14-1 Wal-Mart Information Strategy

In 1989, Wal-Mart started building a huge database of customer information in its data warehouse systems located at its headquarters at Bentonville, Arkansas. The company collected sales and customer

related information for each store and fed that information into the warehouse systems.

In the early 1990s, Wal-Mart continued to employ new technologies to facilitate better analysis of customer data as they became available. Wal-mart's IT experts used 3-D visualization tools to make accurate estimates of products most likely to be bought by customers on the basis of parameters such as ethnicity, geographic location, weather patterns, local sports affiliations, and around 10,000 other varied parameters. Wal-Mart made around 90% of its stock replenishments every month, based on the analysis of customer data generated through the data warehouse.

To make shopping at Wal-Mart a pleasant experience, Wal-Mart installed customer information kiosks in its stores in 1996. The kiosks helped customers find out the price of any product and get a brief description of it. In 1996, Wal-Mart launched its website – www.walmart.com - to provide information to its customers on all the products it stocked and to enable online sales.

IT played an important role in improving the efficiency of operations at Wal-Mart. The benefits which accrued were passed on to customers, as per Wal-Mart's policy. Wal-Mart's annual report 1999 said, "The first and the most important thing about Wal-Mart's information systems is precisely that the customer's needs come first. By using technology to reduce inventory, expenses and shrinkage, we can create lower prices for our customers and better returns for our shareholders".

At the dawn of the new millennium, Wal-Mart was one of the world's largest companies, with revenues of $165 bn in fiscal 2000. Wal-Mart's 'store of the community' program made effective use of bar code technology and advanced data mining techniques. The 'store of the community' program was a very successful initiative by Wal-Mart, which contributed to increased customer loyalty. By 2003, Wal-Mart was the world's largest company, with revenues in fiscal 2002 amounting.

Logistics /Supply Chain Strategy

Logistics/supply chain strategy deals with the flow of products into and out of the manufacturing process. Three trends are evident.

- › Centralization,
- › Outsourcing, and
- › Use of the Internet.

To gain logistical synergies a cross business unit, corporations began centralizing logistics in the headquarters group. This centralized logistics group usually contains specialists with expertise in different transportation modes such as rail or trucking. They work to aggregate shipping volumes across the entire corporation to gain better contracts with shippers. Companies like Amoco Chemical, Georgia – Pacific, Marriott, and Union Carbide view the logistics function as an important way to differentiate themselves from the competition, to add value, and to reduce costs.

May companies have found that outsourcing of logistics reduces costs and improves delivery time. Many companies are using the Internet to simplify their logistical system. For example, Ace Hardware created an online system for its retailers and suppliers.

Coordination

The functional strategies can be effective only when they are aligned with corporate strategies and integrated with one another. One must understand that strategies must be coordinated to have a vertical fit which aligns the functional areas. Simultaneously, horizontal fit leads to alignment of activities. Table 14-2 shows the impact of strategy elements on operations and R&D management.

Table 14-2 Impact of Strategy Elements on Operation and R&D Management

S.No	Elements of Strategy	Operations management	R&D Management
1.	Compete as low – cost provider of goods or services	Requires longer production runs and fewer product changes Requires special – purpose equipment and facilities	Research on cheap input alternatives Low cost processing equipments
2.	Compete as high quality provider Requires more precise equipment, which is more expensive Requires highly skilled workers, necessitating higher wages and greater training efforts	Requires more quality –assurance effort and higher operating cost	Quality inputs High tech, high quality processes
3.	Strive for absolute growth	Requires accepting some projects or products with lower marginal value, which reduces ROI	New product alternatives
4.	Maintain reserve capacity for flexibility	Requires capital investment in idle capacity	-
5.	Consolidate processing (Centralize)	Locate near one major customer or supplier	Technology improvements

6.	Disperse processing of service (Decentral-ize)	Requires more complex coordination network: perhaps expensive data transmission and duplication of some personnel and equipment at each location. If each location produces one product in the line, then other products still must be transported to be available at all locations. If each location specializes in a type of component for all products, the company is vulnerable to strike, fire, flood, etc. If each location provides total product line, then economies of scale may not be realized	Product improvements and differentiation

Summary

Functional strategies give more clarity to corporate and business level strategies and operate at third level. They provide specific plans for achieving objectives with optimal contribution for organizational advancement. Operational strategies take into account production system, operations planning and control and R & D. R & D strategies aim at innovation and new product development. Logistics minimize transportation and delay costs. Information systems provide effective communication and knowledge sharing opportunities. One must understand that strategies must be coordinated to have a vertical fit which aligns the functional areas. Simultaneously horizontal fit leads to alignment of

activities. Operational implementation adopted by a firm achieves more effectiveness and perform value-creating opportunities.

Self -Assessment Questions

1. Outline the various functional strategies and examine their significance in the process of strategic management.

2. Review the major R & D strategies of firms with examples.

3. What are the concerns of operations plans and policies?

4. Examine the impact of corporate strategies on the operational management of a firm.

5. Why do you think production / operations managers often are not directly involved in strategy - formulation activities? Why can this be a major organization weakness?

6. How can you coordinate operations and R&S strategies?

7. What is the significance of information systems strategy?

8. How can logistics strategy help a firm achieve its goals?

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UNIT- IV

Functional Strategies

Lesson 15 - Finance Marketing, Human Resource, Management Information Systems and logistics

Lesson Outline

- › Introduction
- › Functional Strategies
- › Marketing Strategies
  - • Marketing Warfare
  - • Promotion Strategies
- › Finance Strategies
- › Hr Strategies
- › Information Systems Strategies
- › Logistics
- › Strategies To Avoid
- › Selecting The Best Strategy

Learning Objectives

After reading this lesson you should be able to

- › Synchronies the functional strategies for organizational effectiveness
- › Understand and translate functional strategy at corporate level to action plans.
- › Examine the synergies among functional strategies

Functional Strategies are devised by specialist in each functional area of business. They spell out the spell out the specific tasks that must be performed to implement business strategy. Companies may vary in

organizational responsibilities and also devise varieties of functional strategies.

Marketing specialists focus on determining the appropriate markets for business offerings and on developing effective marketing mixes. The marketing mix includes four strategic elements: price, product, promotion, and channels of distribution.

Financial specialists are responsible for forecasting and financial planning evaluating investment proposals, securing financing for various investments, and controlling financial resources. Financial specialists contribute to strategy formulation by assessing the potential profit impact of various strategic alternatives and evaluating the financial condition of the business.

Marketing Strategies—Competition Based

Marketers have to evolve strategies to fight competition, to gain and retain market shares. The right tool for analyzing market situation is SWOT analysis. Based on the SWOT analysis competitors can be classified as follows:

1. Based on the ability to engage and sustain warfare—strong and weak

2. Based on the percentage of market share—close and distant held by a competitor

These competitors can, in turn, be assigned following competitive positions.

➤ Market leader—the firm with largest market share and strong in designing and implementation plans.

➤ Market challenger—close and strong competitors to market leader, who aggressively or mildly challenge him

➤ Market follower—the distant and weak competitor who is content in following leaders and challenger.

➤ Market Nicher—the independent, non-fighter, who carves his niche for peaceful and profitable specialized operations.

Market shares of the competitive firms are:

40%	30%	20%	10%
Leader	challenger	Follower	Nicher

What are the moves of the competitors? Are they preemptive or predatory? Are they defensive or offensive? Companies in different competitive positions work different strategies. The possible moves of a leader, challenger, follower and nicher are:

> Grow strong—become invincible
> Defend—develop protection against attack
> Offend—weaken or destroy competitor
> Play safe—select less competitive areas and cultivate.

Leader

Expansion strategy

- Market penetration strategy
  - Increase use of the product
  - Find new uses for the product
- Market development strategy
  - Convert non-users to users
  - Find new markets in other places
- Product development strategies
  - Create new products/services
  - Modify existing products

Defending strategy

• Continuous innovation and quality platform

Position defense	- Product—Line complete
Flanking defense	- Varieties of Variants
Preemptive defense	- Price reduction through
	sales promotion

Counter offensive defense - Match with ads and others

at tacks

    Mobile defense   - Concentrate in successful markets

Contraction defense   - Prune brands

Market Challenger

A market challenger may choose to attack

- › The leader
- › The followers
- › The nichers.

By pass attack — Diversifying into unrelated products

Diversifying into new geographic markets

Leap frogging into new technologies

Frontal attack — Price and promotion aggressiveness

Flank attack — find gaps in product line and set up

variety competition Encirclement

attack - Wide range of products with heavy

advertising and promotion

Guerilla attack — New product or promotions of short

life cycle with marketing blitzkrieg

Market follower

The options are:

Following closely — imitate immediately

Following at a distance — slow imitation

Following selectively — imitation in select areas

The companies are generally small in size. Some companies in the unorganized sector may follow 'fakes' strategy.

Market—Nicher

- › The niche is sufficient size in size and purchasing power to be profitable.

- › The niche has growth potential

- › The niche is of negligible interest to major competitors

- › The firm has the required skills and resources to serve the niche effectively

- › The firm can defend itself against and attacking major competitor through the customer good will it has built up.

Computer companies are among the newest converts to the "end user" type of niche marketing, but they call it vertical marketing. For years, computer fought to sell general hardware and software systems horizontally across many markets, and the price battles got rougher. Smaller companies started to specialize by vertical slices—law firms, medical practices, banks, etc,--studying the specific hardware and software needs of their target group and designing high-value added products that had a competitive advantage over more general products. Their sales forces were trained to understand and service the particular vertical market. Computer companies also worked with independent value-added resellers (VARS), who customized the computer hardware and software for individual clients or customer segments and earned a price premium in the process.

Designing a Promotion Strategy

There are many successful companies which proved professional with faster growth due to high power promotion. A good example is reliance group in India. It has built brand loyalty with a different mix of a media.

Reliance has a high budget promotion for all its textile brands. It has specific promotion strategies for suiting, dress materials and saris. "ONLY VIMAL" 'ONLY' concept in the promotion made Reliance a super success. Effective media selection and 80% budget for press and after 1978 more focus on TV ads made their promotion No.1. Miss Universe Contest' 'Oscar awards nite' etc were sponsored including the 'Reliance cup'

Choosing Pull or Push Strategy for sales promotion:

(a) *Push strategy* – A promotion strategy mainly aimed at channels of distribution is called a push strategy. Marketers promote their products heavily among distributors wholesalers and retailers. Retailer promotes to customers. This includes trade shows, personal selling and contests.

Producer   Distributor   Wholesaler   Retailer   Consumer

(b) *Pull Strategy* – Here promotion is directed towards ultimate consumers. Manufacture tries to stimulate demand and attracts consumers to buy his product.

Manufacturer Consumer

This includes advertising, publicity and sales promotion like discounts, free goods and contests.

Tools of Sales Promotion

The most commonly used sales promotion tools in India are

(i)   Prize schemes

A prize scheme is designed for both the public and the dealers. Sales competition is arranged, prizes are announced or special offers are made.

(ii)   Trade Fairs and Exhibitions

These exhibitions attract a lot of people especially from rural areas who find them as a very convenient place to make their purchases of consumer goods.   Many state Governments announce relief or concession in sales Tax; for example, a passenger car can be purchased in Gwalior Mela without payment of any sales tax.

(iii)   Free Samples

Free samples are generally used to introduce a new product and as a sales tool to attract the attention of prospects, not only much time is saved, but it also eliminates the need for inspection or testing of goods by the buyer.

(iv)   Correspondence

Sending letters or brochures. A specialized correspondence section can communicate very effectively with prospects as well as potential customers.

(v)   Catalogues

Catalogues are largely used when a firm manufactures different types of products which are distinguished by size, shape and other features. The following purpose can be served by catalogues:

- To get orders

- To make the customers aware about the specifications

- To provide detailed information

- To solicit product sales

(vi)   Advertising Novelties

Small, interesting, or personally useful items, etc., can be used for sales promotion. To be effective an advertising novelty should meet the following requirements:

(a)   It should not be a high cost item

(b)   The novelty item should be usually eye-catching

(c)   The item should be useful.

(vii)   Entertainment of Customers

Entertainment of customers acts as a primary promotional device. But when the product is sold on a routine basis, customer entertainment is neither necessary nor justified.

(viii)   Sales Contests

The main aim of sales contests is to motivate the sales personnel and increase sales, and bring more profit to the company. Under this scheme special incentives in the form of prizes or awards are offered.

(ix)   Price—off

A price-off is simply a reduction in the price of the product to increase sales and is very often used in introducing a new product. Price-offs should generally be considered:

- For introducing new brands or existing brands with new uses

- For products/brands which are already doing better than the competing brands

- In conjunction with sales activities aimed at increasing retail distribution

Henkel, the German toiletries major, gave Rs. 10 off on a Rs. 40 pack when it introduced Pril scouring concentrate

(x)   Refunds

It is an offer made by a manufacturer to give back a certain amount of money to a consumer.

(xi)   Point-of-sales materials

The POS display persuades reminds and gives details to the consumers about a specific brand. Companies using this method are Procter and Gamble, Nestle and Parle.

(xii) Boosters for Dealers

In a bid to reduce its mounting inventories and boost the sagging morale of its dealers, Telco offered a 2 per cent discount to dealers on purchase of a truck if payment is made up-front. Also confessional interest rates were offered to expedite payments.

Strategy for new products

Train salesmen about the product, familiarize with the market segment and integrate advertising & sales promotion

  i.   Let the dealer be given details of the new product, his margins and promotion support

  ii. Ensure sufficient quantity to get orders from dealers

  iii. Deliver the merchandise at the retail outlets

  iv. Arrange to advertise in media

  v.   Sample the product door to door with coupons

Promotion strategy should be focused on

(i)   Sales force promotion

  - Bonuses
  - Sales rallies
  - Best salesman award

(ii)   Trade promotion

  - Discounts
  - Displays
  - Force good
  - Best dealer awards

(iii) Consumer promotion

  - Point of purchase promotion
  - Free samples
  - Cash discounts
  - Free trials
  - Demonstrations

- Prizes
- Contests

Promotion Strategy for Industrial Products

Industrial products require different promotion strategies due to varied price range

(a)   Documentation

Documentation is essential for improving the marketing effectiveness of a company. Documentation may include;

- Product literature
- Selection and performance charts
- Technical manuals
- Operation manuals
- Installation manuals
- Price lists

(b)   Working models

Many firms supply the working or cutout models of their products to the dealers for display. This helps the customer understand the product easily. In addition, the companies also supply photographs and other display material.

(c)   Exhibitions

Participation in a technical exhibition gives a higher visibility to a company. It is a meeting place for sellers and the buyers. Participation in India Machine Tools Exhibition (IMTEX). Hanover (Germany) Engineering Trade Fair and many other such exhibitions has proved beneficial to many engineering units.

Financial Strategy

May types of financial analyses are used in strategic decision making these include ration analysis, break –even analysis and not present value analysis. Financial strategies are needed to

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.

2. To lease or buy fixed assets.

3. To determine an appropriate dividend payout ration.

4. To use LIFO (Last –in, First –out), FIFO (First-in, First – out), or a market-value accounting approach.

5. To extend the time of accounts receivable.

6. To establish a certain percentage discount on accounts within a specified period of time.

7. To determine the amount of cash that should be kept on hand.

1.   Ratio Analysis

(i) Ration analysis has been accepted as an effective tool of financial analysis. The systematic use of ratios leads to interpreting financial statements of a business enterprise. Ration is expressed in terms of proportion or percentage relationship between two sets of phenomena. For instance, the proportion (ratio) of gross profit to sale.

Analysis of financial ratios as a tool of strategic analysis may be utilized in two ways: Firstly – an analyst may compare the present ratio with the past and the expected future. For instance, the current ratio i.e. the ratio of current assets to current liabilities – for the present year may be compared with current ratio of the preceding year to ascertain the level of improvement or deterioration.

This trend analysis may be the pace setter or the eye opener for future performance of the organization. Secondly – ratios may trend analysis may be the pace setter or the eye opener for future performance of the organization. Secondly – ratios may also be utilized to compare the performance of the firm with an identical firm in the same industry or the other industry. This comparison will provide the basis of assessing the strength and weaknesses of other competitors in the market.

Ratios may be classified under four broad heads:

1. Liquidity
2. Activity
3. Profitability
4. Capital structure / Leverage Ratio.

(ii)   Liquidity Ratios

Liquidity ratios seek to confirm the ability of the firm to fulfil its short term obligations. If the firm has greater liquidity than the

commitments due for payment, it means the firm has unutilized surplus which may be invested or used in such a manner that the rate of return is optimal. The firm may also put the funds in the expansion of business or diversification of its activities to increase rate of return on investment.

The ratios which indicate the liquidity of the firm are: (i) Net working capital (current assets – current liabilities) (ii) Current ratio (current assets ÷ current liabilities (iii) Acid Test Ratio/ quick Ratio (iv) Super quick ratios (v) Turnover Ratios.

(iii)   Acid test ratio / quick ratio

=   Current assets – (Inventories + Repayments)

Current liabilities

(iv)   Turnover Ratios /Activity Ratios

Another way to ascertain the liquidity is how quickly a certain current asset could be converted into cash. Ratios measuring its ability is known as turnover ratios. These ratios may be classified under three heads: (1) Total Assets Turnover Ratio (2) Accounts Receivable Turnover Ratio (3) Inventory Turnover Ratio.

Inventory / Turnover Ratio

Inventory / Turnover Ratio may be worked out in the following manner.

Cost of goods sold

(Inventory I year + Inventory II year) ÷ 2

Profitability Ratios

Profit is the end result of all business activities including the use of capital. Profit is an objective index of judging the efficiency of the business enterprise.

Profitability ratios may be of two kinds:

(i) Return on sales (ROS) and

(ii) Return on Assets (ROA)

Return on Investment (ROI) is not different from Return on Assets (ROA). In a multi- product organization, a Return on Investment (ROI) is not different from Return on Assets (RoA). In a multi-product organization, a lower Return on Assets indicates a weak product or sub-optimal product or a few strong and more weaker products which lower down ROA or even ROI.

Capital Structure / Leverage Ratios

Financial solvency of the firm may be computed by establishing relationship between borrowed funds and owner's capital. Debt /Equity ratio seeks to establish this relationship. "This ratio reflects the relative claims of creditors and shareholders against the assets of the firm".

$$\text{D/E Ratio} = \frac{\text{Long --term Debt}}{\text{Shareholders Equity}}$$

Earnings per Share (EPS)

Another way of computing the profitability of a company from share holder's view point is the Earnings per share. It measures the profit available to equity holders. Profit available to equity holders are represented by the net profits after taxes and preference divided divided by the number of ordinary shares.

$$\text{EPS} = \frac{\text{Net Profit -- (Interest + Tax + Preference dividend)}}{\text{(No . of ordinary Shares I year + Ordinary Shares II Year)} \div 2}$$

Price Earning Ratio

It may be worked out as follows:

$$\text{Price Earning Ratio} = \frac{\text{Market Price of the Share}}{\text{EPS}}$$

2. **Break – Even analysis –** **Case**

3. **Net Present Value (NPV) analysis.**

This method involves calculation of the present value of estimated

cash inflows using the cost of capital as the discounting rae and subtracting from the aggregate present value of inflows the present value of cash outflows using the same discounting rate. IF NPV is positive or equal to zero, the investment project is accepted as economically viable. If it is negative the proposal is rejected. Using this, strategic investment proposals may be ranked in the descending order of the net present values. The market value of shares may increase with projects with positive NPVs are accepted.

HR Strategies

The HR strategy of many multinational companies to take part time temporary employees or leasing temporary employees from learing companies. Employees specially working in IT firms in India are working on one to five year projects and re experiencing 'Pink – slip syndrome' as to what to do after the project is completed. The worst hit are those employees who are sacked from their jobs after September, 11 2002 attack of world trade centre.

The number of employees who work only part – time is steadily increasing. Part-timers are attractive to a company because the firm does not need to pay fringe benefits, such as health insurance and pension plans.

Telecommuting, office at home, flexi time and career breaks are the order of the day firms also resort for employing from diverse cultures. Pharma companies like Hoechst and cosmetic firms like Avon could turnaround unprofitable inner city markets by taking local persons to manage local markets.

Information systems strategy

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or an instant   in 17 languages. Software, e-lingo (www.e-lingo.com) offers a multilingual search function and Web surfing as well as text and e-mail translation.

Logistics Strategy

Logistics strategy deals with the flow of products into and out of the manufacturing process. Three trends are evident: centralization, outsourcing, and the use of the Internet. To gain logistical synergies a cross business unit, corporations began centralizing logistics in the head-quarters group. This centralized logistics group usually contains specialists with expertise in different transportation modes such as rail or trucking. They work to aggregate shipping volumes across the entire corporation to gain better contracts with shippers. Companies like Amoco Chemical, Georgia – Pacific, Marriott, and Union Carbide view the logistics function as an important way to differentiate themselves from the competition, to add value, and to reduce costs.

May companies have found that outsourcing of logistics reduces costs and improves delivery time. Many companies are using the Internet to simplify their logistical system. For example, Ace Hardware created an online system for its retailers and suppliers.

Strategies to Avoid

If managers lack analysis and creativity they may get trapped into weak strategies leading to failure. The following strategies should be avoided.

Follow the Leader

Imitating a leading competitor's strategy might seem to be a good idea, but it ignores a firm's particular strengths and weaknesses and the possibility that the leader may be wrong.

Hit Another Home Run

If a company is successful because it pioneered an extremely successful product, it tends to search for another super product that will ensure growth and prosperity. Like betting on long shots at the horse races, the probability of finding a second winner is slight. Polaroid spent a lot of money developing an "instant" movie camera, but the public ignored it in favor of the camcorder.

Arms Race

Entering into a spirited battle with another firm for increased market share might increase sales revenue, but that increase will probably be more than offset by increases in advertising, promotion, R&D, and manufacturing costs. Since the deregulation of airlines, price wars and rate "specials" have contributed to the low profit margins.

Do Everything

When faced with several interesting opportunities, management might tend to lead at all of them. At first, a corporation might have enough resources to develop each idea into a project, but money, time, and energy are soon exhausted as the many projects demand large infusions of resources.

Ex:- Walt Disney

Losing Hand

A corporation might have invested so much in a particular strategy that top management is unwilling to accept its failure. Believing that it has too much invested to quit, the corporation continues to throw" good money after bad".

Ex:- Indian Airlines is one such company.

Selecting the Best Strategy

Perhaps the most important criterion is the ability of the proposed strategy to deal with the specific strategic factors developed earlier in the SWOT analysis. IF the alternative doesn't take advantage of environmental opportunities and corporate strengths / competencies, and lead away from environmental threats and corporate weaknesses, it will probably fail.

Another important consideration in the selection of a strategy is the ability of each alternative to satisfy agreed – on objectives with the least resources and the fewest negative side effects. It is, therefore, important to develop a tentative implementation plan so that the difficulties that management is likely to face are addressed.

Self Assessment Questions

1. What is marketing strategy? How will u design a promotional strategy for a company?

2. What is push-pull strategy in sales promotion?

3. What is financial strategfy and what is its necessity?

4. What do you mean by information system strategy?

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Lesson 16 - Logistics And Information Strategies

Lesson Outline

- › Introduction
- › Logistics strategies
- › Information system strategies
- › Summary
- › Self-assessment questions
- › Activities
- › References

Learning Objectives

After reading this lesson you should be able to

- › Understand the key issues in logistics and information system
- › Appreciate the strategies companies adopt for effective contribution to corporate goals.

Introduction

Among the functional strategies a firm, logistics and information systems have become important in the new era of globalization, integration and IT development. Physical distribution along with channel development has moved from logistics to supply chain management with the advent of information and communication technology. Companies are developing information system strategies as derivatives of corporate strategies.

Logistics Strategies

The process of getting goods to customers has traditionally been called physical distribution. It includes location of plants and warehousing, transportation mode, inventory and packing. The systems concept of physical distribution takes into account the interdependence of costs of each activity. It is now being termed as integrated market logistics which can be conceptualized as the series of sales-satisfying

activities that begin when the customer places the order and that end with the delivery of the product to the customer. The main elements are:

- › Order processing
- › Ware housing
- › Inventory
- › Transportation

Recently, the concept of integrated market logistics system is referred to as supply chain management, which is broader in it s scope. It is concerned with all the flows starting from supplier to manufacturer to customer. As such integrated market logistics system is a subset of supply chain management of a firm.

Significance of logistics

Responsive logistical service advances customer satisfaction and creates the opportunity for closer and more profitable buyer-seller relationships.. Logistics service is often ranked by buyers right behind "quality" as a criterion for selecting a vendor

(1) *Time factor*

Logistics creates place and time utilities to consumers. Companies lose their customers when they fail to supply goods on time.

(2) *Cost factor*

Experts believe that substantial savings can be effected in physical distribution area, which has been described as 'the lost frontier for cost economies'. Physical distribution decisions when uncoordinated, result in high cost. There is a need to make use of modern decision tools for coordinating inventory levels, transportation modes, and plant, ware house and store locations.

(3) *Promotion factor*

It is not only a cost, it is a potent tool in competitive marketing. Companies can attract additional customers by offering better service or lower price through improvements in physical distribution.

Objectives

The objective of physical distribution is getting the right goods to the right places at the right time for the least cost. Evidently, this involves a trade—off between customer service and cost.

Maximum customer service implies large inventories, premium transportation and multiple warehouses all of which raise distribution cost. Minimum distribution cost implies cheap transportation, low stocks and few ware houses.

As such physical distribution decisions must aim at optimization of total system and not the sub optimization at the subsystem levels i.e., order processing, warehousing, inventory and transportation.

(i)   Customer service

Marketers have to decide their service standards based on key information about customers and competitors.

1. What the customers are looking for?
2. What the competitors are offering?

Table 16-1 describes the various elements of service. Typical service standards are:

➤ Put the product within an arms length of customers
➤ To deliver at least 95 per cent of the dealer's orders within seven days of the receipt
➤ To ensure that damage to merchandise in transit does not exceed 5 percent

However, not all products or all customers require the same level of logistical service.

Many business products that are made to order—such as heavy machinery—have relatively low logistical service requirements. Others, such as replacement parts, components, and subassemblies, require extremely demanding logistical performance. Similarly, customers may be more or les responsive to varying levels of logistical service.

Table 16-1 Elements of Logistics Service

Elements	Description
Delivery time	The time from the creation of an order to the fulfillment and delivery of that order encompasses both order-processing time and delivery or transportation time.
Delivery reliability	The most frequently used measure of logistics service, delivery reliability focuses on the capability of having products available to meet customer demand.
Order accuracy	The degree to which items received conform to the specification of the order. The key dimension is the incidence of orders shipped complete and without error.
Information access	The firm's ability to respond to inquires about order status and product availability
Damage	A measure of the physical conditions of the product when received by the buyer.

Ease of doing business	A range of factors including the ease with which orders, returns, credits, billing, and adjustments are handled
Value-added services	Such features as packaging, which facilitates customer handling, or other services such as pre pricing and drop shipments.

Source

Jonathon L. S. Byrnes, William C. Copacino, and Peter Metz, "Forge Service into a Weapon with Logistics," Transportation & Distribution, Presidential Issue 28 (September 1987): p.46.

(ii) **Cost**

The next step is developing a cost function for a service level as shown below.

$$D = T + FW + VW + S$$

Where

D = total distribution cost of proposed system

T = total freight cost

FW = total fixed warehouse costs

VW = total variable warehouse costs

S = Total cost of sales lost due to average delivery delay under proposed system.

The company should aim at minimizing the distribution cost of reaching a target level of customer service.

Key Decisions

1. We will now examine the four major decision issues

2. How should orders be handled? (order processing)

3. Where should stocks be located? (warehousing)

4. How much stock should be held? (inventory), and

5. How should goods be shipped? (transportation).

(a) Order Processing

The first phase in physical distribution is order – shipping – billing cycle. A customer order initiates several steps

1. Order department prepares multi copy invoices and dispatches them to various departments.

2. Order is checked with available stock. Items out of stock are back ordered

3. Items are shipped. Shipped items are accompanied by shipping and billing documents with copies going to various departments.

The whole process is now expedited with the help of computers by warehousing

(b) Warehousing

A storage function is necessary because the production will be more than customer orders in general. Striking a balance between customer service standards and distribution costs, marketers has to

1. Decide on a desirable number of stocking locations depending upon the markets the firm intends to serve

2. Choose the type of warehouses. Today a variety of warehouses, with advanced material handling systems and storage facilities are available.

(c) Inventory

Inventory management requires decisions relating to

1. Level of stock – Determining optimum order quantity

2. Time of ordering – Reorder point

3. Minimum stock level to meet emergencies – safety stock

Today, just – in – time production practices and product customization are changing the inventory planning practices

(d) Transportation

Marketers have to make careful choice of transportation mode and organizations. In choosing a transportation mode for a particular

product, shippers consider such criteria as

1. Speed
2. Frequency
3. Dependability
4. Capability
5. Availability
6. Cost

Logistics and supply chain strategies

Supply chain strategy determines the nature of procurement of raw materials, transportation of materials to and from the company, manufacture of the product or operation to provide the service, and distribution of the product to the customer, along with any follow-up service. From a value chain perspective, supply chain strategy specifies what operations, distribution, and service will try to do particularly well. Additionally, in each company, strategies will also be devised for finance, accounting, information technology, and human resources. The value chain emphasizes the close relationship between all the functional strategies within a company. .

The strategic fit requires that a company achieve the balance between responsiveness and efficiency in its supply chain that best meets the needs of the company's competitive strategy. Table 16-2 makes a comparison of efficient and responsive supply chains.

Table 16-2 Comparison of Efficient and Responsive Supply chains

Aspect	Responsive supply chain	Efficient supply chain
Primary goal	Supply demand at the lowest cost	Respond quickly to demand
Product design Strategy	Maximize performance at a minimum product cost	Create modularity to allow postponement of product differentiation

	Lower margins because price is a prime customer driver	Higher margins because price is not a prime customer driver
Pricing strategy		
Manufacturing Strategy	Lower costs through high utilization	Maintain capacity flexibility to buffer against demand/ supply uncertainty
Inventory strategy	Minimize inventory to lower cost	Maintain buffer inventory to deal with demand/ supply uncertainty
Lead time strategy	Reduce but not at the expense of costs	Aggressively reduce even if the costs are significant
Supplier strategy	Select based on cost and quality	Select based on speed , flexibility, reliability and quality.

Source

Marshall L. Fisher "What is the Right Supply Chain for your Product?", Harvard Business Review (March – April 1997), 83-93.

To understand how a company can improve supply chain performance in terms of responsiveness and efficiency, one has to examine the four drivers of supply chain performance: facilities(warehouses), inventory, transportation, and information. These drivers not only determine the supply chains performance in term of responsiveness and efficiency, they also determine whether strategic fit is achieved across the supply chain.

For each of the individual drivers, supply chain managers must make a trade-off between efficiency and responsiveness. The combined impact of these drivers then determines the responsiveness and efficiency of the entire supply chain. Table 16-3 shows the logistics-mix for responsiveness and efficiency.

Table 16-3 Logistics-Mix of a firm for Different Responses

Elements	Responsiveness	Efficiency
Warehouses	More and distributed	Fewer and concentrated
Inventory	High level	Low level
Transportation	Faster mode, high cost.	Slow mode, low cost
Information	Information needs and costs are high	Information needs and costs are less.

Creating superior value

Superior value can be created by meeting service expectations of customers and reducing the costs of logistics.

(i)   Meeting service expectations

Services expected by customers and the possible logistics design implications are given in Table 16-4.

Table 16-4 Logistics design and service expectations

S. No	Service Expectation	Design Implication
1.	Integrated supply or total solution (product variety and assortment)	Reseller assistance required to bundle the offer along with complementary products/ service of other suppliers
2.	Local customization – Postponement strategy	Reseller has to hire third-party service provider such as added resellers to make final modifica-tion in the product or supplier-owned regional assembly facili-ties
3.	Emergency delivery(less waiting time) Logistics speculation strategy	Reseller has to maintain a stock (Central warehouse) and either have a own delivery service (service website) or tie up with a delivery service providers
4.	Technical support	Reseller has to hire sales engi-neers and technical personnel
5.	Lot sizes-small Logistics speculation strategy	Frequent deliveries. Reseller has to maintain a stock or tie up with a delivery service providers
6.	Product standardization and low price - Specula-tion strategy	Central warehouse, service website, direct enquiries

(i) Postponement strategy

When the key element in a supplier firm's proposed value proposition is local customization, a postponement strategy is appropriate. Here, the supplier delays final changes to an offering's form until the last possible moment through the use of third-party service providers or supplier-owned regional assembly facilities. For example, if physical modifications to products are necessary, the supplier firm might partner with local assemblers, fabricators, or value-added resellers.

(ii) Speculation strategy

When low price and product standardization are the key elements of the value proposition, a speculation strategy is recommended. In term of physical products, a supplier firm speculates by manufacturing them in a large lots, storing them in inventory in a central location in anticipation of orders, and shipping them in bulk directly to customer firms or to reseller for sale to other customer firms in small lots. To speculate with technical support service, the supplier might provide customer firms with self-help manuals or software, operate an Internet-base technical service site, or direct customer inquires to a telephone support center.

Logistics speculation strategy. *When the key element of the value proposition is emergency delivery, managers turn to logistics speculation whereby a vendor produces standardized products and either stocks inventory in supplier-owned local distribution centers or relies on overnight delivery services, to ship them from a centralized warehouse.*

Information Systems Strategies

A management information system is complex and therefore needs an overall plan to guide its initial development and subsequent change. The plan will be referred to as an information systems plan, master development plan or information resources plan. The need for planning is obvious as companies that plan tend to achieve better results than companies that do not plan.

Contents of Information system plan

What does an MIS plan contain?

The master plan typically has two components-a long range plan for three to five years or longer, and a short range plan for one year. The long range plan provides general guidelines for direction and the short range portion provides a basis for specific accountability as to operational and financial performance.

The master development plan contains four major sections:

1. Information system goals, objectives and architecture.

2. Inventory of current capabilities

3. forecast of developments affecting the plan

4. The specific plan.

Goals

A very important fundamental concept of information system planning is that the corporate strategic plan should be the basis for the MIS strategic plan. Alignment of MIS strategy with organizational strategy is one of the central problems of MIS planning. That is why MIS plan is referred to as derivative of corporate plan.

The goals section as such might contain descriptions of the following:

1. Organizational goals, objectives and strategies

2. External environment (industry, government regulation, customers and suppliers)

3. Internal organizational constraints such as management philosophy

4. Assumptions about business risks and potential consequences

5. Overall goals, objectives and strategy for the information system

6. Architecture of the information system (categories of information or applications)

Current Capabilities

This is a summary of the current status of an information system. It includes the following.

1. Inventory of hardware, general purpose soft were, applications systems, personnel

2. Analysis of expense, hardware utilization, software utilization, personnel utilization

3. Status of projects in process

4. Assessment of strengths and weaknesses.

Forecasts

Planning is affected by current and anticipated technology. Broad technological changes can be perceived several years before they become generally available. The impact of such developments as personal computers, local area net works, data base management systems and office automation should be reflected in the long range plan.

The specific plan

The plan should include:

1) Hard ware acquisition schedule

2) Purchased soft ware schedule

  • Systems

  • Applicationss

3) Application development schedule

4) Soft ware maintenance and conversion schedule

5) Personnel resources required and schedule of hiring and training

6) Financial resources required

By object of expenditure (hardware, software, personnel)

By purpose of expenditure (operations, maintenance and development)

MIS Planning process

How is MIS planning made?

Bowman, Davis and Wetherbe developed a three-stage model of information system planning process. It is as given below:
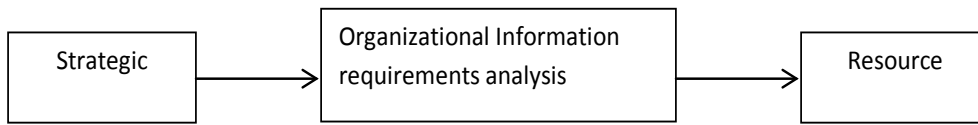
1. Strategic Planning Stage

In this stage, objectives, goals and strategies of information system will be defined in such a way that they align with the organizations objectives, goals and strategies.

a. ***Derivation of information systems strategy from   organizational planning.***

For example, if the organization's objective is to implement quality circles the objective of MIS is to provide data base on quality control and provide access to quality circles in the required form. Strategic grid is a useful tool in this regard.

The grid is a diagnostic tool to understand the role of MIS in an organization. The position in the grid explains the needed level of top management involvement and the relationship of the MIS plan and organizational plan (i) & (ii) Integration of corporate Planning &MIS planning(iii) Guidance from corporate plan for alignment; Detailed operational and capacity planning by MIS function.(iv) No guidance from corporate plan
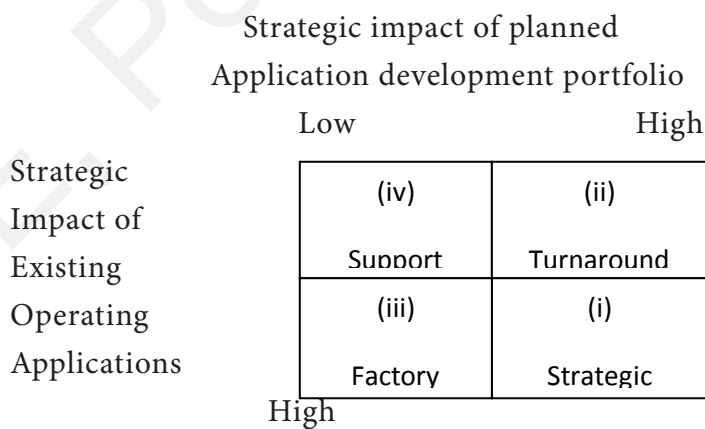
Figure 16-1 Strategic grid

b)   *Strategic fit with organization culture*

MIS should fit with culture of organization which reinforces values, norms and beliefs about the organization. If the culture is not clear to information system planners, clues can be obtained from the following sources

- Stories --- particular stories or incidents popular with organization

- Meetings --- Items in agenda considered important by managers

- Top management behavior --- the concern shown by top management shall be concern through out the organization

- Physical layout --- the location of activities and relative positions and size of facilities, offices etc

- Rituals --- Banquets, parties, orientations—reflect values

- Documents --- What is written by Whom and to whom can help understand ends and means of an organization.

These clues can be organized into "rules of the game" and classified into organizational tasks and relationships.

c)   *Strategy Set transformation*

It is used to produce objectives, goals and strategy for MIS by the following steps

➤ Explicate the organizations strategy set

- Identify the stake holders and their goals and identify organizational goals and strategies of organization for each group

- Validate the organizational goals & strategies by asking management.

➤ Transform the organization strategy set into MIS objectives in the light of identified constraints and formulating MIS strategies.

2.   **Organizational Information Requirements**

Information requirements are essential organization wide level for information system planning, identifying applications and planning Information architecture. There are four strategies for determining information requirements.

1. Asking

Closed questions; open questions, Brain storming guided brainstorming and group consensus.

2. Deriving from an existing information system

- ➤ in the organization
- ➤ in other organization
- ➤ in text books or studies
- ➤ Proprietary system or package

3. Study of utilizing system (object system analysis)

Several methods have been proposed as given below:

Method	Primary requirements orientations	
	Organisation	Application
a. Normative analysis	X	
b. Strategy set transformation	X	
c. Critical factors analysis	X X	
d. Process analysis	X	
e. Ends-means analysis		X
f. Socio technical analysis		X
g. Input-process-output analysis		X

3. Resource allocation

The last stage is the resource allocation to determine which application shall be implemented and in what order. Since information system resource are limited not all projects can be done at once. Each

project is to be analyzed in terms of the following factors.

    i.   Expected Profit improvements or cost savings -quantitative and qualitative.

    ii.   Need basis –need of the system to have the development proceed in an orderly fashion

    iii. System management factors---priority projects.

Four approaches are generally used in resource allocation

1).   Comparative cost or Benefit

    a. ROI- A simple traditional approach to evaluating profitability of investment is return on investment method.

    b. Zero based budgeting-It implied budgeting investment from scratch without consideration of previous evaluations.

2).   Portfolio approach –Considering a set of investment proposals and evaluating them together to arrive at right combination.

3).   Charge out- It is the method of charging the users. Based on utility the proposal is considered.

4).   Steering committee ranking-Top level committee that is set up for evaluation and development ranks the proposals.

Summary

Physical distribution refers to the process of moving goods to customers from the factory gates of manufacturers. In includes warehouses, inventory, transportation, information and packing. The systems concept of distribution led to integrated logistics system and now to supply chain management. Logistics can contribute to savings in both time and cost and enhance promotional value of products. Logistics design involves service-cost trade off. Service elements of logistics include delivery time, delivery reliability, order accuracy, information access, damage, ease of doing business and value-added services. Supply chain management is the integration of business processes from end user through suppliers that provides products, services and information that add values for customers. Supply chain components include customers, retailers, whole sales, manufacturers and suppliers. Supply chain strategy represents a value chain and forms a subset of competitive strategy. Supply chains can be responsive or efficient by design. MIS development is a continuous process. MIS managers have to become

aware of the technological advances in system hard ware and software to make MIS more effective. Users should be enthusiastic to utilize the system. Top management support is essential for MIS to thrive

Self-Assessment Questions

1.   Physical distribution and logistics

2.   Supply chain and value chain

3.   Integrated logistics system

4.   Postponement strategy

5.   Logistics speculation strategy.

6.   Speculation strategy

7.   Strategic Planning

8.   3-stage model of IS planning

9.   Strategic grid

10. Strategy set transformation

11. Resource allocation

Activities

1.   Visit Websites of five large organizations and prepare a report an 'IT strategies of large companies'.

2.   Conduct a study on logistics system of local enterprises and make a class room presentation.

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Lesson 17 - Planning And Resources Allocation

Lesson Outline

> ➤ Introduction
> ➤ Planning defined
> ➤ Nature of planning
> ➤ Types of plans
> ➤ Steps in planning
> ➤ Resource allocation
> ➤ Methods of resource allocation
> ➤ Resource allocation process
> ➤ Problems in resource allocation
> ➤ Summary
> ➤ Self assessment questions
> ➤ Activities
> ➤ References

Learning Objectives

After reading this lesson you should be able to

> ➤ Understand the concept of planning and examine its nature
> ➤ Illustrate and explain the steps in the process of planning
> ➤ Examine the elements of planning

Introduction

While planning is the first step in formulating strategies resource allocation in the creative process of allocating resources into

competences that could be used to garner competitive advantages. C.K. Prahlad and Hamel see resource allocation in an organization as a portfolio of resources and competences. Strategic managers have to take adequate care in identifying the resource allocation needs and make right allocations.

Planning – defined

Planning is a way of organizational life. Planning is futuristic, decision oriented and goal driven. It is the first function of management and is the foundation for other functions like organizing and controlling. Here are some definitions on planning

"Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur that would not otherwise happen".

"Planning involves selecting missions and objectives and

achieve them; it requires decision making."

BHEL used Delphi technique to explore future direction of power development. Firstly, it canvassed an open ended questionnaire to the engineers in several plants to give ideas for technological breakthrough for 30 to 40 years. In the second round these were summarized and asked to be prioritized. In the third round the estimated timings and rationale for forecast was asked. This helped BHEL not only to get 19 different forms of energy sources but also provided "refined guest mates". The results were helpful in corporate planning and for formulating R & D projects.

Nature of Planning

There are four major aspects here.

      (i)   Its contribution to purpose and objectives;

      (ii)   Its primacy among the manager's tasks;

      (iii) Its pervasiveness, and

      (iv) The efficiency of resulting plans

Contribution

Planning precedes all the other managerial functions. It involves setting up objectives necessary for all group efforts. Every executive should plan about recruitment, structure and controls. Figure 17.1 show the kind of contribution planning makes.
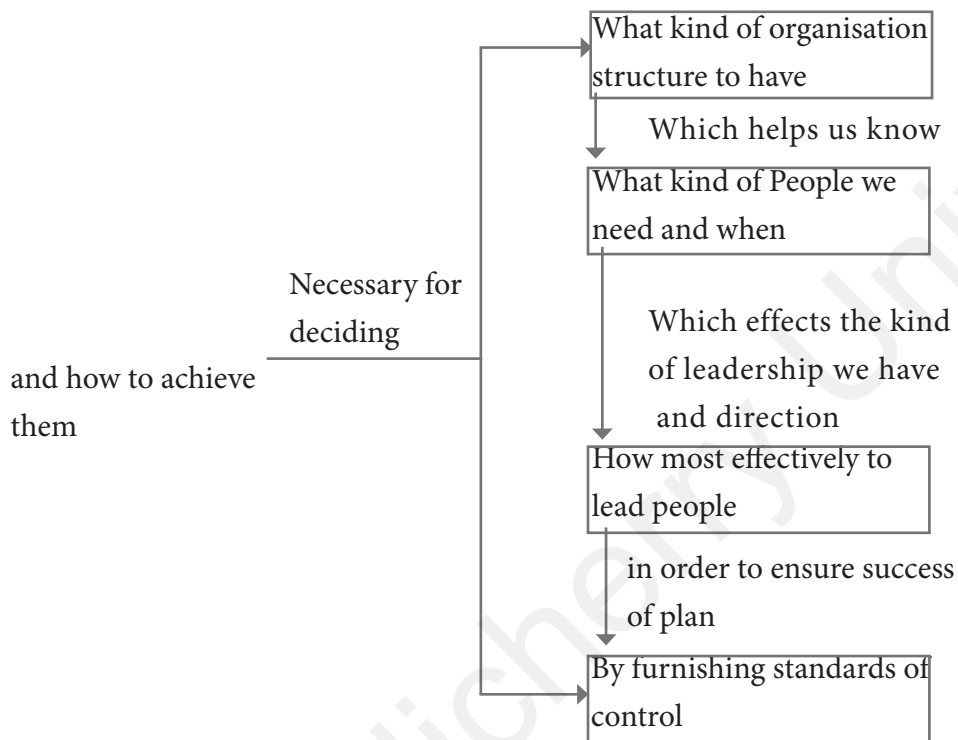

Figure 17.1. Key decisions in planning

Primacy

Planning is the first function leading to other functions in management. Figure 17-2 shows the linkages.

* Purposes or missions   * Objectives or goals

* Strategies   * Policies

* Procedures   * Rules

* Programmes   * Budgets
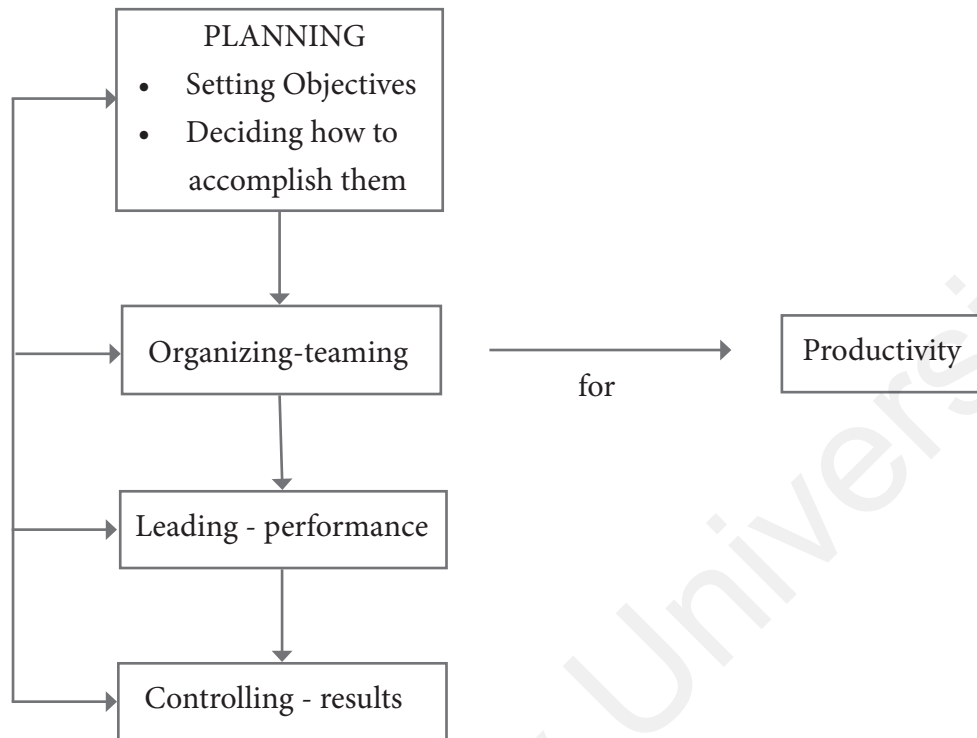
Figure 17.2: Planning in Management

Pervasiveness

Planning is the function of all managers; from the head of a gang to a factory crew. Managers at all levels and in all functions have to engage themselves in planning. Without planning they will be in dark not knowing where to go.

Efficiency of plans

Planning and Controlling are the Siamese twins of management. Plans are efficient if they achieve their purpose at a reasonable cost where cost is measured not only with cost or production but also in the level of individual and group satisfaction. There are occasions where programmes are good but failed due to poor morals.

Types of Plans

The failure of managers to recognize that there are several types of plans has often caused difficulty in making planning effective. Plans encompass any cause of future action and hence vary as under.

Purposes or missions

Identifies the basic task of a firm or agency. Ex. Purpose of business is the production and distribution of goods and services

Dupont	-	Better things through chemistry
Kleenex	-	Production and sale of paper & products
Hallmark	-	Social expression of business
J & J	-	First responsibility to doctors, nurses, patients and mothers
Dow chemical	-	Sharing world's obligation for the protection of the environment

Conglomerates express their mission as 'synergy' which is achieved through combination of a variety of companies.

Therefore mission is the organization's purpose and fundamental reason for existence. A mission statement is the broad declaration of the basic. Unique purpose and scope of operations distinguish the organization from others.

Objectives and goals

Planning aims at goal setting. Goals and objectives are ends towards the activity aimed. They represent the end toward organizing, staffing, leading and controlling. Each department may have its own goals, which contribute to objectives of organizations as illustrated below.

Production department	Producing 22 units per day
Marketing department	Selling 25 units per day
Personnel department	Training 200 managers in the first quarter.

	Invest Rs. 200 crores with 32% return on investment in the current year.
Finance department	

Goals serve many purposes like the following

* Increase performance   * Clarify expectations

* Facilitate the controlling function   * Increased motivation

Goals have levels that compare with hierarchy of organization as depicted in Table 17-1

Table 17-1 Plan types

Type of plans	Type of goals	Description	Time range	Management level	Focus o f plans
Strategic plans	Strategic goals	Broadly defined targets or future end results set up by top management	5 years	Top management	Organization level
Tactical plans	Tactical goals	Future end results set up by middle management for specific departments or units	1-5 years	Middle management	Department level

Operational plans	Operational goals	Set by lower management that address measurable outcomes required from the lower levels	One year	Lower management	Unit/group/ level individual

Peter F. Drucker gives eight major areas for goal setting by organizations.

*Market standing	*Innovation
*Human resources	*Financial resources
*Physical resources	*Productivity
*Social responsibility	*Profit requirements

Strategies

Strategies are grand plans in the light of what it was believed an adversary might or might not do. Strategy may be defined as follows. "Strategy is the determination of basic long term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals".

A strategy might include such as marketing directly rather than through distributors or concentrating on proprietary products of having a full time of autos ex: General Motors.

Strategies are of two types

Generic strategies - involve organization expansion in some select areas. The generic strategies include –
➤ Overall cost leadership
➤ Differentiation
➤ Focus

Grand strategies   - A master strategy that provides direction at the corporate level
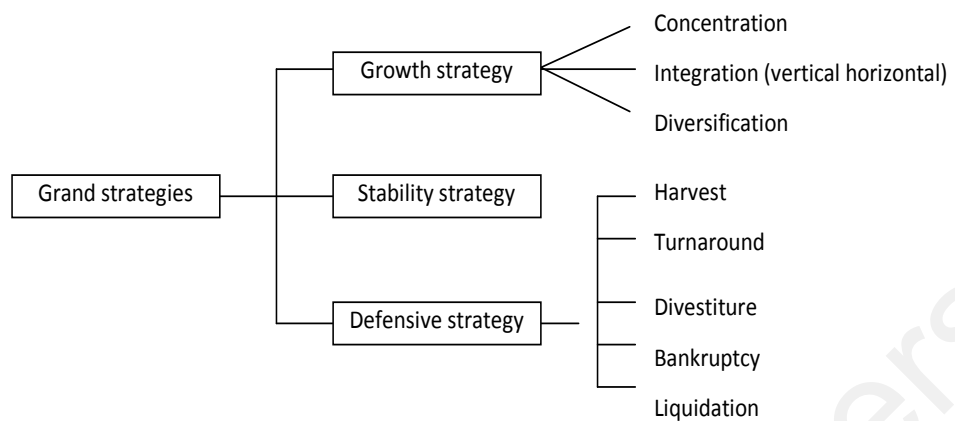
Figure 17.3.Major Grand Strategies

Policies

Policies are plans or general statements or understandings that guide or channel thinking in decision making. Policies define an area in which decision is to be made and ensure consistency to objectives. Policies help managers maintain control and delegate authority.

Policies exist at all levels in an organization. They may be major or minor. Policies include hiring trained engineers, encouraging employee suggestions, confirming to high standards, setting competitive prices, cost plus pricing etc. Companies can have policy manuals which may stipulate non-acceptance of gifts from suppliers, favours of entertainment or seek outside employment.

Making policies is difficult for

➤ They are seldom defined in writing

➤ Delegation of authority will create confusion

➤ Actual policy may be difficult to ascertain and intended policy may not be clear.

Policies are necessary at different hierarchical levels as shown in Figure 17-4
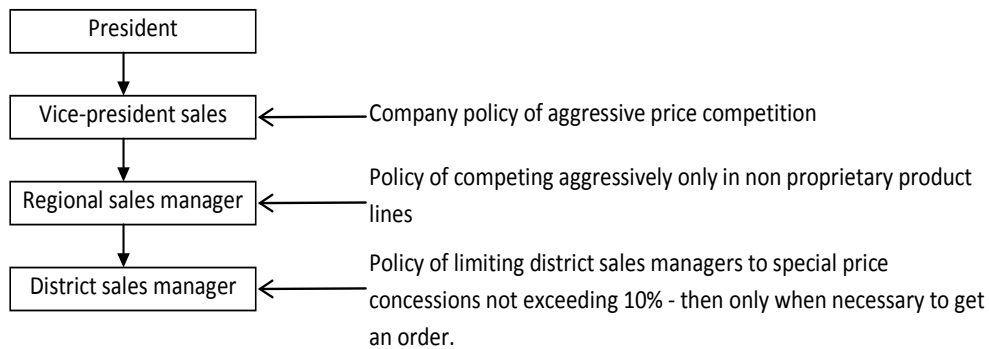
Figure 17.4 Policies at different levels

Procedures

Procedures are plans that establish a required method of handling future activities. They are guides to action, rather than thinking and they detail the exact manner in which certain activities must be accomplished. Procedure is thus a prescribed series of steps to be taken under certain recurring circumstances. Well-established ones are called 'Standard Operating Procedures'. Ex: In Banks SOPs govern how tellers handle deposits.

The following procedures are common and are across different departments.

Production Department	-	release of stock
Traffic Department	-	shipping means & route
Finance Department	-	customer credit approval, acknowledgement receipts
Marketing Department	-	for original order

Rules

"A statement that spells out specific actions to be taken or not taken in a given situation"

Unlike procedures, rules do not normally specify a series of steps. They dictate what must or must not be done.

Ex: 1. "No Smoking" is a rule unrelated to procedure.

 2. Fraction of more than half ounce should be treated as one ounce.

Policies guide decision making, but rules allow no discretion in decision making.

Programmes

Programmes involve different departments or units of organization composed of several different projects which may take about one year to complete. Programme may be defined as follows.

"A programme is a comprehensive plan that coordinates a complex set of activities related to a major non recurring goal".

"Programmes are a complex of goals, policies procedures, rules, task assignments, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action supported by budgets".

Examples of programmes are

1. A major airline acquiring $400 million fleet of jets
2. Five year programme to improve status and quality
   of supervisors.
3. A minor programme of a supervisor to improve morale
   of workers.

Making programmes include six steps:

    i.   Dividing the project into parts

    ii. Determining relationships and pulling in a sequence

    iii. Deciding responsibilities for mangers

    iv. Determining how to complete and what resources are necessary

    v. Estimating time requirements

    vi. Developing a schedule of implementation

A primary programme may trigger off a series of small programmes.

Budgets

Budget is a numberized programme. It can be defined as follows.

"Budget is a statement of expected results expressed in numerical terms"

Budget can be expressed in financial terms, labour hours, units, machine hours etc. It may show expenses, capital outlays, cash flows etc.

A budget is a fundamental planning instrument. Budget forces precision in planning.

- Flexible/variable budgets   -   vary according to the level of output

- Programme budgets   -   an agency to identify goals, develop programmes to meet them and give cost estimates.

- Operating budget   -   A finance plan for each responsibility during budget period.

- Capital budget   -   Budget for Mergers & Acquisitions, divestiture of fixed assets.

Steps in Planning

Planning is a step by step process. It involves the following steps.

(i)   Being aware of opportunities

Every planner should scan the external environment for opportunities and threats.

(ii)   Establishing objectives

Planner has to identify the objectives for the enterprise or unit. They should be specific and measurable.

(iii)   Developing premises

Planner has to go about understanding the current and future environment in which the goals can be accomplished. Forecasting based on published reports and research is necessary to know the future scenarios. Clear assumptions about the environment are outcome of this step.

(iv)   Determining alternative courses

Planner has to develop a large number of alternative courses of

action for examination.

(v) Evaluating alternative courses

Evaluation can be done only when a planner has clear guidelines for determining and comparing worth of each alternative course of action. Criteria like return on investment, risk, time horizon and limiting factor may be employed to evaluate the alternatives.

(vi) Selecting a course

On evaluation the planner will use his or her judgment to decide upon one course of action, which is appropriate or right for the company.

(vii) Formulating derivative plans

To support basic plan it will be necessary to develop a series of minor plans. .

(viii) Numbering plans by budgeting

For each department budget allocations will be necessary to facilitate the implementation of the plans. Planner has to make the resource allocation as such properly.

Resource Allocation

The resources may be existing with a company or many be acquired through capital allocation. Resources include physical, financial and human resources essential for implementing plans.

Resources are broadly of four categories.

1. Money
2. Facilities and equipments
3. Materials, supplies and services
4. Personnel

Decisions involved in allocation of resources have vital significance in strategy implementation. In single product firms it may involve assessment of the resource needs of different functional departments. In the multi divisional organization it implies assessing the resource needs of different SBUs (discussed in lesson 4 of Unit I) or product divisions

Redeployment or reallocation of resources becomes necessary when changes take place. The redeployment of resources is quite critical

when there are major changes and shifts in strategic posture of company. Redeployment of resources may arise due to strategies of a company to grow in certain areas and withdraw from the other.

Methods of Resource Allocation

Based on Percentages

Usually, companies have been following system of allocation of resources by percentages.

The following arguments reject this method.

It may not serve much purpose these days. They may be of help only in making some comparisons.

The allocation of resources should not be based on their availability or scarcity as it may prove to be counter productive.

The resource allocation should be made with regard to strategies of a company for its future competitive position and growth. The decisions of resource allocation are also closely connected with the objectives of a company.

Based on Modern Methods

Other methods include *-Portfolio models, product life-cycle charts, balance sheets, profit and loss statements income statements.* When retrenchment or turnaround strategies are implemented zero-based budgeting is used. During mergers, acquisitions and expansion, capital budgeting techniques are suggested.

Resource allocation is not purely a rational technique but is based on several behavioral and political considerations. The other analytical conceptual models used for strategic choice are growth share matrix, 'stop light', and Directional Policy Matrix used in multi divisional firms.

A more comprehensive approach to management decisions on resource allocation is provided by the budgeting system carefully geared to the chosen strategy.

Resource Allocation Process

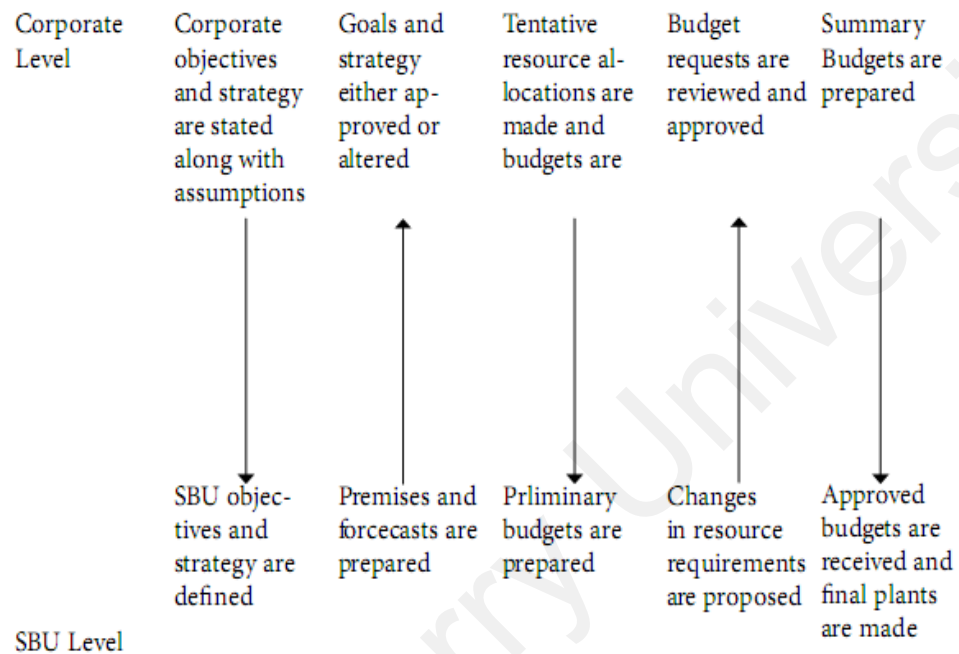A framework for the strategic budgeting process is shown in the following chart.

Corporate Level	Corporate objectives and strategy are stated along with assumptions	Goals and strategy either approved or altered	Tentative resource allocations are made and budgets are	Budget requests are reviewed and approved	Summary Budgets are prepared
SBU Level	SBU objectives and strategy are defined	Premises and forcecasts are prepared	Prliminary budgets are prepared	Changes in resource requirements are proposed	Approved budgets are received and final plants are made

Figure. 17.5.The resource allocation process

Source

Top management initiates the process. In large organizations the budget department at the headquarters provides all information to the SBUs and advises them in connection with preparation of budget proposals.

Strategy communication

As the first step in the process, the corporate objectives and strategy are stated along with the environmental and competitive conditions to be communicated to the SBUs (organizational units).

SBU initiative

They in turn draw up preliminary budgets after defining the unit-wise objectives and strategies.

Negotiation

The process involves a series of negotiations among managers at the SBU and corporate levels. For instance, unit manages having defined the objectives and strategy of the unit prepare the premises and forecasts which are sent for approval by the top management.

Preliminary budget

Tentative allocation of resources takes place at the corporate level and budget proposals are called for on that basis. The preliminary budgets indicate changes in the resource requirements as compared with the previous period.

Proposals sent

Based on the preliminary budget units draw up their plans and programmes. And make proposals. The proposals are sent for consideration of the top management by the SBUs.

Approval

Only on approval of the proposals the

Problems in Resource Allocation

There are several difficulties in resource allocation. The following are some of the identified problems.

i)   **Scarcity of resources**

Financial, physical, and human resources are hard to find. Firms will usually face difficulties in procuring finance. Even if fiancé is available, the cost of capital is a constraint. Those firms that enjoy investor confidence and high credit worthiness possess a competitive advantage as it increases their resource-generation capability. Physical resources would consist of assets, such as, lard machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government may no longer impose many conditions but it does place a burden on the firm's finances and this places a restriction on

firms wishing to procure physical resources. Human resources are seemingly in abundance in India but the problem arises due to the non-availability of skills that are specially required. Information technology and computer professionals, advertising personnel, and telecom, power and insurance experts are scarce in India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability resources is a very real problem.

ii)   Restrictions on generating resources

In the usual budgeting process these are several restrictions for generating resources due to the SBU concept especially for new divisions and departments.

iii)   Overstatement of needs

Over statement of needs is another frequent problem in a bottom-up approach to resource allocation. The budgeting and corporate planning departments may have to face the ire of those executives who do not get resources according to their expectations. Such negative reactions may hamper the process of strategic planning itself.

Summary

Planning is the first and very important step in strategic management Planning involves forecasting and decision making to design future operations. Planning involves deciding purposes or missions, objectives or goals, strategies, policies, procedures, rules, programmes and budgets. Planning involves lower(operational), middle(tactical), and top(strategic) management levels and covers both long and short range time periods. The next step to planning is resource allocation that is budgeting. There are several methods which include portfolio models, product - life cycle analysis, zero based budgeting and capital budgeting techniques. Resource allocation involves some problems. Scarcity of resources, restrictions on SBUs and over statement of needs are problems. Redeployment of resources is essential when changes take place in the strategies of the firm.

Self -Assessment Questions

1. Define planning and illustrate it as an important function of management

2. Outline the steps in planning process.

3. What are the elements of planning? Explain them with examples.

4. Examine the significance of planning function.

5. What is resource allocation? Explain why it is studied with planning.

6. What are the different methods of resource allocation? How is it done at different strategic levels?

7. What are the steps in developing resource plan of organizations?

8. Examine the problems in resource allocation and how companies overcome the problems.

Activities

1. Visit the website of a public sector unit and examine how corporate planning is done in that organization. Note the details.

2. Go to an educational institution (a college or a university) in your place. Discuss with strategists Viz.,Vice–Chancellors, Principals, Registrars, Deans or Secretary and Correspondents and discuss how they allocate resources to the departments. Record the findings.

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Lesson 18 - Organization Structure And Culture

Lesson Outline

> Introduction

> Concepts

> Key elements of organization structure and design

> Organization design decisions

　» Boundary less organization

　» Learning organization

> Organization culture -Concept

> Influence of culture on strategy

> Cultural web

> Cultural audit

> Summary

> Self Assessment Questions

> Activities

> References

Learning Objectives

After reading this lesson you should be able to

> Define organization structure and design

> Describe the key elements of Structure and differentiate them.

Introduction

No other topic in strategic management has undergone as much change in the past few years as that of organization structure and culture. In the lesson 4 of Unit I a detailed discussion on structures is given with illustration while discussing the SBU structure. The creation of

right structure and the right kind of norms, customs, habits and beliefs are important for enduring employer –employee relationships. In this competitive era, trust and ideal cooperation alone leads to survival and success of organizations.

Concepts

Just what is an organization's structure?   An organizational structure is the formal framework by which job tasks are divided, grouped, and coordinated. When managers develop or change an organization's structure, they are engaged in organizational design, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.

What is organizational culture? It's a system of shared meaning and beliefs held by organizational members that determines, in large degree, how they act. It represents a common perception held by the organization's members. Just as tribal cultures have rules and taboos that dictate how members will act toward each other and outsiders, organizations have cultures that govern how its members should behave. In every organization, there are systems or patterns of values, symbols, rituals, myths, and practices that have evolved over time.   These shared values determine to a large degree what employees see and how they respond to their world.   When confronted with problems or work issues, the organizational culture-the "way we do things around here"-influences what employees can do and how they conceptualize, define, analyze, and resolve issues.

Key Elements of Organizational Structure and Design

The key elements in organization structure and design are:

- ➤ Departmentation
- ➤ Chain of command
- ➤ Span of control
- ➤ Centralization and decentralization
- ➤ Formalization

We will now examine each one of them and see how they affect the design questions

What type of arrangement is suitable for the effective functioning of the organization?

Should the chain of command be long or short? Should it allow lateral relationships?

How many employees should a supervisor manage?

Should the decision authority be concentrated at the top or diffused?

Should there be informal work relationships?

Departmentation

qOnce activities are divided based on work specialization common tasks are to be grouped together. This is called departmentalization. There are five bases for departmentation.

1. Functions
2. Geographical areas
3. Product
4. Process
5. Customers

Figure 18.1 to 18.5 illustrate the arrangements along with advantages and disadvantages

Functional Departmentalization
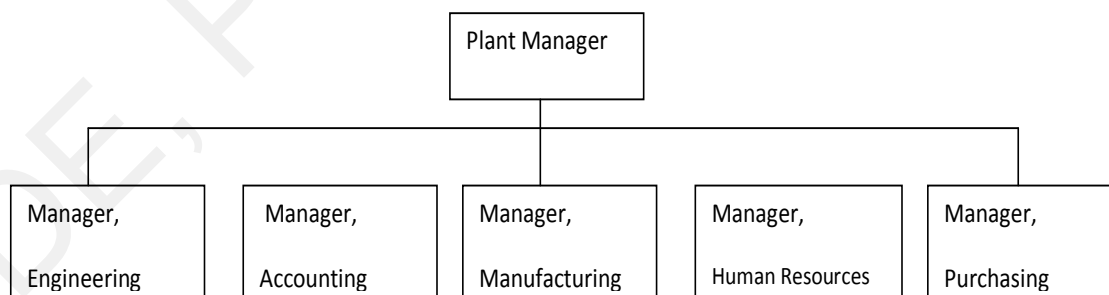
Figure 18.1 Five Common Forms of Departmentalization

+ Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations.

+ Coordination with functional area

+ In-depth specialization

- Poor communication across functional areas

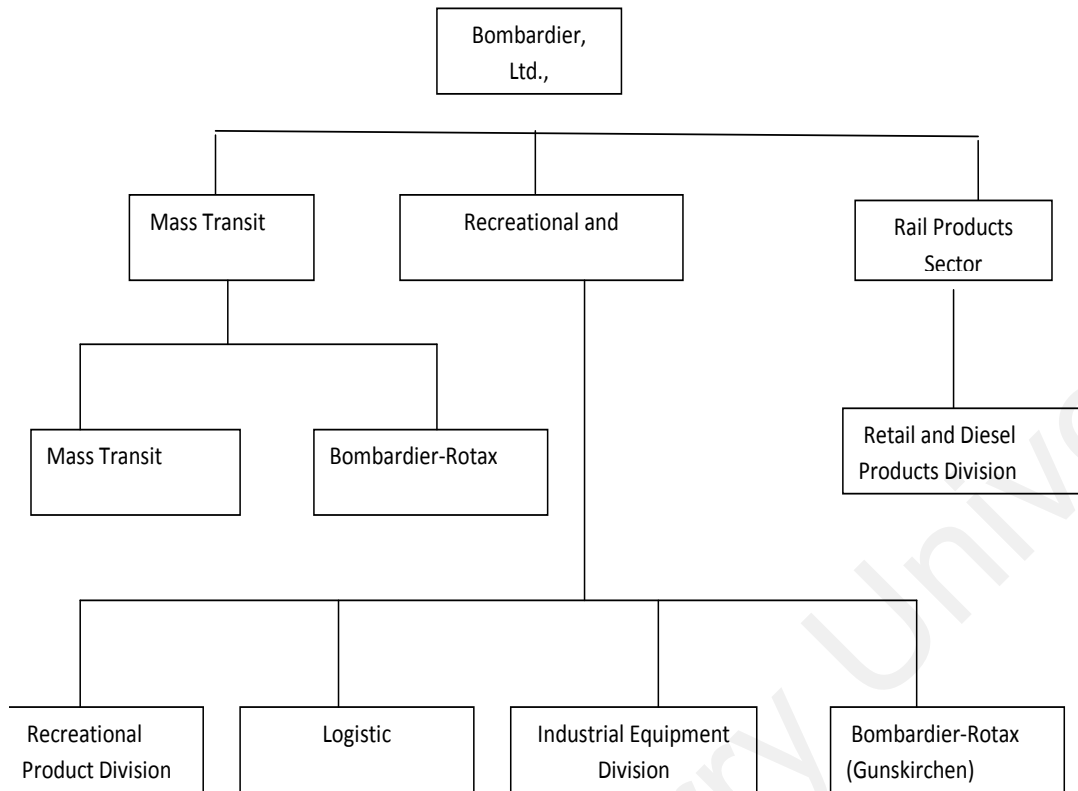- Limited view of organizational goals

Geographical Departmentalization
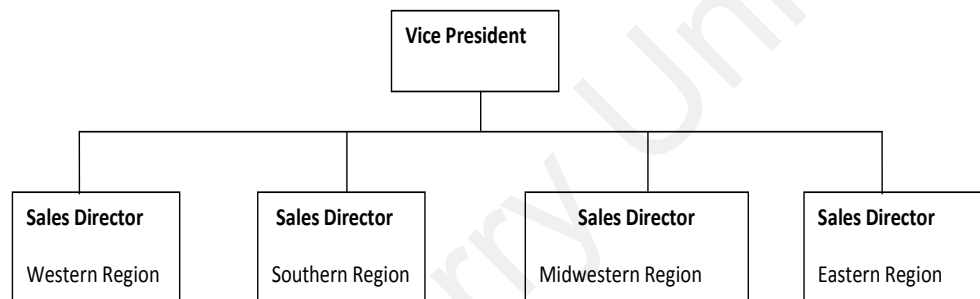
Figure.18.2 Geographic departmentalization

+ More effective and efficient handling of specific regional issues that arise

+ Serve needs of unique geographic markets better

- Duplication of functions

- Can feel isolated from other organizational areas

Product   Departmentalization

Bombardier, Ltd.,

Mass Transit

Recreational and

Rail Products Sector

Mass Transit

Bombardier-Rotax

Retail and Diesel Products Division

Recreational Product Division

Logistic

Industrial Equipment Division

Bombardier-Rotax (Gunskirchen)

Source

Bombardier Company's Annual Report

+   Allows specialization in particular products and services

+   Managers can become experts in their industry

+   Closer to customers

-    Duplication of functions

-    Limited view of organizational goals

Process Departmentalization

Plant Superintendent

Sawing Department Manger

Planning and Milling Department Management

Assembling Department Manager

Lacquering and Sanding Department Manager

Finishing Department Manager

Inspection and Shipping Department Mananger
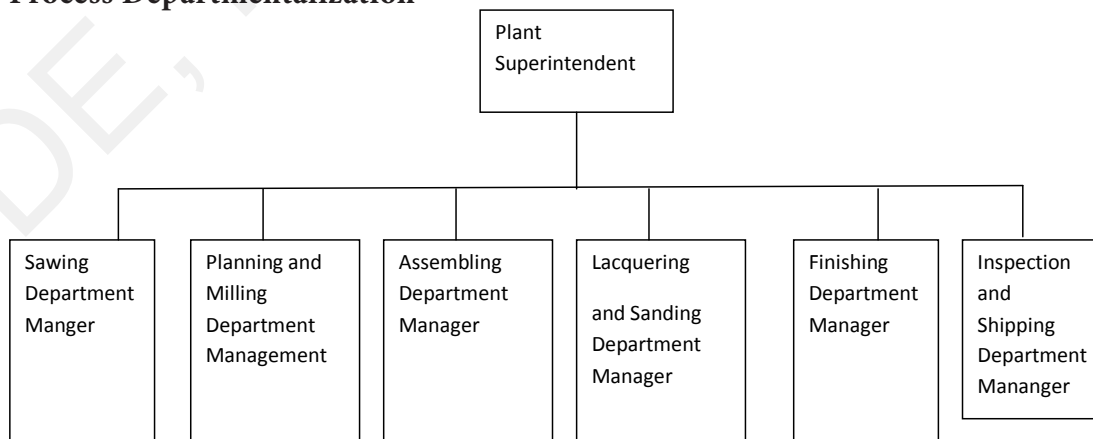
Figure.18.4 Process departmentalization

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+   More efficient flow of work activities

-     Can only be used with certain types of products

Customer Departmentalization
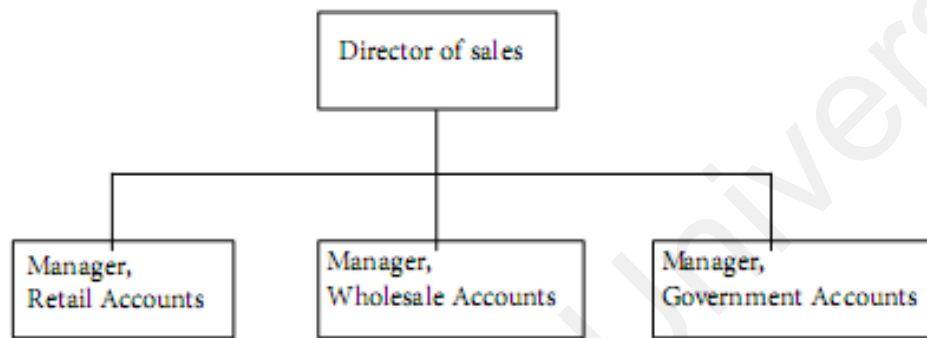
Figure.18.5 Geographic departmentalization

+   Specialists can meet Customers' needs and problems

-     Duplication of functions

-     Limited view of organizational goals

Chain of Command is the continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom. It helps employees answer questions such as "who do I go to if I have a problem?" or "To whom am I responsible?"

You can't discuss the chain of command without discussing the other concepts: authority, responsibility and unity of command. Authority refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it. This obligation or expectation to perform is known as responsibility. Finally, the unity of command principle (one of Fayol's 14 principles of management) helps preserve the concept of a continuous line of authority.   It states that a person should report to only one manager.

Span of Control

Span of control (or supervision or management) refers to the number of employees a supervisor can effectively manage. Organizational levels exist since there is a limit to the number of people one can supervise effectively. This limit varies upon situations. Figure 18-6 shows span types and Table 18-1 discusses their advantages and disadvantages. . A wide span is associated with few levels in the organization and a narrow span, many levels. The number of subordinates a manager can effectively supervisor ranges from three to eight. The number of people who directly report to a manager represent the manager 'span of control'.

Narrow Span   Wide Span
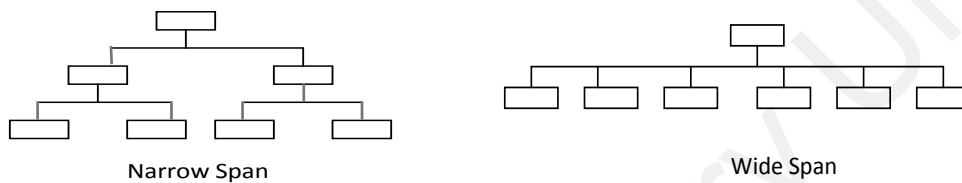
Figure 18-6 Span types

Ex: Sears, Roebuck & Co, etc, reported good results with spans of control of over six. There were 36 managers reporting to one boss and five reporting to one and both worked. Wider spans are preferred today for less administrative expense and more self-management.

Table 18-1 Advantages and disadvantages of different spans.

Narrow Span		Wide Span	
Advantages	Disadvantages	Advantages	Disadvantages
1. Close supervision	1. Superior interferes too much	1.Superiors are forced to delegate	1. Decision bottlenecks due to overloaded
2. Close control	2. Many levels	2.Clean policies	2. danger of loss of control

3. Fast communication	3.High costs	3.Carefully selected subordinates	3. Requires exceptional quality managers
	4. Excessive vertical distance		

Centralization and decentralization

In some organizations, top managers make all the decisions and lower-level mangers and employees simply carry out their directives. At the other extreme are organizations in with decision making is pushed down to the managers who are close to the scene of action. The former organizations are highly centralized, and the latter are decentralized. Centralization describes the degree to which decision-making is concentrated at a single point in the organization. In contrast, the more that lower-level employees provide input or actually make decisions, the decentralization is more. Table 18-2 lists some of the features and factors that have been identified as influencing the amount of centralization or decentralization an organization.

Table 18-2 Factors influencing centralization

When more Centralization	When more Decentralization
Environment is stable	Environment is complex, uncertain
Lower-level managers are not as capable or experienced at making decisions as upper-level mangers	Lower-level mangers are capable and experienced at making decisions
Decisions are relatively minor	Lower-level manages do not want to have a say in decisions
Decisions are significant	Corporate culture is open to allowing managers to have a say in what happens

Organization is facing a crisis or the risk of company failure	Company is geographically dispersed
Company is large	Effective implementation of company strategies depends on manages having involvement and flexibility to make decisions
Effective implementation of company strategies depends on mangers retaining say over what happens	

Formalization refers to the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures. If a job is highly formalized, then the person doing that job has a minimum amount of discretion over what is to be done, when it's to be done, and how he or she could do it.

Organization Design Decisions

Structuring organization is an engineering job. The way the structures are used determine the effectiveness of an organization structure. It implies that the philosophy of management counts. There are two generic of organizational design followed by the philosophical factors.

➤ Mechanistic

➤ Organic

Table 18-3 describes the two organizational forms. The mechanistic organization is a rigid and tightly controlled structure. It's characterized by high specialization, rigid departmentalization, narrow spans of control, high formalization, a limited information network (mostly downward communication) and little participation in decision-making by lower-level employees.

Table 18-3 Mechanistic vs organic structures

Mechanistic	Organic
High specialization	Cross-Functional Teams
Rigid Departmentalization	Cross-Hierarchical Teams
Clear Chain of Command	Free Flowof information
Narrow Spans of Control	Wide Spans of Control
Centralization	Decentralization
High Formalization	Low Formalization

Mechanistic types of organizational structures tend to be efficiency machines, well oiled by rules, regulations standardized tasks, and similar controls. This organizational design tries to minimize the impact of differencing personalities, judgments and ambiguity because these human traits are seen as inefficient and inconsistent. Although no pure form of a mechanistic organization exists in reality, almost all large corporations and governmental agencies have at least some of these mechanistic characteristics.

In direct contrast to the mechanistic form of organization is the organic organization, which is as highly adaptive and flexible, a structure as the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulation, the organic organizations is flexible, which allows is to change rapidly as needs require, Organic organizations have division of labour, but the jobs people do are not standardized. Employees are highly trained and empowered to handle diverse job activities and problems, and these organizations frequently use employee teams

The choice of mechanistic or organic structures depends upon several factors as shown in Table 18-4

Table 18-4 Choosing mechanistic or organic structure

Factor	Mechanistic	Organic
Size	Large size organizations become more formal. Emphasis is on more specialization, centralization and rules and regulations.	Small organizations tend to be more team based, decentralized, goal driven and result oriented.
Strategy	Productivity and Cost minimization	Focus on innovation and sustainable competitive advantage
Technology	Mass production	Unit production and process production.
Environment	Simple ,stable and certain	Complex, unstable and uncertain

British scholar Woodward categorized organizations based on three distinct technologies The first category, **unit production**, described the production of times in units or small batches. The second category, **mass production** described large-batch manufacturing. Finally, the third and most technically complex group, process production, included continuous-process production. In general, the more routine the technology, the more standardized and mechanistic the structure can be. Organizations with more non-routine technology are more likely to have organics structures.

Table 18.5   Production types and organization structures

Unit Production	Mass Production	Process Production
Low vertical differentiation	Moderate vertical differentiation	High Vertical differentiation
Low horizontal differentiation	High horizontal differentiation	Low horizontal Differentiation
Low Formalization	High formalization	Low formalization
Organic	Mechanistic	Organic

Boundary less organization

The term was coined by jack Welch, former chairman of General Electric, who wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. This idea may sound odd, yet many of today's most successful organizations are finding that they can most effectively operate in today's environment by remaining flexible, not having a rigid, predefined structure. The boundary less organization seeks to eliminate the chain of command, to have appropriate spans of control, and to replace departments with empowered teams.

By removing vertical boundaries through such structural approaches as cross-hierarchical teams and participative decision making, the hierarchy is flattened. Managers can remove horizontal boundaries by using cross-functional teams and organizing work activities around work processes instead of round functional departments.   And external boundaries can be minimized or eliminated by using strategic alliances with suppliers, or value chain management.

Learning organization

It's an organization that has developed the capacity to continuously adapt and change because all members take an active role in identifying and resolving work-related issues. In a learning organization, employees are practicing knowledge

management by continuously acquiring and sharing new knowledge and are willing to apply that knowledge in making decisions or performing their work. Some organizational design theories even go so far as to say that an organization's ability to do this-that is, to learn and to apply that learning as they perform the organization's work-may be the only sustainable source of competitive advantage.
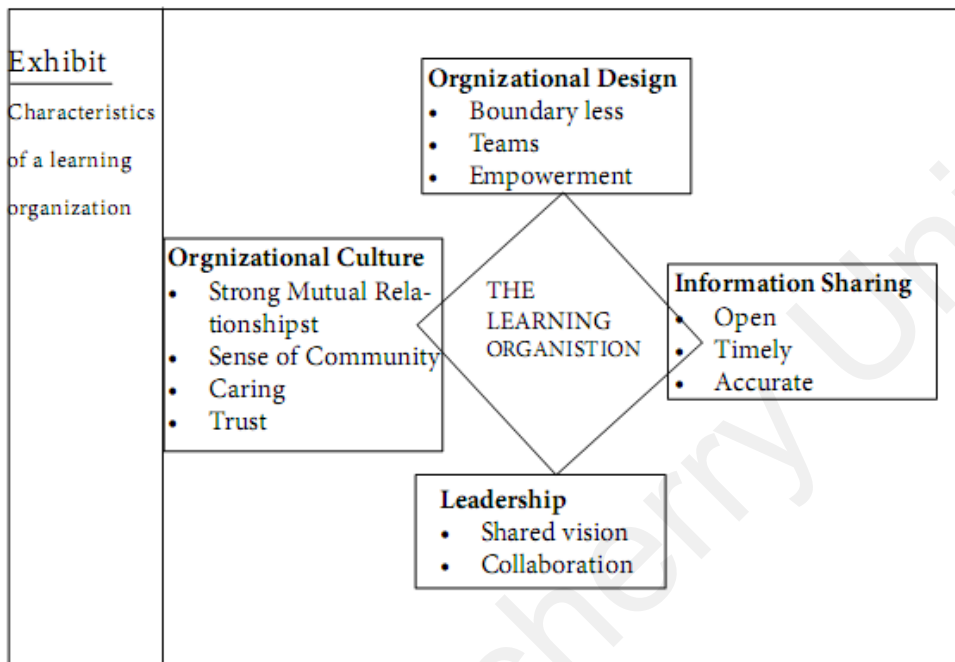

Figure 18.7 Learning organisation

Organization Culture-Concept

The culture of an organization has been considered to consist of three layers: Values about the organization's mission, objectives or strategies; Beliefs which people in the organization talk about; Taken –for-granted assumptions or the organizational paradigm. The public statements of the organization's values, beliefs and purposes are not descriptions of the organizational paradigm. This 'real' culture is evidenced by the way the organization actually operates. Matching strategic positioning and organizational culture is a critical feature of successful organizations.

Influence of Culture on Strategy

Henry Mintzberg said that one of the basic building blocks of organizational design is the ideology or culture of the organization. There are many frames of reference which exist at the

organizational level and can be especially important as an influence on the development of organizational strategy. The social and cultural influences that impact the organization can be based on many different influences. These can be segregated into two groups, external and internal. The combination of these two has its impact on the individual. The external influences are the national or regional, professional/ institutional, and industry influences; and the internal influences are those of the organization and the functional/ divisional influences. The frames of reference are shown in Figure 18-8. Different group categories have been shaded differently in the figure.
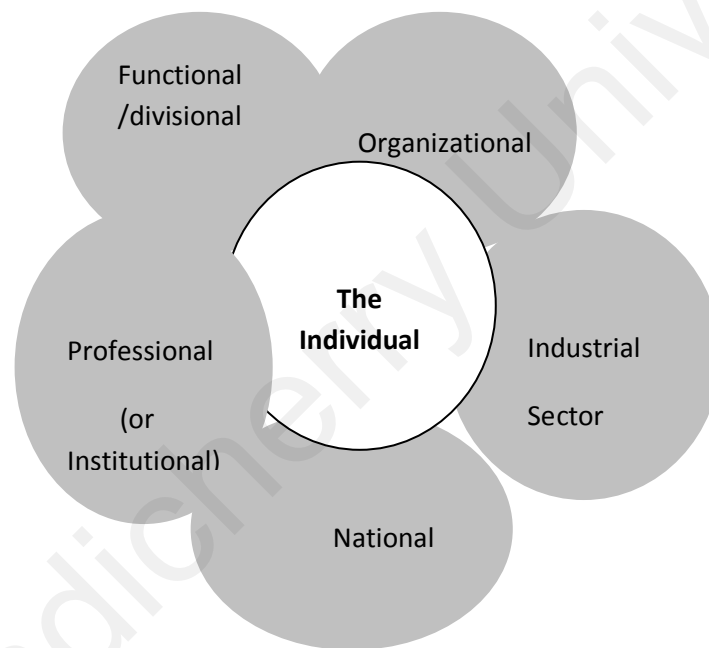
Figure 18.9 The Cultural web

Cultural Web

The cultural web is a useful way of considering forces for and against change. The cultural web provides an understanding on how an organization's culture will affect its ability to change and adapt to new policies or environments. The organization's cultural web is a set of assumptions about the organization that have been internalized. It represents the collective experience built up over years and all organizations develop a degree of coherence in their culture to be able to function effectively. Because organizational cultures are not easy to change, they have an important impact on strategy.

Figure 18.8 is a schematic representation of the cultural web. The different elements of the cultural web are described in greater detail below:

Stories:

Stories are told about the organization by its members to each other and to new recruits. They distil the organization's past and legitimize behaviour, in the tradition of tribal love, complete with myths, legends, heroes and taboos.

Routines and rituals 'Routine':

Routines and rituals 'Routine is the way members behave towards each other and towards those outside the organization. 'Rituals' are the special events through which the organization emphasizes what is important and how things are done in the organization.

Symbol:

These are the trappings of status and privilege in the organization. Symbols such as logos, offices, cars and titles become a representation of the nature of the organization.

Organizational structure:

This reflects the power structure and sets down important relationships within the organization.

Control Systems:

These are the measurement and reward systems that represent what are important areas of focus of the organization.

Power Structures:

The powerful managerial groupings are likely to be associated with the set of core assumptions and beliefs of the organization.
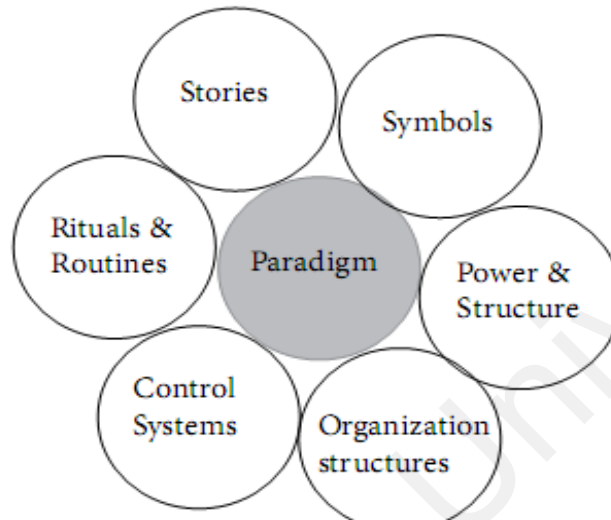
The Cultural Web

Figure 18.9 The cultural Web

Cultural Audit

In order to understand how the culture contributes to the problem, and work out how it needs to change in order for the organization to deliver the strategy effectively, a cultural audit can be carried out. The cultural audit analyzes different aspects of the organization's cultural web. A cultural audit is conducted through:

➤ Listening to people talk about their organization

➤ Observing the organization's day to day operations

➤ Asking mangers to audit themselves using a checklist.

An audit of the cultural web should bring up a number of questions that have been shown in Table. This is representative of the different influences that play on the organization.

Table 18.6   Analysis of the Cultural Web

Element	Components
Stories	• What core beliefs do stories reflect? • How pervasive are these beliefs? • Do stories relate to strengths or weaknesses, success or failures, conformity or mavericks • Who are the heroes and villains? • What norms do the mavericks deviate from?
Routines and Rituals	• Which routines are emphasized? • Which would look odd if changed? • What behavior do routines encourage? • What are the key rituals? • What core beliefs do they reflect? • What do training programs emphasize? • How easy are rituals/routines to change?
Symbols	• What language and jargon is used ? • How internal or accessible is it? • What aspects of strategy are highlighted in publicity? • What status symbols are there? • Are there particular symbols which denote the organization?

Organisational structure	• How mechanistic/organic are the structures? • How flat/hierarchical are the structures? • How format/informal are the structures? • Do structures encourage collaboration or competition? • What type of power structures which denote the organization?
Control Systems	• What is most closely monitored/controlled? • Is the emphasis on reward or punishment? • Are controls related to history or current strategies? • Are there many/few controls?
Power Structures	• What are the core beliefs of the leadership? • How strongly held are these beliefs? • How is power distributed in the organization? • Where are the main blockages to chage?

Summary

The strategy implementation phase includes planning, resource allocation, analysis of organization structure and establishing a culture for the organization. The structure of the organization determines three key components pertaining to organizing the activities of the people in the organization. The organization chart is the visual representation of underlying activities and processes being undertaken by the organization. The principle underlying the organization chart is that vertical linkages primarily show control, while horizontal linkages indicate coordination and collaboration. There are different organizational.

The culture of an organization has been considered to consist of three layers: Values about the organization's mission, objectives or strategies; Beliefs which people in the organization talk about; Taken –for-granted assumptions or the organizational paradigm. The public statements of the organization's values, beliefs and purposes are

not descriptions of the organizational paradigm. This 'real' culture is evidenced by the way the organization actually operates. Matching strategic positioning and organizational culture is a critical feature of successful organizations. The cultural web is a means of assessing the dominant culture of the organization.

Self -Assessment Questions

1. How do you define organization structure and culture?
2. What are the key elements in designing structures?
3. Examine the different types of structures and analyze their merits and demerits
4. What size of span is ideal – wide or narrow? Justify your answer
5. When do you prefer mechanistic design?
6. Outline the significance of a boundary less organization and learning organization
7. How does culture influence strategy?
8. Illustrate and explain the 'cultural web'.
9. Describe cultural audit and examine its significance
10. Will structure follow strategy or strategy follow structure? Explain in detail.

Activities

1. Draw the structure of the organization in which you are studying or working. Examine how you can make it a learning organization and a boundary less organization. Illustrate and explain them.
2. Write a short report on a chosen Chief Executive of an organization you are familiar with. Describe how/she has been instrumental in establishing the culture in the organization.

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Lesson 19 - Managing Change

Lesson Outline

Learning Objectives

After reading this lesson you should be able to

- Describe concept and the levels of change
- Outline the systems model of change
- Discuss the reasons for change
- Describe approaches to manage change
- Examine the methods of dealing with change.

Introduction

Change is law of life. Change is an inevitable and unavoidable process in organizations. It is only difficult in small firms but in large organizations it requires monumental effort and persistence. Uncertain consequences, organizational policies, various forms of resistance from employees and suppliers buffet change process. Managers as such have to appreciate the needs for change, understand the complexities of change process and handle the change process effectively.

Change – Defined

According to Stephen P. Robbins change is concerned with making things different. Change occurs when an organizational system is disturbed by some internal or external force, occurs. Change, as a process, is simply modification of the structure or process of a system. It may be good or bad, the concept is descriptive only."

In the context of change we come across certain terms like change agent, change intervention and change targets.

> Change agent is the person or persons who acts as a catalyst, and assumes the responsibility for managing the change process.

> Change intervention, is a planned section to make things different.

> Change targets are individuals and groups who are subject to change.

Levels of Change

Change occurs at three levels

1. Individual level
2. Group level and
3. Organization level

At the individual level change is reflected in such developments as changes in a job assignment, physical move to a different location, or the change in maturity of a person which occurs overtime. It is said that changes at the individual level will seldom have significant implications

for the total organization.

Most organizational changes have their major effects at the group level. This is because most activities in organizations are organized on a group basis. The groups could be departments, or informal work groups. Changes at the group level can affect work flows, job design, social organization, influence and status systems, and communications patterns.

Changes at the organization level involve major programmes that affect both individuals and groups. Decisions regarding these changes are generally made by senior management and are seldom implemented by only a single manager. Frequently, they occur over long periods of time and require considerable planning for implementation. Example of these changes would be reorganization of the organizational structure and responsibilities, revamping of employee remuneration system, or major shifts in an organization's objectives.

Systems Model of Change

While planning a change, care is necessary to have organizational coverage.

According to the systems model of change, the organization can be described as six interacting variables which could serve the focus of planned change-- people, culture task, technology, design and strategy. Figure 19-1 depicts them as system variables – interrelated components.

➤ The people variable is applicable to individuals working for the organization; it is inclusive of their individual differences like their personality, attitudes, perceptions, attributions, needs and motives.

➤ The culture variable is a reflection of their shared beliefs, values, expectations and norms of organizational members

➤ The task variable refers to the nature of the work itself i.e., whether the job is simple or complex, novel or repetitive, standardized or unique.

➤ The technology variable involves the problem solving methods and techniques used and the application of knowledge to the

various organizational processes (ie., the task and technology in job design.)

> The design variable refers to the organizational design in terms of the formal organizational structure, its systems of communication, control, authority and responsibility.

> The strategy variable refers to the organization's planning and decision making process with specific reference to the activities undertaken to identify organizational goals and prepare specific plans to acquire, and sue resources in order to accomplish those goals.

Figure: 19.1 A systems model of change
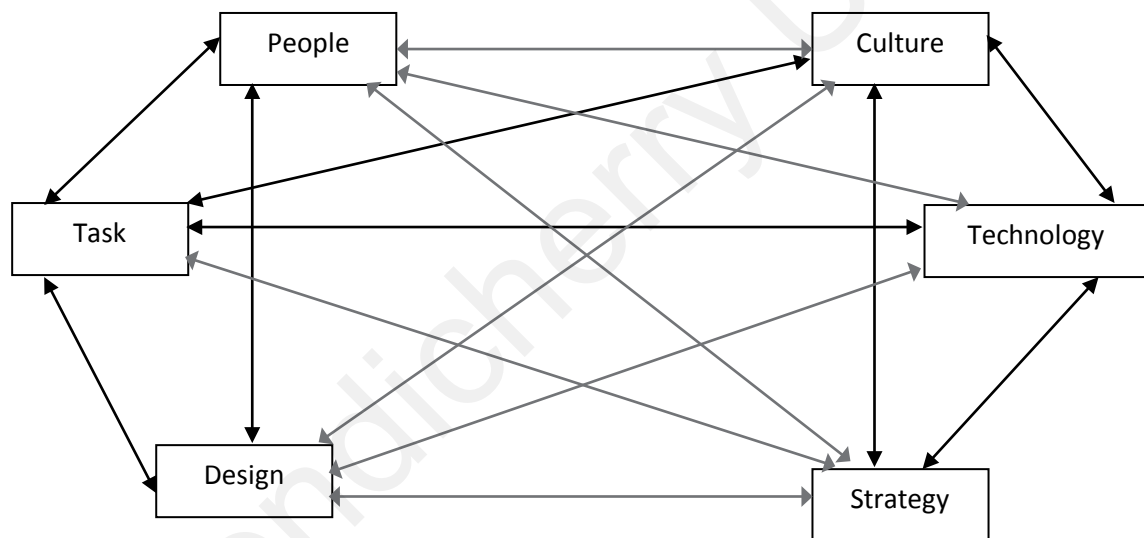
Reasons for Change

More and more organizations today face a dynamic changing environment. This, in turn, requires them to adapt. "Change or chaos", is the rallying cry among mangers today world wide. Table 19-1 summarizes the six specific forces that are acting as stimulants for change.

Table 19-1 Forces for Change

Force	Specific change variables
Nature of the workforce	• More cultural diversity • Increase in professionals • Many new entrants with inadequate skills
Technology	• Faster and cheaper computers • New mobile communication devices • Decline of the human genetic code
Competition	• Global competitors • Mergers and consolidations • Growth of e-commerce
Social trends	• Internet chat rooms • Retirement of Baby Boomers • Increased interest in urban living
World politics	• Escalation of hostilities in the Middle East • Opening of markets in China • The war on terrorism following 9/11/01

Workforce Diversify

For instance, almost every organization has to adjust to a multicultural environment. Human resource policies and practices have to change in order to attract and keep this more diverse workforce. And many companies have to spend large amounts of money on training to upgrade reading, match, computer, and other skills of employees.

Technology

For instance, computers are now common place in almost every organization; and cell phones and hand-held PDAs are being increasingly perceived as necessities by a large segment of the population.

Competition

The global economy means that competitors are as likely to come from across the ocean as from across town. Heightened competition also makes it necessary for established organizations to defend themselves against both traditional competitors who develop new products and services and small, entrepreneurial firms with innovative offerings. Successful organizations will be the ones that can change in response to the competition.

Social trends Society doesn't remain static

For instance, in contrast to just ten years ago, people are meeting and sharing information in Internet chat rooms; The youth has become more aggressive. The old aged people are increasing in number. Rural areas are developing and rual market is becoming attractive.

World politics

No one could have imagined how world politics would change in recent years. We've seen the breakup of the Soviet Union; the opening up of South Africa and China; almost daily suicide bombings in the Middle East; and, of course, the rise of Muslim fundamentalism. The attacks on New York and Washington on September 11, and the subsequent war on terrorism, has led to changes in business practices related to the creation of backup systems, employee security, employee stereotyping and profiling, and post-terrorist-attack anxiety.

Approaches to Managing Change

The three most popular approaches to manage change are

     i. Lewin's three step model

    ii. Action research and

   iii. Organizational development

I)   Lewin's Three Step Model

Kurt Lewin argued that successful change in organizations should follow three steps as shown in Figure 19-2. Unfreezing is the release of forces dormant in the status quo. Movement is transforming form old to new situation or to a new state. Refreezing is consolidation in the new situation to make change permanent.

Lewin's Three-Step Change Model		
Unfreezing →	Movement →	Refreezing
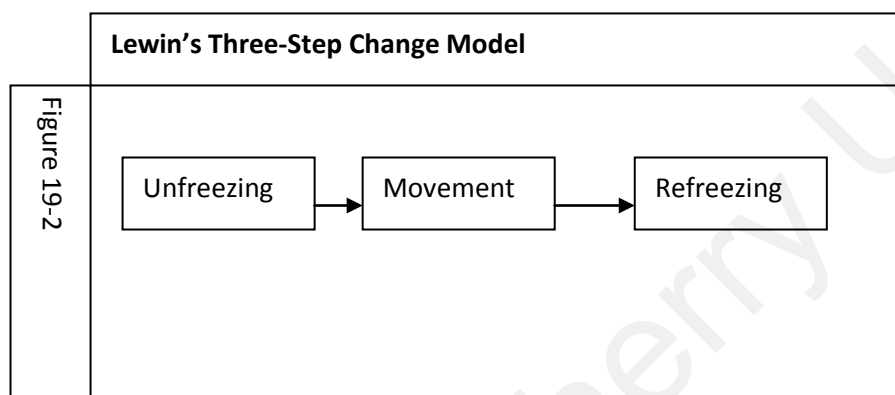
Figure 19-2

Every change situation Kurt Lewin presents as a force field as depicted in Figure 19-3. The status quo can be considered to be an equilibrium state. To move from this equilibrium-to overcome the pressures of both individual resistance and group conformity –unfreezing is necessary. It can be achieved in one of three ways.

The *driving forces,* which lead to change, can be strengthened. The restraining forces, which hinder movement from the existing equilibrium, can be decreased. A third alternative is to combine the first two approaches.
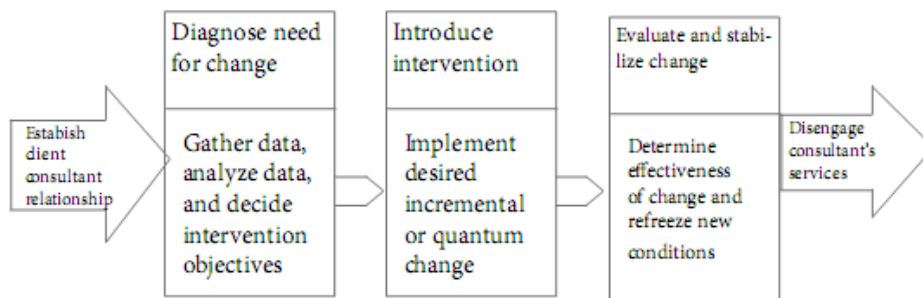
Figure 19.3 Lewin's force field analysis model
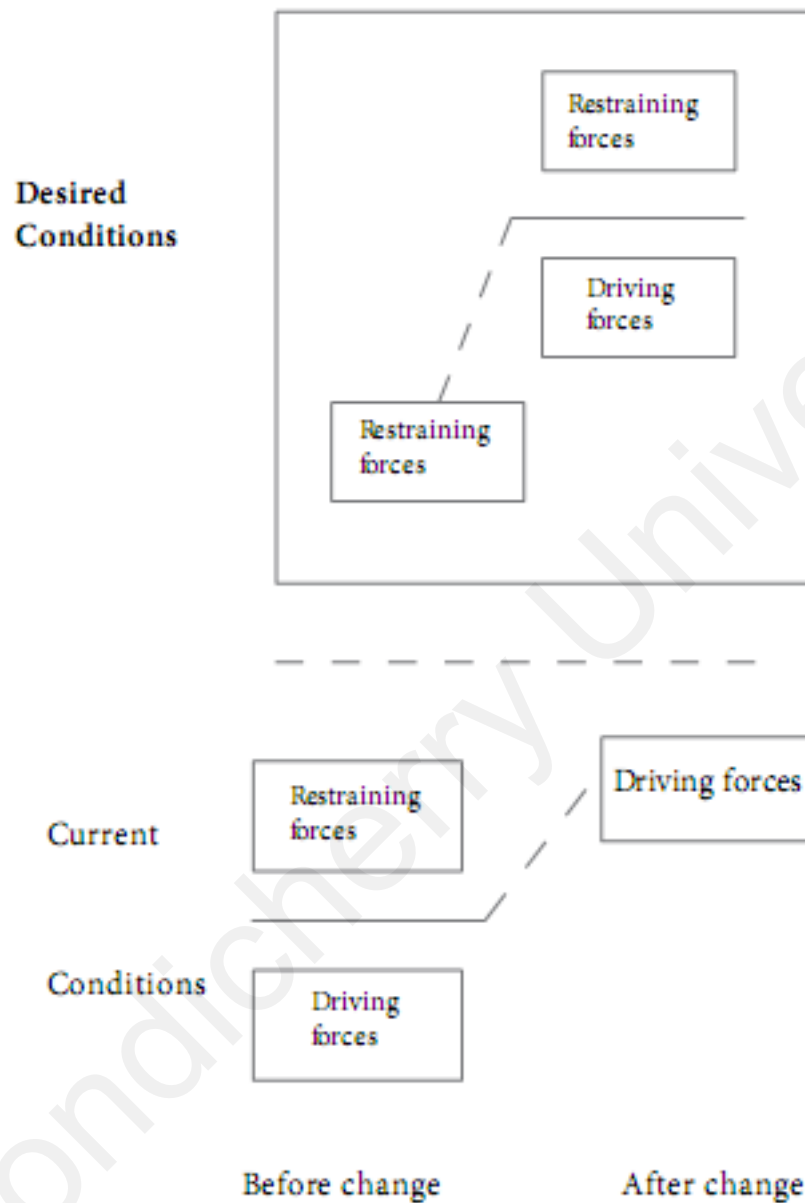
II) Action Research

Action research is a data-based, problem-oriented process that diagnose the need for change, introduce the intervention and then evaluates and stabilizer the deserved changes. The Action research process is given in Figure 19-4

Figure 19.4 The Action Research Process

- ➤ *Establish client-consultant relationship* – Action research usually assumes that the change agent originates outside the system (such as a consultant), so the process begins by forming the client-consultant relationship. **Process consultation** is a method of helping people within the system solve their own problems by making them aware of organizational processes, the consequences of those processes, and the means by which they can be changed.

- ➤ *Diagnose the need for change* – Action research is a problem-oriented activity that carefully diagnoses the problem through systematic analysis of the situation

- ➤ *Introduce intervention* – This stage in the action research model applies one or more actions to correct the problem. It may include any of the prescriptions mentioned in this textbook, such as building more effective teams, managing conflict, building a better organizational structure, or changing the corporate culture. Some experts recommend incremental change in which the organization fine-tunes the system and takes small steps toward a desired state. Others claim that quantum change is often required in which the system is overhauled decisively and quickly.

- ➤ *Evaluate and stabilize change* – Action research recommends evaluating the effectiveness of the intervention against the standards established in the diagnostic stage.

The action research approach has dominated organizational change thinking eve since it was introduced in the 1940s.

III) Organizational Development (OD)

Organizational development (*OD* encompasses a collection of planned-change interventions built on humanistic-democratic values that seek to improve organizational effectiveness and employee well-being.   The following briefly identifies the underlying values in most OD efforts.

1. *Respect for people*   Individuals are perceived as being responsible, conscientious, and caring. They should be treated with dignity and respect.

2. *Trust and support*   The effective and healthy organization is characterized by trust, authenticity, openness, and a supportive climate.

3. *Power equalization* Effective, organizations deemphasize hierarchical authority and control

4. *Conformation* Problems shouldn't be swept under the rug.   They should be openly confronted.

5. *Participation* The more that people who will be affected by a change are involved in the decisions surrounding that change, the more they will be committed to implementing those decisions.

There are broadly six OD interventions discussed by experts of organizational behavior

  ➤ *Sensitivity training* – This is done in training groups that seek to change behavior through unstructured group interaction. It can go by a variety of names – sensitivity training, laboratory training, encounter groups, or T-groups (training groups.   Members are brought together in a free and open environment in which participants discuss themselves and their interactive processes, loosely directed by a professional behavioral scientist. The group is process-oriented, which means that individuals learn through observing and participating rather than being told.

  ➤ *Survey feed back* – Uses questionnaire to identify discrepancies

among member perceptions; discussion follows and remedies are suggested.

> *Process consultation* – A consultant assist a client to understand process events with which he or she must deal and identify processes that need improvement. These might include work flow, informal relationships among unit members, and formal communication channels. Process Consultation is more tasks-directed than is sensitivity training.

> *Team building* – uses high-interaction group activities to increase trust and openness among team members. Team building can be applied within groups or at the inter group level, at which activities are interdependent.

> *Inter group development* – These include efforts to change the attitudes, stereotypes and perceptions that groups have of each other. This approach used problem solving techniques.

> *Appreciative enquiry* - Seeks to identify the unique qualities and special strengths of an organization, which can then be built on to improve performance.

Methods for Dealing With Change

Kotler and Schlesinger have suggested six methods of introducing changes .tabl e19- The change agent must understand that there is no one universal approach to overcome resistance. Depending on each situation a different approach needs to be adopted. Change is a situational problem and a realization of this fact is essential for bringing about a change.

Table 19-2 Methods for dealing with resistance to change

Approach	Commonly used situations	Advantages	Drawbacks
Education + Communication	Where there is a lack of information or in-accurate information and analysis	Once persuaded people will often help with the implemen-tation of the change	Can be very time consuming if lots of people are involved

Participation + Involvement	Where the initiators do not have all the information they need to design the change and where others have considerable power to resist.	People who participate will be committed to implementing change and any relevant information they have will be integrated into the change plan.	Can be very time consuming if participators design an inappropriate change.
Facilitation + support	Where people are resisting because of adjustment problems	No other approach works as well with adjustment problems.	Can be time consuming expensive, and still fail
Negotiaton + agreement	Where someone or some group will clearly lose out in a change and where that group has considerable power to resist.	Sometimes it is a relatively easy way to avoid major resistance	Can be too expensive in many cases if it alters others to negotiate for compliance
Manipulation + co-option	Where other tactics will not work or too expensive	It can be a relatively quick and inexpensive solution to resistance problems.	Can lead to future problems if people feel manipulated.
Explicit +implicit coercion	Where speed is essential and the change initiators possess considerable power.	It is speedy and can overcome any kind of resistance	Can be risky if it leaves people angry at the initiators.

the focus of planned change – people, culture ask, technology, design and strategy. Organizational diagnosis (or planned) change includes ascertaining cause (s) of problems before going for managing change, changing people behavior, changing technology, changing organizational design and changing organization culture. As per Kurt Lewin's phases of change process, there are three phases – unfreezing, changing and

refreezing.. Resistance to change can occur at individual level (which may be due to perception, personality, habit, fear or losing power of the unknown and/or economic considerations) and at organizational level (organization, design, organizational culture, limited resources or/ and fixed investment liability). Resistance to change can be over come by using a force field analysis, adopting Lewin's three step approach, empathy and support, communication and participation and involvement of employees.

Self -Assessment Questions

1. Define change. Identify and illustrate the levels of change

2. Briefly explain the systems model of change

3. Outline the forces that drive change.

4. What are the approaches to manage change?

5. What is the contribution of Kurt Lewin to managing change?

6. What is Action research? Explain its significance as a OD techniques.

7. Describe how sensitivity training can be used in managing change.

8. What are the popular methods of managing resistance to change in organizations from the human relations point of view.

9. Describe the terms

   - Negotiation

   - Cooptation and manipulation

10. What do you understand by implicit and implicit coercion

Activities

1. Question yourself: 'how well do I respond to turbulent change?' List and explain how you overcame resistance to changes that have taken place in you work environment.

2. Visit the website of Indian Tourism Development Corporation (ITDC). Identify the change process in the context of globalization and privatization. Examine the impact of change and note down the same.

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Lesson 20 - Power, Politics And Leadership

Lesson Outline

> Introduction
> Concept and sources of power
> Leadership and Use of power
> Politics
> Summary
> Self Assessment questions
> Activities
> References

Learning Objectives

After reading this lesson you should be able to

> Explain the concept and dynamics of organization power
> Describe organizational politics diagnose the factors that contribute to politics

Introduction

An organization is a social system and it contains dynamic elements like power and politics that influence behavior of people. Both the terms are often emotional and sometimes felt negative. Since they are part of social life they should be managed properly to get positive outcomes. Leadership balances power and politics. Managers as leaders have to examine the source of power and its effective use. At the same time they should also explore the political behavior in organizations. They have to then balance power and politics, to effectively steer an organization towards its goals.

Concept and Sources of Power

The term power may be applied to individuals, groups, teams, departments, organizations, and countries. Power influences may affect resource allocations, space assignments, goals, hiring decisions, and many other outcomes and behaviors in an organization. It is defined as follows.

Power is the capacity to influence the behavior of others.

There are different sources of power. They are broadly divided into

(i) interpersonal sources and (ii) structural sources. They are further classified as shown in Figure 20-1.

(a) Interpersonal sources of power

Reward power is individual's ability to influence others' behaviors by rewarding their desirable behaviors. Compliance with requests and directives depends on rewards and the value of rewards to the recipients. Therefore, a superior can get desirable behaviors only when the rewards he has offered are valuable to the subordinates.

Coercive power is an individual's ability to influence others' behaviors by punishing their undesirable behaviors. For example, subordinates may comply because they expect to be punished for failure to respond favorably to managerial directives. Punishment may take the form of reprimands, undesirable work assignments, closer supervision, tighter enforcement of work rules, suspension without pay, and the like. The organization's ultimate punishment is to fire the employee.

Legitimate Power most often refers to a manager's ability to influence subordinates' behaviors because of the manager's formal position in the organization. Subordinates may respond to such influence because they acknowledge the manger's legitimate right to prescribe certain behaviors.

Expert power is an individual's ability to influence others' behaviors because of recognized competencies, talents, or specialized

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knowledge. To the extent that mangers can demonstrate competence in implementing, analyzing, evaluating, and controlling the tasks of subordinates, they will acquire expert power.

Referent Power is an individual's ability to influence others' behaviors as a result of being respected, admired, or liked. For example, subordinates' identification with a manager often forms the basis for referent power. This identification may include the desire of subordinates to emulate the manager. A young manager may copy the leadership style of an older, admired, and more experienced manager. The older manager thus has some ability-some referent power-to influence the behavior of the younger manager.
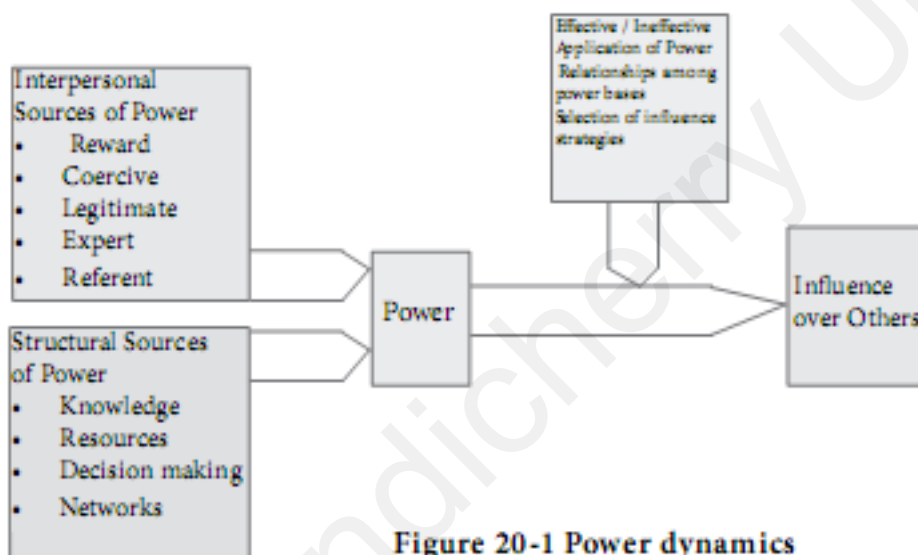
Figure 20-1 Power dynamics

(b) Structural sources of power

Structural sources of power are related to the division of labor and position in different teams and departments work assignments, locations and roles. The positions in hierarchy naturally result in a variety of situations in which there is unequal access to information, resources, and decision making.. Any of the situational factors could be a source of power in an organization, which include knowledge, resources, decision-making and networks.

Knowledge power – This power is from knowledge-information and know-how that exists in an organization. Those in a position to control information about current operations, develop information

about alternatives, or acquire knowledge about future events and plans have enormous power to influence the behaviors of others.

Personal computers and computerized workstations are having a dramatic impact on the access to and use of information-and thus on power relationships-in many organizations.

Resources power – Organizations need a variety of resources, including human resources, money, equipment, materials, supplies, and customers, to survive. The importance of specific resources to a firm's success and the difficulty of obtaining them vary.   The old saying that "he who has the gold makes the rules" sums up the idea that resources are power. Those having resources exercise power.

Today companies are adopting retention strategies to retain competent employees. Skilled people have power advantage over the less skilled people.

Decision-making power – Decisions in organizations often are made sequentially, with individuals, groups, or teams participating. The decision-making process creates additional power differences. Those who are in the critical positions of decision-making process might influence power. They influence the goals being developed, premises being used in evaluating an issue, alternatives being considered, outcomes being projected, and so on.

Consider, purchase process of a firm. If the plant superintendent is the one who has to approve the quotation submitted by the suppliers, the purchase manager has to wait for the decision of Plant superintendent.

Network power – Managers and departments that have connecting links with other individuals and departments in the organization will be more powerful than those who don't. The concept of networks as power implies that various affiliations, channels of information, and coalitions, both inside and outside the organization, represent sources of power. These networks can be information links, supply links and support links.

Lower level employee power – In organizations lower level employees also may wield considerable power. One of the sources can be expert power, which may allow subordinates to influence their managers.

For example, an office assistant who can use windows 98 spread sheet can influence his manager if he is not familiar with the same.

Leadership and Use of Power

Power can be used by a variety of people in a variety of ways. A useful perspective for studying the uses of power is illustrated in Table 20-1

(i) Use of interpersonal power

Table 20-1 shows the various uses of power and their outcomes.

Table 20-1The Uses and Outcomes of Power

Source of Leader Influence	Types of Outcome		
	Commitment	Compliance	Resistance
Referent Power	Likely: If request is believed to be important to the leader.	Possible: If request is perceived to be important to the leader.	Possible: If request is Something that is unimportant to the leader.
Expert Power	Likely: If request is persuasive and subordinates share leader's task goals	Possible: If request is persuasive.	Possible: If leader is arrogant and insulting or subordinates are apathetic about task and goals.

			Possible: If arrogant demands are made or request does not appear proper in the interests of the organisation or individual.
Legiti- mate Power	Possible: If request is polite and very appropriate	Likely: If request or order is seen as legitimate.	
Reward	Possible: When reward is used in a subtle, very personal way	Likely: If used in a mechanical, impersonal way	Possible: If used in a manipulative, arrogant way
Coercive Power	Very unlikely	Possible: If used in a helpful way.	Likely: If used in a hostile, nonpunitive way or manipulative way.

(ii) Use of structural power

These sources don't operate independently. A study conducted in two paper mills provides an example of how power sources are related.

One of the mills dropped an incentive pay plan based on performance in favor of a pay plan based strictly on seniority. Compared to the second plant, which retained the performance system, subordinates perceptions of the use of various sources of power by supervisors in the first plant changed noticeably. Discontinuing the incentive plan lowered the perceived reward power of supervisors' use of punishment increased (attribute perhaps to less control over rewards). The perceived use of referent and legitimate power decreased, but expert power appeared to be unaffected. These findings suggest that the interpersonal sources of power that influence behavior are complex and interrelated.

Table 20-2 The Uses and Outcomes of Structural Power

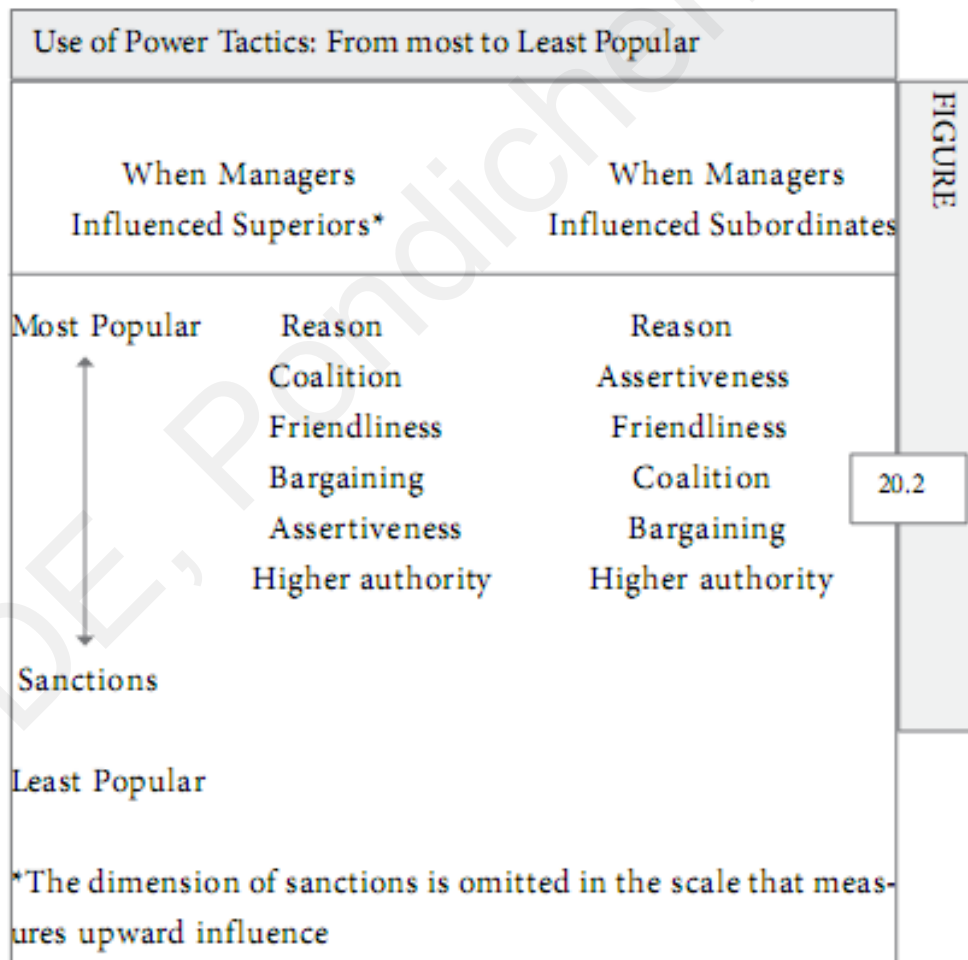| Source of Leader Influence	Types of Outcome		
	Commitment	Compliance	Resistance
Knowledge	Likely: If request is persuasive and subordinates share leader's task and goals	Possible: If request is logical and appropriate.	Possible: If leader is arrogant and insulting or subordinates are apathetic about task and goals.
Resources	Likely: If request is believed to be important to the leader.	Possible: If request is perceived to be important to the leader.	Possible: If request is Something that is unimportant to the leader.
Decision making	Possible: If request is polite and very appropriate.	Likely: If request or order is seen as legitimate	Possible: If arrogant demands are made or request does not appear proper in the interests of the organization or individual.

Networks	Possible: When power is used in a subtle way.	Likely: If used in a Way beneficial to organizational interests.	Possible: If used in a manipulative, arrogant way

(iii) Power tactics of leaders

Power is used with influence tactics in organizations. There are some standardized ways by which power holders attempt to get what they want. A research study of 165 managers and 750 employees revealed how managerial employees influence others. The findings identified seven tactical dimensions or strategies .How they vary in popularity is shown in Figure 20-2.

Tactics	Description
Reason	Use of facts and data to make a logical or rational presentation of ideas
Friendliness	Use of flattery, creation of goodwill, acting humble, and being friendly prior to making a request
Coalition	Getting the support of other people in the organization to back up the request
Bargaining	Use of negotiation though the exchange of benefits or favors

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Assertiveness	Use of a direct and forceful approach such as demanding compliance with requests, repeating reminders, ordering individuals to do what is asked, and point out that rules require compliance
Higher authority	Gaining the support of higher levels in the organization to back up requests
Sanctions	Use of organizationally derived rewards and punishments such as preventing or promising a salary increase, threatening to give an unsatisfactory performance evaluation, or withholding a promotion.

Use of Power Tactics: From most to Least Popular

FIGURE

When Managers Influenced Superiors*	When Managers Influenced Subordinates
Reason	Reason
Coalition	Assertiveness
Friendliness	Friendliness
Bargaining	Coalition
Assertiveness	Bargaining
Higher authority	Higher authority

Most Popular

Sanctions

Least Popular

20.2

*The dimension of sanctions is omitted in the scale that measures upward influence

(iv) Power Coalitions

The natural way to gain influence is to gain power. Therefore, those who want power will attempt to build a personal power base by forming a coalition. By joining together, managers can combine their resources to increase rewards for themselves. Successful coalitions have been found to contain fluid membership and are able to form swiftly, achieve their target issue, and quickly disappear.

Many employees hold power by joining trade unions. If a trade union is unable to get success, almost all the trade unions of the organization join together to fight against management for achieving their demands fulfilled.

Participative management is visible in coalitions. The coalition continues till all the members are co-operative and tolerant. If their interests clash, they disintegrate and the benefits of coalitions are not achieved. Dictatorial system does not like coalition. Coalition provides interdependence. It is needed where resources are huge and require to be managed effectively.

Politics

Politics is the art of acquiring and enhancing power. Employees have a certain role to play. Therefore, their exercise of power is limited to a large extent by the role obligations. Political behavior is of two types.

Legitimate - It includes normal every day's politics. It includes:

- Complaining to one's superiors,
- By passing the chain of command,
- Forming coalitions,
- Obstructing organizational policies through excessive adherence to rules and
- Developing contacts outside through professional activities.

Illegitimate – It includes influences that are extreme and violate the implied "rules of the game." Such activities include
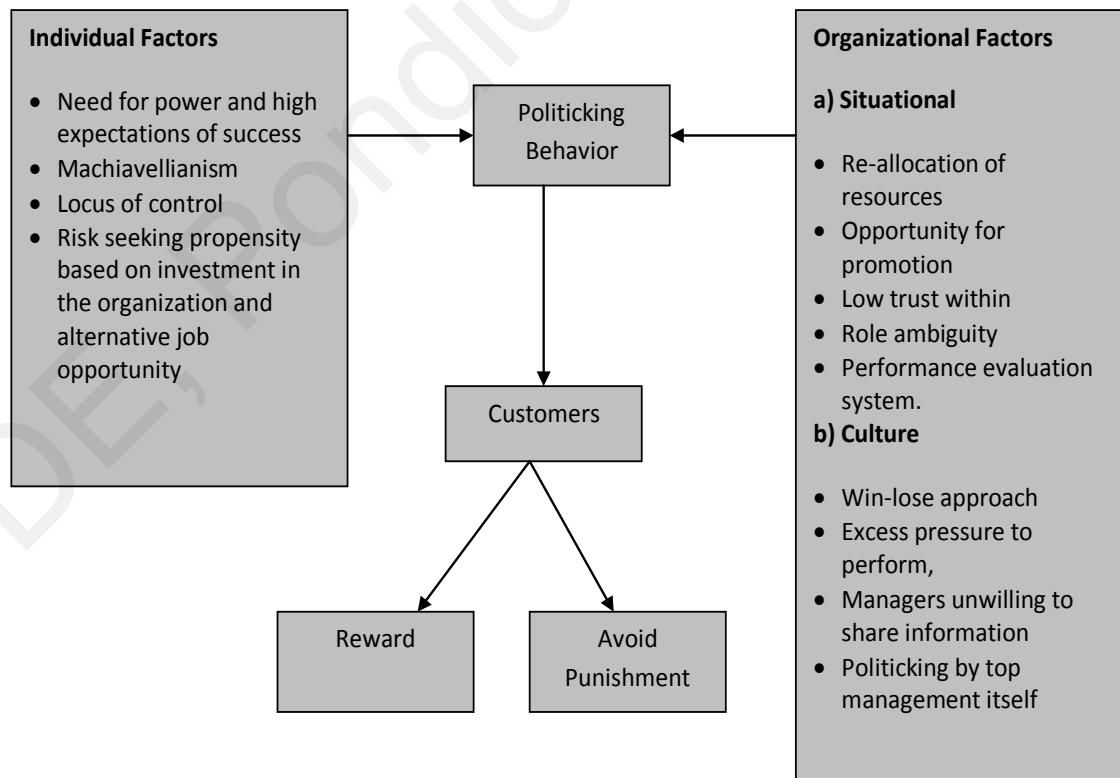
> ‣ Sabotage,

> ‣ Whistle blowing,

> ‣ Symbolic protest such as wearing unorthodox dress and

> ‣ Groups of employees cumulatively calling in sick.

It may be stated that the vast majority of political actions are of the legitimate variety. The reasons are pragmatic – the extreme and illegitimate forms of political behavior pose a very real risk of loss of organizational membership, or extreme sanctions against those who use them and then fall short in having enough power to insure that they work.

Factors Causing Political Behavior

Research has indicated a number of factors, which can contribute to political behavior. Some of these factors are individual and derived from the unique qualities of the employees in the organization and others are derived from the organization's internal culture or environment.

Figure 20-3 Factors causing political behavior

Individual Factors

- Need for power and high expectations of success
- Machiavellianism
- Locus of control
- Risk seeking propensity based on investment in the organization and alternative job opportunity

Politicking Behavior

Customers

Reward

Avoid Punishment

Organizational Factors

a) Situational

- Re-allocation of resources
- Opportunity for promotion
- Low trust within
- Role ambiguity
- Performance evaluation system.

b) Culture

- Win-lose approach
- Excess pressure to perform,
- Managers unwilling to share information
- Politicking by top management itself

A) Individual Factors

A few prominent individual factors are examined here.

i) Need for power and high expectations of success

Some managers who are status and ego driven often resort to politics to gain access to power corridors. They use the power for their personal growth and pleasures. Some managers who are in-charge of teams or units, may also engage in politics to safeguard their positions and have more benefits for their units. For effective management to take place, managers must be cautioned against the use of 'Need for Power' for personal means – to dominate others, seek loyalty for own self rather than the organization. It will always be preferable to adopt a 'Need for power for institutional purpose'. This will help in creating a good work climate or culture for effective work and also help to develop subordinate's understanding and loyalty to the organization.

ii) Machiavellianism

Machiavellians are people who use deceit and opportunism in interpersonal relations and manipulate others for their own purpose. Such Machiavellists also have a cynical view of the nature of other people and do not care for conventional morality. Obviously, politics of this kind is undesirable in organizations.

iii) Locus of control

Locus of control is the extent to which people believe that they can control events which affect them.   Individuals can either have a high internal locus of control or a high external locus of control. Those individuals with a high internal locus of control hold a belief that events result primarily from their own behavior and are likely to engage in a political behavior in an attempt in influence other people. Those who have external   locus of control believe in external forces from other individual managers, other groups or fate, which affect their success.

iv) Risk seeking propensity
Managers differ in risk taking. Some are risk seekers. Some

are risk moderators. There are marked individual differences in their willingness to take risks or in their risk seeking prosperity. Some individuals can be descried as risk seekers. Negative outcomes like low performance ratings, demotions etc., can be the risks associated with persons who engage in political behavior in organizations. Knowing this and yet engaging oneself in political activities can be called risk seekers. While risk avoiders are those who avoid such due to the possible negative outcomes.

(B) Organizational Factors

Organizational factors also influence the politicking in organizations. These are as follows.

> *Reallocation of resources* – when organizations downsize the changes many stimulate conflict and politicking to have advantage in allocation.
> *Advancement or promotion* – people resort to politics for quickly getting advancement or promotion in their careers
> *Low trust* – A low trust within the organization can increase political behavior, which can become illegitimate also.
> *Role ambiguity* – When there is confusion in the scope and functions, employees resort to politicking to have a favorable situation.

Summary

Organizational behaviors include power and political dimensions. When strategy implementation is undertaken, managers have to be leaders in the process and exercise influences. Influencing behavior requires power, Power sources are mainly categorized into inter personal and organizational. Interpersonal sources are: coercive, expert, legitimate, referent, and reward. Organizational power sources are: knowledge, resources, decision- making and networks. Power tactics employed by managers include: reason, coalition, friendliness, bargaining and assertiveness. Politics is the art of acquiring and enhancing power. Employees have a certain role to play. Therefore, their exercise of power is limited to a large extent by the role obligations. Political behavior is of two types-legitimate and illegitimate. Research has indicated a number of factors, which can contribute to political behavior. Individual factors

include: Need for power and high expectations of success, machaivellinism locus of control and risk taking propensity. Organizational factors include: reallocation of resources, promotion or advancement, low trust and role ambiguity.

Self-Assessment Questions

1. Explain what do you understand by power and politics.
2. What are the interpersonal sources of power?
3. What are the organizational sources of power?
4. How do you exercise interpersonal power as a leader?
5. How do you exercise organizational power as a leader?
6. Why do mangers resort to politics? Are there risks?
7. What factors of individual are responsible for politics?
8. What factors of organization can be responsible for politics?
9. Draw a model of power dynamics in organizations.
10. Draws a model of political behavior in organizations.

Activities

1. Think about behaviors in your organization. Are there politics and power influences? Make a report.
2. Recall the way you have used power to influence behaviors of family members and friends. Make an inventory of power influences identifying the sources.
3. Prepare a short questionnaire to find out political behavior in organizations. Find out the political issues, outcomes and strategies adopted for reducing undesirable behaviors.
4. Visit a local bank. Inquire the role played by politics and power during computerization. Also find out how they were used for advantage by management of bank.

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Lesson 21 - Strategy Implementation

Lesson Outline

- ➤ Introduction
- ➤ Implementation-Defined
- ➤ Significance of Implementation
- ➤ Process of implementation
- ➤ Strategic evaluation and control
- ➤ Summary
- ➤ Self assessment questions
- ➤ Assignments
- ➤ References

Learning Objectives

After reading this lesson you should be able to

- ➤ Understand the concept of strategy implementation
- ➤ Identify the different types of control
- ➤ Examine the process of strategy implementation

Introduction

Planning is said to be effective only when it produces desired results. It is hence said that planning and controlling are Siamese twins of management. Once a strategy is chosen, it has to be put into action, in such a way that the expected outcomes are realized. This process is called 'implementation'. It covers a wide range of strategic issues, decisions and actions, which are often critical for the success of a strategy.

Implementation-Defined

Implementation involves putting into action the conceptualized strategy, by formulating various programs, budgets, procedures and

policies. Miller defined strategy implementation in the following words.

"Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets and procedures."

Significance of Implementation

The significance of implementation of strategy can be understood from the following points of view.

(i)   It is part of strategy making

Strategy making process involves several steps (shaded boxes)as shown in Figure 21-1.it involves steps like resource allocation, designing organization culture, leadership that balances power and politics, and evaluation of performance at every step through standards and audit systems. If these steps are not properly taken care of faire in strategy is inevitable. PepsiCo example illustrates how culture can be a cause of failure.
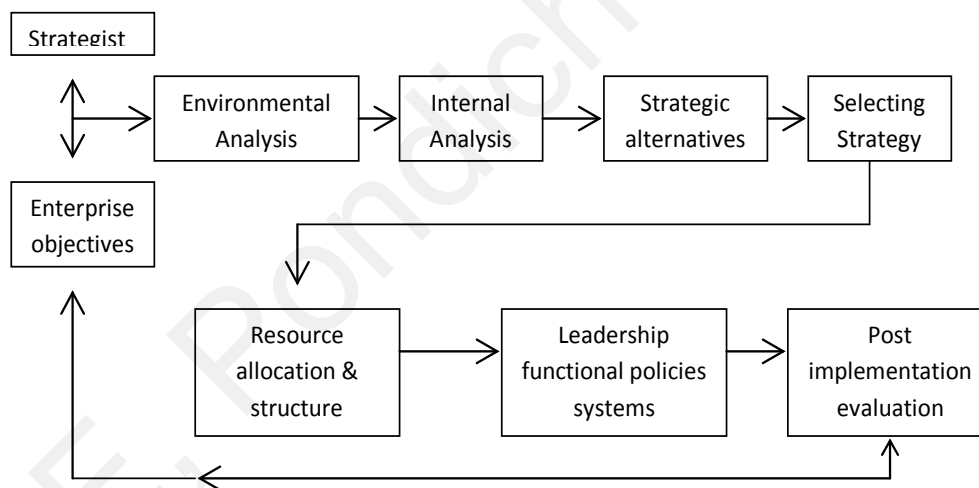

Figure 21-1 Strategy evaluation and control in strategic formulation framework.

Pepsi Co, selected a relatively inexperienced manager to implement strategy at Brazil. Mr Charles Beach from Coca-Cola was selected as franchisee for North Carolina, Pueto Rica and later for the entire South America. This fast 'changing culture' and 'ready fire aim culture' of Pepsi

Co, became a problem. While Coca-Cola adds territories slowly, Pepsi Co, is very fast, this led its Brazilian operations into Chaos.

Process of Implementation

Implementation includes the following steps. Many of the steps are discussed in the earlier lessons. We will now briefly discuss them.

i)   Resource allocation
ii)   Organisation structure design
iii)   Planning framework
iv)   Leading and staffing
v)   Change and communication.
vi)   Evaluation

Resource allocation

This has vital significance in strategy implementation. In a single product firm, it may involve assessment of the resource needs of different functional departments. In a multi divisional organisation, it implies assessing the resource needs of different SBUs or product divisions. Methods of resource allocation include use of:

> Percentage of sales or profits
> BCG matrix
> Budgeting system

Organization structure design

Appropriate organization structure is to be designed to make strategy implementable. The relation between strategy and structure is established based on organizational life cycle, corporate development stages and international businesses. Organization design involves changes like:

> Job design- Making the jobs more challenging by job analysis and role redefinition.

> ➤ Reengineering- Reengineering is a radical redesign of business process to achieve major gains in cost, service and time. It is an effective way of implementing turn around strategy. It breaks away old rules and procedures

Planning frame work

The managers involved in implementation should plan and develop programmes, budgets and procedures. They should also work for achieving synergy among the divisions and functional areas in order to maintain distinctive competence.

Programme

Programmes make strategy action oriented. Ex: Reliance vertical (forward)   integration strategy for growth.

Budgets

This begins after programmes. It is a check on the feasibility of selected strategy. Budget is expression of programmes in quantitative terms. Without budgets   implementation becomes impractical

Procedures

After programmes and budgets, studied operating procedures (SOPS) must be developed. They detail the various activities that must be carried out to complete a corporation's programme. The change during the change process, Ex: Mc Donald's developed very detailed procedure to ensure that policies are carried out in its fast food retail outlets.

Leadership and staffing

Implementation involves leading people to utilize their abilities and skill efficiently and effectively to meet organisational goals. Leaders are the key organic elements, who help the organization cope with changes. Failure of leadership may result in goal incongruence, communication break down, ambiguity etc,. Leaders help in transformation in three phases

- Recognising need for revitalization
- Creating a new vision
- Institutionalizing change

A leader may follow any of the following leadership styles

- Entrepreneurial-risk taking, dynamic , change oriented.
- New scientific – Questioning the existing practices and discovering and experimenting new approaches.
- Quasi-scientific- Balancing the tradition and innovation to maintain stability.
- Muddling through – Pushing through different situations with reactive planning
- Conservative –Making approaches of implementation carefully as per procedures.
- Democratic-Participative in style involving people indecision making.
- Middle of the road- Using an approach that is in between the democratic and task oriented.

Staffing issues involve hiring new people with new skills, firing unskilled or inappropriately skilled people, or training employed to acquire new skills. Staffing requirements are likely to follow a change in human resource strategy relating to number and quality of people.

GE's aircraft engine group used training to maintain its market shone even though work force was cut from 42,000 to 33,000 between, 1991 to 1993.

'Downsizing' has become one of the practices of late in modernization strategy of banks. It involves planned elimination of positions or jobs during strategy implementation. It involves.

- Elimination of unnecessary work
- Contract out those works that can be done cheaper
- Plan long run efficiencies
- Communicate the resources for downsizing

- Invest in remaining employees
- Develop value added jobs.

Change and communication

Change is inevitable during implementation. Rationale for strategic changes should be communicated to workers through news letters and speeches and even in training programmes. Companies in which major cultural changes took place have the following.

- The CEO with strategic vision, who communicated their vision to employees at all levels and constantly compared themselves with competitors for updating.

- Vision , that is translated into key elements for implementation. They are widely communicated through contests, recognition, rewards etc,

Evaluation

The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. In the absence of coordinating and controlling mechanisms, individual managers may pursue goals, which are inconsistent with the overall objectives of the department, division, SBU or the whole organization. We will now discuss evaluation and control in detailed way.

Strategic Evaluation and Control

The process of evaluation basically deals with four steps:

1. Setting standards of performance-Standards refer to performance expectations. Table 21-1 illustrates standards

2. Measurement of performance-Measurement of actual performance or results requires appraisal based on standards.

3. Analyzing variances- The comparison between standards and results gives variances. Table 21-2 shows how variances can be found.

4. Taking corrective action-The identifications of undesirable variances prompt managers to think about ways of corrective them.

Table 21.1 Illustrative Performance Indicators in Functional Areas Across Different Grand Strategies

	Stability	Expansion	Retrenchment
Focus of Evaluation	Efficiency- oriented	Growth-oriented	Cost reduction oriented
Financial area	Profitability and activity ratios; divided and earnings per share	Leverage ratios; credit ratings; break-even point	Liquidity and activity ratios
Marketing area	Sales revenues and quotas; sales force productivity; accounts eceivable divided by sales; number of customer complaints	Sales growth (current sales to base year's sale); new accounts opened per year; new products sales divided by total sales	Marketing costs divided by sales; marketing costs divided by orders; sales expenses divided by total number of sales calls

Performance indicator	Standard	Actual	Variance
Profit over sales (%)	12	10	-2
Sales revenue (Rs.crores)	26	22	-4
Capacity utilization (%)	85	90	+5
Training costs per employee (Rs)	20	22	+2
Maintenance costs as % of IT investments	15	20	-5

Importance

Strategic evaluation is important due to several factors.

Need for feedback

Within an organization, there is a need to receive feedback on current performance, so that good performance is rewarded and poor performance is corrected.

Validates   strategic choice

Strategic evaluation helps to keep a check on the validity of a strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase.

Congruence between decisions and intended strategy

During the course of strategy implementation managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.

New Strategy planning

Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning.

Participants in Strategic Evaluation

The various participants in strategic evaluation and control and their respective roles are

Shareholders, lenders and the public They have ownership claim on the assets of the enterprise and are therefore responsible to the strategic performance and evaluation.

Board of Directors enacts the formal role of reviewing and screening executive decisions in the light of the environment and business organizational implications.

Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control.

SBU or profit-centre heads may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.

Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on financial analysis, budgeting, and reporting. Audit and executive committees, set up by the Board or the chief executive, may be charged with the responsibility of continuous screening of performance.

Corporate planning staff or department may also be involved in strategic evaluation.

Middle-level managers may participate in strategic evaluation and control as providers of information and feedback, and as the recipients of directions from above, to take corrective actions.

Types of strategic controls

Controls can be broadly classified into two categories. : Strategic and operational control. Strategic control is aimed at monitoring the course of progress in the predetermined direction, and operational control with the allocation of organizational resources and evaluation of the performance of organizational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organizational objectives. Table 21-3 shows the differences.

Table 21-3 Differences between strategic Control and Operational Control

Attribute	Strategic control	Operational control
Basic question	"Are we moving in the right direction"?	How are we performing"?
Aim	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of organizational resources
Main concern	Steering' the organization's future direction	Action control
Focus	External environment	Internal organization
Time horizon	Long-term	Short-term
Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle level management on the direction of the top management
Main techniques	Premise control, Implementation control Strategic surveillance, Strategic momentum control (Responsibility control centers, Critical success factors, and Generic strategies) Special alert control, and strategic leap control (Strategic issue management, strategic field analysis, systems modeling, and scenarios).	Internal analysis (Value chain analysis, operational standards) Comparative analysis, (Historical standards, Industry norms and benchmarking) and Comprehensive analysis (Balanced score card, Key factor rating and MBO)

Source

Based on J A Pearce-III and R B Robinson, Jr. Strategic Management: Strategy Formulation and Implementation, 3rd edn, Richard D Irwin, Homewood, Ill, 1988,pp 404-19.

Strategic controls

The different   types of strategic controls are discussed in brief here.

Premise control

A company may base its strategy on important assumptions related to environmental factors (e.g., government policies), industrial factors (e.g. nature of competition), and organizational factors (e.g. breakthrough in R&D). Premise control continually verifies whether such assumptions are right or wrong. If they are not valid corrective action is initiated and strategy is made right. The responsibility for premise control can be assigned to the corporate planning staff who can identify for assumptions and keep a regular check on their validity.

Implementation control

Implementation control can be done using milestone review. This is similar to the identification-albeit on a smaller scale-of events and activities in PERT/CPM networks. After the identification of milestones, a comprehensive review of implementation is made to reassess its continued relevance to the achievement of objectives.

Strategic Surveillance

This is aimed at a more generalized and overarching control. Strategic surveillance can be done through a broad-based, general monitoring on the basis of selected information sources to uncover events that are likely to affect the strategy of an organization.

Special Alert Control

This is based on a trigger mechanism for rapid response and

immediate reassessment of strategy in the light of sudden and unexpected events. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams. Examples of such events can be the sudden fall of a government at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, or a natural catastrophe.

Strategic momentum control

These types of evaluation techniques are aimed at finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum. There are three techniques , which could be used to achieve these aims:

- Responsibility control centers,
- Critical success factors, and
- Generic strategies.

Responsibility controls form the core of management control systems and are of four types: revenue, expense, profit, and investment centers.

CSFs form the bases for strategists to continually evaluate the strategies to assess whether or not these are helping the organization to achieve the objectives.

The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant, A strategic group is a group of firms that adopts similar strategies with similar resources. Firms within a strategic group, often within the same industry and sometimes in other industries too, tend to adopt similar strategies.

Strategic leap control

Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four techniques of evaluation used to exercise strategic leap control:

strategic issue management, strategic field analysis, systems modeling, and scenarios.

1. Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organization. A strategic issue is "a forthcoming development, either inside or outside of the organization, which is likely to have an important impact. On the basis of strategic issues, the strategists can avoid surprises and shocks, and design contingency plans to shift strategies whenever required.

2. Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organization. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can evaluate the firm's ability to generate synergies where they do not exist.

3. Systems modeling is based on computer-based models that simulate the essential features of the organization and its environment. Through systems modeling, organizations may exercise pre-action control by assessing the impact of the environment on organization because of the adoption of a particular strategy.

4. Scenarios are perceptions about the likely environment a firm would face in the future. They enable organizations to focus strategies on the basis of forth-coming developments in the environment.

Several of the above techniques for strategic control-with the possible exception of responsibility centers-are of a relatively recent origin. The development of these techniques is an evidence of the expanding body of

knowledge in business policy and strategic management.

In the next part of this section, we look at techniques for operational control.

Operational control

Operational control is aimed at the allocation and use of organizational resources. Evaluation techniques for operational control, therefore, are based on organizational appraisal rater than environmental monitoring, as is the case with strategic control. Evaluation techniques can be classified into three parts.

- ‣ Internal analysis,
- ‣ Comparative analysis, and
- ‣ Comprehensive analysis.

Internal analysis

Internal analysis deals with the identification of the strengths and weakness of a firm in absolute terms.

Value chain analysis focuses on a set of inter-related activities performed in a sequence for producing and marketing a product or service. The utility of value-chain analysis for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities, which can then be evaluated for effectiveness.

An operational standard takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess Performance. The obvious benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most-used methods for evaluation for operational control. Among the scores of financial techniques are traditional techniques, such as, ratio analysis, or newer techniques, such as, economic value-aided (EVA) and its variations, and activity-based costing (ABC). These are proven methods so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial control, such as; computation of absenteeism,

market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period

Qualitative analysis supplements the quantitative analysis by including those aspects which it is not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

Comparative analysis

It compares the performance of a firm with its own past standards, or standards of other firms.

1. *Historical analysis* compares the present performance of a firm with performance over a given period of time. This method help analyse the trend or pattern.

2. *Industry norms* Performance of a company I is compared with the performance of its peers in the same industry. Evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempt to surpass it.

3. *Bench marking* is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.

Comprehensive analysis

This analysis adopts a total approach rather than focusing on one area of activity, or a function or department.

1. *Balanced scorecard* method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters are taken into account for evaluation.

2. *Key factor rating* is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organization.

3. *Management by Objectives* (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives, which are decided upon, mutually by the superior and the subordinate. By the process of consultation, objective setting leads to the establishment of a control system that operates on the basis of commitment and self-control.

4. *Memorandum of understanding* (MoU) is "an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities". Having done that, the enterprises are evaluated on the basis of the MoU.

Summary

The success of a strategy depends upon the efficacy of implementation. It involves adjustments in structure; systems, skills, culture, resources etc needed and demands matching them all. These organizational adjustments are a must to manage change. Implementation includes -Resource allocation, Organization structure design, Planning framework, Leading and staffing , Change and communication and Evaluation.

The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. Controls can be broadly classified into two categories. : Strategic and operational control. Strategic control is aimed at monitoring the course of progress in the predetermined direction, and operational control with the allocation of organizational resources and evaluation of the performance of organizational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organizational objectives. Strategic controls include: Premise control, Implementation control

Strategic surveillance, Strategic momentum control (Responsibility control centers, Critical success factors, and Generic strategies)

Special alert control, and strategic leap control (Strategic issue management, strategic field analysis, systems modeling, and scenarios). Operational controls include: Internal analysis (Value chain analysis, operational standards) Comparative analysis, (Historical standards, Industry norms and benchmarking) and Comprehensive analysis (Balanced score card, Key factor rating and MBO).

Self -Assessment Questions

1. What is strategy implementation? Explain its significance.
2. Explain the process of strategy implementation.
3. What is strategy evaluation and control?
4. How do you classify strategy controls? Distinguish them.
5. What are the strategy control techniques? Explain any three of them.
6. What are the operational control techniques? Explain any three of them.
7. Describe (i) Benchmarking (ii) Balanced score card (iii) MBO
8. Explain how performance indicators can beset for different functional areas
9. What are the benefits of strategy control measures?
10. Identify the use of qualitative standards in strategy evaluation.

Assignments

1. Visit websites of two companies one in consumer goods and another in industrial goods sector, and find out the performance indicators used by them.
2. Visit a company of your choice and discuss the control measures relating to strategy implementation in the company in

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CASE METHOD

It goes without saying that case method is one of the popular techniques of teaching. It requires students to do most of their studying before class. You must be prepared before hand to understand the arguments and presentations of your fellow students, not to mention to give good presentations of your own. You must place yourself in the role of responsible manager in the case and make decision and plan the action called for by the facts as you interpret them.

What is case?

Case consists of a number of pages of prose description of a real life situation. It may include quantitative as well as qualitative data.

Steps in Study

The following steps will be helpful in case study.

1.   *Quick Reading*

Read the case once, very quickly to make you familiar with the case characters, the general nature and quality of evidence, and idea of problems to be solved.

Jot down key words (indicating name of the company, names of persons and designations, and key issues). They help in developing a

view about the case situation.

Look at the type of questions you have to answer.

2.   Thorough Reading

Read the case slowly at a thoughtful rate-taking note of important points, studying exhibits, tables, graphs and examining validity of options, feelings and views of case characters.

NOTE

Write the name of the company, location, and year of establishment. List the name of persons with designations.

In chronological order make a note of events.

Identify the facts, assumptions and estimations given in the case. Check for statement of problem; if it is not given   or look for symptoms

3.   Check Reading

Check the various important facts identified to make sure that your view of the situation is consistent with all the facts.

VALIDATE

Validate all the above. Now you have the right picture of the situation in your mind.

Case Type -I

At the end of the case, questions are not given. The problem is within the case. The reader has to identify it and provide solution.

For arriving at an appropriate solution, the following steps are essential.

Step 1:

Analyze the present situation

The present situation as the manager sees it comprising the environment representing constraints and opportunities is to be

identified for instance, in the following:

1.   Economic conditions   2. Competition

3.   Laws & regulations   4. Supplies availability

5.   Markets etc

The specific status of firm is to be then made known.

1.   Recent history   2.   Products and processes

3.   Resources   4.   Money

5.   Manpower   6.   Management

7.   Assets (land, building, etc)

The analysis and putting facts together show draw attention to cause and effect relationships.

Step 2:

Forecasting the future situations

If the case is dealing with short time range present situation is valid. Then step is not necessary. But if it deals with long range future, a forecast of future situation based on the present one is to be developed.

Step 3:

Define objectives

An objective is a desired future state of the firm described in terms of those effects which the manager can influence. It is often said that objectives should be stated in such terms that you could measure results. They should also be given in terms of days for completion. Ex: If the production, rate has fallen from 4000 units per day, the objective may be to return to the standard rate of production within five days.

In more complex problems and those involving long range planning objectives often involve changes in scale of operations, in

selling prices, in man power and other variables under the control of manager.

Step 4:

Define problem

Problem statements how can be expressed in terms of the differences between the present situation and the desired future situation of the firm (objectives). If surface facts are taken without identifying causes and without a reference to objectives, the approach becomes hasty. If often results in treating the symptoms of the problems rather than the problem itself.

Step 5:

List possible alternative courses of action

Some cases may present potential alternatives and their outcomes whereas some others may be silent about them. Where alternatives are not given devise alternatives predict their outcomes.

Step 6:

Evaluating the alternatives

Often you come up with five or six alternative courses of action. However you may need to dismiss, some of these alternatives as unfeasible because they do not meet the objectives. The remaining alternatives are to be evaluated in detail very carefully.

Step 7:

Decision

You should now select the action alternative that provides the best means to problem solving and attainment of objectives. If so doing compare and contrast the advantages and disadvantages of the alternatives and make your selection. You articulate the main reasons

why you have selected one alternative over the others. For each rejected alternative, state why your chosen alternative is better.

Step 8 :

Implementation

Your decision is not complete until you prepare operational plans for its implementation. Draw up a statement of

- ‣ What must be done to carry out your decision ;
- ‣ Who must be assigned to do it;
- ‣ When it should be carried out;
- ‣ Where it should be performed and
- ‣ How must should be expended on it, etc.

In most cases, you cannot give highly detailed or precise answers to the questions however gross estimates are infinitely better than no estimates at all.

Report Writing

Prepare the report with the following subheads

Brief	Give a brief of the situation in 10 lines. Highlight the name of the company , the principal roles, the events and the problem or symptoms apparent in the situation

Situation analysis	State important facts about the present situation Make forecast of changes in the situation. State the premises on which your future outlook is based. *Use graphics and models if possible.*
Objectives and constraints	What are your future and current objectives? Or what do you want to achieve? What constraints do you see n your way? *Use force filed diagram like techniques for effective presentation.*
Problem/opportunity	What is the focus for your decision or action?
Alternative courses of action	State several alternatives. Jot down your thoughts. From them develop few alternatives for discussion.

Evaluate alternatives	State criteria for evaluation- risk, return. time horizon, satisfaction, payback, liquidity, control, harmony- like that there are certain things of value to you in a problem or opportunity situation . Which one you do consider appropriate in the present situation. Highlight them and use them for evaluation. *Draw comparisons or use for and against arguments.*
Selection of an appropriate action	State the alternative you have chosen. Say why you have chosen it and why you have not chosen the other ones. *Make a diagrammatic presentation of how the problem can be solved by this alternative*
Follow up action plan	Outline how do you go about in implementing it. Just give hints in terms of resources required, measures to be taken to remove constraints if any etc. Make a table of focus points, problem or constraints and action suggested.

Case Type –2

Questions are given at the end **Case type II**

At the end of the case, questions are given . For instance, questions can be as follows.

Question	Answer contents
What is the problem of XYZ company /Mr DD?	Situation analysis Problem statement
What actions do you recommend? Or How would you go about in this situation ?	State objectives State alternative courses of action State the criteria you would employ to evaluate Evaluate the alternatives and select the right one State your choice supporting your decision and give action plan
Is Mr GG right in his decision, if yes, why? If no, why?	State how a decision is to be taken. Then based on the process or procedure you gave, check Mr GG's decision. Now say how you differ from Mr GG.
Why the implementation failed?	State the standard approach of implementation and compare it with the actual implementation in the case. Check for deviations. If you find some, say what failures are there.

Watch your presentation: - Be brief and objective, avoid lengthy sentences and paragraphs. Be realistic; do not include every conceivable alternative to make analysis look more complete. It looks ridiculous if you describe in 50 words alternative and demolish it in 10 words. Avoid setting up of straw men.

Be clear; include those figures and charts without which report will be incomplete and difficult to understand however supportive. Charts, figures and tables may be planned in appendix if they are not important as immediate reference. Give a final summary only when your report is more than ten page long.

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CASE-1

Lubricating Lube Business

Difficult times have their own merits. This is as much true for an individual as it is for an organization. These are the times when the entire organization gets an opportunity to display its resilience through its innovative skills and creative abilities. Naveen K Kshatriya, Chief Executive and Managing Director of Castrol India Limited (CIL), echoed similar thoughts while reflecting on his company in October 2002.

Lube Industry

The lubricant industry in general has three broad segments, namely, automobile, industrial, and marine. As per the global trends, the automobile segment dominates the industry, and, within the automobile industry, the diesel industry, the diesel engine lubricants from the major part of the market.

Market Size

The total market size and production of the lubricant industry in India in the year 2000-01 were Rs.101.034 billion and 13,898 thousand litres (Table –1) respectively. The lubricant industry witnessed a cumulative annual growth rate of 15 per cent during the period 1995-96 to 2000--01.

Table 1: Company-wise Trend in Production: 1995-96 to 2000-01

Name of the company	Unit	1995-96	1996-97	1997-98	1998-99	1990-00	2000-01
Indian Oil Corporation	000 tonne	114	122	110	112	121	112
Castrol India	000 litre	156,270	173,002	192,019	208,690	216,541	218,972
Hindustan Petroleum corporation	000 tonne	437	443	494.4	465.6	537.2	494.4
Bharat Petroleum Corporation	000 tonne	86	84	86.9	102.7	100.4	96.6
Gulf Oil	000 litre	-	27,540	48,630	51,383	60,273	57,266
Bharat Shell	000 litre	-	-	-	39.3	41.9	41.4
Savita Chemicals	000 litre	34,370	37,760	40,220	39,290	50,287	59,508
IBP Co.	000 litre	-	-	21,272	21,423	15,764	11,266
Tide Water Oil Corporation	000 litre	41,110	42,020	41,820	42,409.7	38,760.2	29457
Apar industries	000 litre	-	-	62,100	69671	78,304	41,911

respectively. CIL enjoyed a market share of 12.03 per cent and

17.48   per cent during these two years.

Market Shares

Indian Oil Corporation is market leader with 18.53 per cent (Table 2) and 24.49 per cent share in the years 2000-01 and 2001-02

Table-2 Market shares

Company name	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Indian Oil Corpn	33.04	32.46	29.44	28.75	26.21	18.63
Castrol India	13.82	15.89	15.9	15.92	15.96	12.03
Hindusthan Petroleum Corpn	16.27	15.94	14.83	12.69	10.58	9.23
Bharat Petroleum Corpn	7.36	7.59	7.00	7.06	6.83	5.56
Gulf Oil	-	2.76	4.15	3.92	3.78	2.54
Burma Shell	-	-	-	2.92	2.70	2.21
Savita Chemicals	1.95	2.24	2.12	1,64	2.04	1.83
IBP Co	-	1.96	1.93	2.17	2.20	1.69
Tide Water Oil Corpn	3.32	2.98	3.05	3.06	2.81	2.40
Apar Industries	-	-	1.91	1.90	1.76	1.34
Total	75.75	81.81	80.33	79.96	74.46	56.47

The lubes of the public sector oil companies are sold through their own well-established petrol pumps network. These petrol pumps are not allowed to market the lubes of the MNC s which are marketed through autorepair shops, garages, and service stations. CIL has clearing and forwarding agents, distributors, and dealers in their distribution chain in case of retail lubricant market popularly known as 'bazaar trade' and clearing and forwarding agents only for institutional sales. CIL dominates the retail lubricant market and has access to over 70,000 retail outlets. It has grown by 12 percent on a cumulative annual basis. However, the last two years have been difficult not just for CIL but for the lubricant industry as a whole.

Marketing at CIL

CIL is essentially a marketing company and its sales were made through two channels namely 'bazaar trade' (retail segment) and 'institutional sales'. The institutional sales accounted for 40 per cent of the lubricant market. The players in the retail channel were clearing and forwarding (C&F) agents, distributors, and dealers and only C&F agents in the case of institutional sales.

The company prepared a purchase plan for each distributor SKU-wise and monitored the inventory norms for the distributors. It captured secondary sales data (distributor sales) by having Turview software at the distributors' end. Its focus was on actual sales loss rather than sales loss in the pipeline. It also captured the distributors' penetration level data. The data flow to CIL took place on a monthly basis. The company had plans to integrate Turview and JD Edward's software in the year 2003.

Vision of CIL

CIL has maintained growth in the strategically important and growing segments, namely, engine oil for cars, two wheelers, and new trucks. The overall sales volume continued to decline due to shortfall in commercial vehicles segment, which account for a significant part of their portfolio. The market volumes of commercial vehicles segment have declined because of increase in the less old technology trucks extending oil

exchange periods because of cost pressures; and lower tractor utilization because of difficult conditions in agriculture sector. The market trend will continue until there is a revival in freight market and agricultural activity. CIL has been able to maintain its strong financial performance by unit price improvement, lower material costs, and efficiency in supply chain and cost reduction initiatives.

The vision of CIL is to be undisputed leader in the premium automotive lubricant market. The company plans to focus on customer, channel-partner and OEM relationships using brands as the primary driver of their business with technology –based innovations; with novel customer communications and interactions; and innovations in 'route to market' and customer management 'world class supply chain and business processes.

The challenge before Kshatriya is to effectively leverage the power of their two brands –Castrol and BP- and to facilitate the implementation of the company's strategic initiatives.

Strategy outlook

The responses of senior management of Hindustan petroleum Corporation Ltd., Gulf Oil Corporation Ltd., Indian Oil Corporation Ltd., and Bharat Petroleum Corporation Ltd., to the survey questionnaire exploring the reasons for difference in performance in the Indian lubricants industry and for developing a framework in the choice of competitive strategy are given in Annexure 1.

Annexure –1

Responses of Senior Managers on Different Strategic Dimensions

Strategic dimensions	Elements	HPCL	Gulf Oil	IOCL	BPCL
The degree to which you focus your efforts in terms of	Width of product line	Medium to high	High	High	Medium to high
	Target customer segments	Medium to high	High	High	Medium to high
	Geo-graphical spread of market served	High	Medium to high	High	Medium to high
The degree to which you seek brand identification rather than competition based on	Price	Medium to high	Low	Medium to high	Medium to high
	Other variables	Medium	Medium to high	Medium	Low to medium

The degree to which you seek to develop brand identification with the ultimate consumer	Directly on your own	Medium to high	Medium to high	High	Medium
	Support of distribution channels	Medium	Low	High	High
The choice of distribution channel ranging from	Company owned channels	Medium	Medium	Medium	Medium to high
	Petrol pumps	Medium to high	Low	High	High
	Broad line outlets	Low	Medium to high	High	Medium
The level of product quality in terms of	Raw materials (base oil, additives)	Low	High	High	High
	Adherence to tolerance	Medium	High	High	High
	Features	Medium to high	High	Medium to high	High

The degree to which you seek technological leadership as an innovator	-	Medium	High		Medium
The degree to which you provide ancillary services with your product line such as engineering, assistance, training.	-	Medium	Medium to high	High	Medium
The extent of vertical integration adopted in the process of	Forward vertical	Medium	Medium to high	Medium	Medium
	Backward vertical	Low	Medium	High	Low to Medium
The extent to which you seek low-cost position through investment in cost –minimizing facilities and equipment in	Manu-facturing				
	Medium to high	Medium	Medium	Medium	
	Distribu-tion	Medium to high	Medium to high	Medium	Medium to high

The price position of your product in the market relative to	Cost position	Medium to high	Medium to high	Medium	Medium
	Product quality	Low	Medium to high	High	Medium to high
The relationship of the MNC to have access to resources/regulations with:	Home government	Medium to high	Medium to high	NA	NA
	Government of India	Low	Medium to high	NA	NA
The size of fixed costs which have been committed in the manufacturing facilities	-	Medium	Low	Medium	Medium to high
The requirements on firm behavior based on the relationship between the firm and the parent company	-	Medium	Medium to high	NA	Medium to high

1.   Analyze the competitive environment of CASTROL

2.   Develop strategy outline based on the analysis.

CASE -2

Planned Strategic Change

Dales Pickles (Dales) is a longstanding manufacturer of luxury foodstuffs. It has over 2000 employees split evenly between three food processing factories and a head office, all located in the north-east of England. Within its market Dales enjoyed a leading but not dominant position with around 20 per cent market share. Between 2002 and 2005, however, aggressive competition based around innovative niche marketing and cost efficiency had reduced its market share to 15 per cent leading the Board of Directors to conduct a major strategic review at the end of this period.

Strategic Review

The Board was forced to recognize that it had become complacent over the years relying too much on historical brand loyalty. The strategic review resulted in two major decisions.

➤ First, the Board determined to restore the company's market share then, longer-term, to move beyond that to establish a dominant market position.

➤ Second, designation as a 'world class manufacture' would be pursued to support these marketing imperatives.

Progress up to 2005 would be evaluated internally using three performance goals:

➤ To become the lowest-cost producer in the UK
➤ To develop a quality assurance culture that would permeate the whole organization; and
➤ To become the market leader for new product innovation and development.

These goals were to be pursued through transforming the company's Tayloristic production line systems to a high-involvement, autonomous work group operation labeled 'work cells'.

Structure   For sales

Of the 2000 employees approximately half were engaged on direct production activities organized through 36 manufacturing departments split between the three factories. Each department produced a specific suite of products and employed 25 to 35 operatives when it was running at peak capacity of which approximately 25 per cent would be peripheral workers on casual or short-term contracts. This reflected the need for flexible staffing arrangements to accommodate seasonal production peaks prior to Christmas and Easter.

Departments were managed by a supervisor and clusters of six departments reported to a production superintendent who in turn reported to the production Manager for each site who reported to the Manufacturing Director, based at Head Office. Parallel to this structure were a series of production service departments covering material control, purchasing, production control, quality control and plant design and maintenance. These departments were again organized on a site basis through an identical structure reporting ultimately to the production services Director.

Review of Production Function

The introduction of 'work cells' was preceded by a through review of current production processes against the goals of cost, quality and innovation referred to earlier. It was concluded that:

➤ A rigid and expensive bureaucratic hierarchy operated against effective communication and collaborative problem solving.

➤ The structure had fuelled a culture of 'management prerogative' that stifled innovation and co-operation. From an employee perspective expressions such as 'we've always done it that way', 'if it ain't broke don't fix it' and 'we know best' represented the language of management.

- Employees adopted a minimalist approach sticking rigidly to their job description, meaning among other things, that quality issues often went unreported. Production operatives enjoyed seeing management 'dropped in it'.

- Operator training reflected Tayloristic principles of job design. It was strictly geared to meeting immediate job requirements and mainly comprised 'sitting next to Nellie'. Any operating problems were reported to supervisors and after flowing through the communication hierarchy an appropriate production service specialist would arrive to rectify it. The downtime that resulted was excessive.

Change Directions

(I) Work Cells

The manufacturing departments were to remain the basis for production but would be transformed into 'cells' using both horizontal and vertical restructuring and team building principles.

(II) Job Changes

This would involve employees undertaking additional roles of similar and higher levels of skill and responsibility (job enlargement and job enrichment respectively) thereby enabling each department to act as a mini-business taking initial responsibility for quality, production scheduling, inventory control, maintenance of equipment and safety.

(III) Employee Empowerment

The vital ingredient was to be the creation of self-directed teams that would be able to identity and rectify problems, communicate effectively within the team and across the organization, operate in the spirit of continuous improvement, and adopt innovatory and risk-taking behaviours. Through employee empowerment this initiative was intended to make a significant contribution to the 'world class' strategy not least because of its potential to enrich work experience of employees.

(IV) Organization Structure Changes

Consistent with work restructuring initiatives generally and the performance goals specifically the introduction of 'work cells' would take place alongside major changes to the organizational structure. Direct production and production services functions were to be combined under a production operations director and two tiers of management removed-supervisors and production Managers/production services Managers-with superintendents absorbing the responsibilities of the latter and reporting to the Director. Further downsizing would occur in the production services departments as some of their functions were absorbed into the manufacturing cells. Where possible displaced staff would be redeployed into the manufacturing cells or consultant roles which were created to underpin the transformation.

Resistance to Change

Initial and continuing staff development strategies were identified as the key to the successful implementation of the work and organizational restructuring initiatives. However, during the strategy formulation stage a number of potential human resource impediments that could frustrate management's plans were identified. A number of employees were resistant to the changes because they had doubts about their own motivation or competency. Several production services staff had intimated that they would try to sabotage the change strategies through uncooperative behaviour irrespective of whether they were to be redeployed into the manufacturing cells or consultant roles. Many managers had voiced extreme skepticism over the principles of employee involvement embedded in the work restructuring plans and throughout two of the factories there existed a strongly held view that 'all this business re-engineering stuff was just another management fad'

HRD Initiatives

Shortly before developing training and development strategies it was decided to create a 'Consultant' role which it was anticipated would help address these issues particularly through a direct contribution to HRD. Ten consultants were to be recruited, each servicing three or four manufacturing cells against the following role brief:

- ‣ Assist managers and cells to identify training needs.

- ‣ Contribute actively to the development and implementation of training strategies.

- ‣ Accelerate the development of team working skills.

- ‣ Improve lateral and vertical communications across the organization.

- ‣ Support the creation of a continuous improvement environment.

- ‣ Challenge bureaucracy and inertia.

- ‣ Generally act as change agents.

At this stage it was anticipated that training would need to be targeted at three different groups: production operatives, line managers and consultants.

Questions

1. What will be the short to medium term training needs resulting from the 'work cells' initiative for the three groups identified?

2. How would you seek to address these training needs?

3. What other organizational changes are occurring at Dales besides work restructuring and how might HRD facilitate their introduction?

4. To what extent do your HRD proposals take the organization in this direction and how do you think further progress could be made?

Case With Analysis

Downsizing at Energyco

Energyco emerged as a private sector company from a large public sector provider of power in the early 1990s. This larger organization was technologically advanced but highly staffed. The assets of the public sector provider had been divided between the new firms that superseded it with the result that Energyco had acquired dispersed facilities and a larger than required workforce.

Benchmarking

The company set about evaluating its requirements for both people and physical assets. It commenced this process using a benchmarking exercise that looked at the staffing requirements for power stations- the core of its business. This suggested that, in comparison to power companies in a number of countries, it had a staffing level that could be reduced by about 50 per cent or more in its power stations. In addition, a number of relatively smaller and older power stations were identified for closure. This early planning work suggested that the organization would need to downsize by approximately 30 per cent in terms of total numbers employed in Energyco.

Downsizing approach

The approach of Energyco can be described as under.

Voluntary

As a public corporation, it had become highly unionized. As the organization in its privatized form was now embarking on a major downsizing programme, it made sense to follow a voluntary strategy given the continued existence of strong trade union representation. In addition, the age profile, with a significant proportion of employees over 50, meant that many older workers were happy to take the severance terms being offered.

Focus on performers

The organization was also not particularly sensitive about which employees volunteered given the highly qualified and experienced profile of the workforce, providing it with an abundance of skills in relation to the target size for the new organization. However, the organization did not have an effective performance management system which made it difficult to identify effective performers. This meant that it would have been more difficult for the organization to target those to be made redundant if it had not been fortunate in terms of its age profile and the sheer surplus of skills that it possessed amongst its workforce. The combination of these factors therefore meant that it was possible to allow

most volunteers to leave even though some were identified as necessary to retain, at least for a given period.

Phased

Once initial downsizing had occurred in the operational areas the focus shifted to the support areas. It was decided to reduce the aggregate proportion of those engaged in 'overhead' activities to 20 per cent, from 30 per cent of the total workforce. The organization again used a benchmarking approach to identify where savings could be made and an evaluation of activities undertaken. For example, in relation to human resources, those who were the 'customers' of this function were asked what type of support they required with the result that this provision was restructured with the loss of over 200 jobs (over 50 per cent).

Communication

Each part of the organization is supplied with information about the company's plans. This direct communication to employees also provided them with details about the severance terms on offer if they volunteered. The scale of the downsizing and its fairly open nature, combined with the age profile of the workforce, the terms on offer and the recognition that those who stay would have to adapt to organizational culture, meant that the strategy adopted was successful in attracting volunteers.

Tactics

However, there was a conscious effort on the part of those managing the downsizing process to control the acceptance of the terms on offer in those parts of the organization where there was no future demand for employees. A number of tactics were used to achieve this acceptance in practice. The terms on offer included

➤ An additional payment for early leavers.

➤ Additional benefits were also offered to those in areas where they were not considered to be core to the future of the organization.

➤ Line managers were given discretion to discuss each employee's future

status and to offer certain inducements such as additional training or outplacement.

Outcome

So successful was this strategy that the organization had downsized itself by approximately 60 per cent after about four years of privatization. Further workforce reductions have since occurred.

Role of Line Mangers and Communication

It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business. It was thus part of the line managers' role to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business.

Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency.

All of the organization's line managers, numbering several hundred in total, and including its directors, attended a two day training program which focused on communication and counseling skills to prepare them for their role managing the downsizing process.

In this way, the use of communication and the skills of the line managers were two of the ways in which the culture was changed around the incidence of the downsizing and restructuring programs, which occurred in the organization. The use of communication and the skills of the line managers were also intended to be focused on creating a positive impression amongst a number of key stakeholders involved in, or around, the advent of downsizing. The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'. It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations. It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these

changes.

Energyco introduced a performance management system, which was linked to a career development plan for each employee. This was a powerful means to indicate the concurrent attempt to bring about a change in the culture of the organization. The previous public sector ethos of a job for life was intended to be replaced by an attempt to make tangible the concept of 'employability', linked to a performance culture associated with performance related pay.

Questions

1. Is Energyco's approach right to achieving downsizing?
2. How might you explain the assertion that although 'it was recognized that this change had damaged morale, employees remained committed to the purpose of the business'?

Model case analysis

Brief

Energyco emerged as a private sector company from a large public sector provider of power in the early 1990s. This larger organization was technologically advanced but highly staffed. It undertook a downsizing exercise. In this process it has taken care to see that though morale was affected commitment was not.

Question –1: Is Energyco's approach right to achieving downsizing?

Energyco's approach to downsizing can be considered systematic and humanistic. Systematic because it followed sequentially the steps required in a change process and humanistic because it showed concern for people.

A comparison between the theoretical model of change with the actual process in

Energyco would help in assessing how systematic the company is in this.

Standard model	Energyco model
Identify the need for change	Energyco had acquired dispersed facilities and a larger than required workforce. The company set about evaluating its requirements for both people and physical assets. It commenced this process using a benchmarking exercise that looked at the staffing requirements for power stations-the core of its business. This suggested that, in comparison to power companies in a number of countries, it had a staffing level that could be reduced by about 50 per cent or more in its power stations. In addition, a number of relatively smaller and older power stations were identified for closure. This early planning work suggested that the organization would need to downsize by approximately 30 per cent in terms of total numbers employed in Energyco

Communicate the need for change and planned change to employees concerned	Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency. Each part of the organization is supplied with information about the company's plans. This direct communication to employees also provided them with details about the severance terms on offer if they volunteered. The terms on offer and the recognition that those who stay would have to adapt to organizational culture, was communicated.
Make a detailed plan of change	Downsizing had occurred in the operational areas first and then the focus shifted to the support areas. It was decided to reduce the aggregate proportion of those engaged in 'overhead' activities to 20 per cent, from 30 per cent of the total workforce. The organization again used a benchmarking approach to identify where savings could be made and an evaluation of activities undertaken. For example, in relation to human resources, those who were the 'customers' of this function were asked what type of support they required with the result that this provision was restructured with the loss of over 200 jobs (over 50 per cent).

	A number of tactics were used to achieve this acceptance in practice. The terms on offer included • an additional payment for early leavers. • Additional benefits were also offered to those in areas where they were not considered to be core to the future of the organization.
Organize for change process	All of the organization's line managers, numbering several hundred in total, and including its directors, attended a two day training program which focused on communication and counseling skills to prepare them for their role of managing the downsizing process
Have change agents and define their role s	Line managers were given discretion to discuss each employee's future status and to offer certain inducements such as additional training or outplacement.

Effect the change process and continually evaluate	The organization was not particularly sensitive about which employees volunteered given the highly qualified and experienced profile of the workforce, providing it with an abundance of skills in relation to the target size for the new organization. However, the organization did not have an effective performance management system which made it difficult to identify effective performers. This meant that it was possible to allow most volunteers to leave even though some were identified as necessary to retain, at least for a given period. It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business.

Take right steps to resolve conflicts	Line managers' role was to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business. The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'. It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations. It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these changes.
Stabilize the post-change situation	Energyco introduced a performance management system, which was linked to a career development plan for each employee. This was a powerful means to indicate the concurrent attempt to bring about a change in the culture of the organization. The previous public sector ethos of a job for life was intended to be replaced by an attempt to make tangible the concept of 'employability', linked to a performance culture associated with performance related pay.

2. How might you explain the assertion that although 'it was recognized that this change had damaged morale, employees remained committed to the purpose of the business'?

It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business. It is true because of the effort of the company in the positive direction.

> It was made part of the line managers' role to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business.

> Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency.

> The use of communication and the skills of the line managers were also intended to be focused on creating a positive impression amongst a number of key stakeholders involved in, or around, the advent of downsizing.

> The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'.

> It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations.

> It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these changes.

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