Strategic Management

MBA-301

DIRECTORATE OF DISTANCE EDUCATION

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SUBHARTI UNIVERSITY

Meerut (National Capital Region Delhi)

Contents

SYLLABUS

Strategic Management

Course Code: MBA HA 301		
Course Credit: 3	**Lecture: 2**	**Tutorial-1**
Course Type:	Skill Enhancement Course	
Lectures delivered:	**20 L+10T**	

End Semester Examination System

Maximum Marks Allotted	**Minimum Pass Marks**	**Time Allowed**
70	**28**	**3 Hours**

Continuous Comprehensive Assessment (CCA) Pattern

Tests	**Assignment/ Tutorial/ Presentation/class test**	**Attendance**	**Total**
15	**5**	**10**	**30**

Course Objective: The aim of the course is to introduce students to:

- provide an organization perspective and integrates functional areas.
- help in understanding how organizational strategies are formulated and implemented in a changing global environment

UNIT	**Course Content**	**Hours**
I	**Introduction:** Strategic Management, Business policy, Corporate Strategy, Basic Concept of Strategic Management , Mission, Vision, Objectives, Impact of Globalization, Basis mdel of Strategic Management, Strategic Decision making, Impact of Internet and E-Commerce, Role of Strategic Management in Marketing Finance, HR and Global Competitiveness	8
II	**Environmental Scanning,** Industry Analysis, Competitive Intelligence ETOP Study, OCP, SAP Scanning Corporate ANalysis, Resource based Approach, Value Chain Approach, Scanning Functional Resources, Strategic Budget and Audit	8
III	**SWOT Analysis,** SWOC Analysis, TOWS Matrix, Various Corporate Strategies: growth/ Expansion, Diversification, Stability, Retrenchment and Combination Strategy	8
IV	**Process of Stragegic Planning,** Stages of Corporated development, Corporate Restructuring, Mergers & Acquisitions, Strategic Alliances, Portfolio Analysis, Corporate parenting, Fuctional Stragegy, BCG Model, GE 9 Cell, Porters Model: 5 Force and Porters Diamond Model , Stragegic Choice	6
V	**Strategic Implementation** through structure, Through Human Resourc Mangement: through values and ethics Mc Kinsey's 7S Model, Organisation-Life Cycle Management and Control. Activity based Costing, Strategic Information System	

Notes

UNIT 1

INTRODUCTION TO STRATEGIC MANAGEMENT

Structure

1.0 LEARNING OBJECTIVES

After reading this chapter students will be able to:

- define strategic management
- explain about business policy
- explain basic concepts of strategic management
- describe impact of globalization
- explain about strategic decision making
- define finance and global competitiveness.

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1.1 INTRODUCTION

Strategies are means to ends. All organizations, large and small, profit-seeking and not-for profit, private and public sector, have a purpose, which may or may not be articulated in the form of a mission and/or vision statement. Strategies relate to the pursuit of this purpose.

Strategies must be created and implemented, and it is these issues which are addressed by our study of strategic management. This opening chapter begins by outlining how successful organizations manage their strategies, and what they achieve, before exploring the meaning of strategy in greater detail. It then continues with an explanation of the strategic management process in the context of the framework upon which this book is structured before explaining the different ways in which strategies are created. Next it describes how the subject of strategic management has developed in the last 30 years, before concluding with a brief consideration of the similarities and differences in strategic management in various types of organization.

There are a number of aspects to strategic management. First, the *strategy* itself. This is concerned with the establishment of a clear direction for the organization and for every business, product and service, and a means for getting there which requires the creation of strong competitive positions. The second requirement is excellence in the *implementation* of strategies in order to yield effective performance. Third, *creativity* and *innovation* are needed to ensure that the organization is responsive to pressures for change and that strategies are improved and renewed.

Fourth is the ability to manage strategic change, both continuous, gradual, incremental changes and more dramatic, discontinuous changes. Innovation and change concern the strategy process in an organization.

Sound implementation and innovation should enable an organization to thrive and prosper in a dynamic, global environment, but in turn they depend on competencies in strategic awareness and learning. Organizations must understand the strategic value of the resources that they employ and deploy, and how they can be used to satisfy the needs and expectations of customers and other stakeholders while outperforming competitors.

Strategy is about actions, not plans – specifically the commitment of resources to achieving strategic ends ... concrete steps that immediately affect people's lives, not abstract intentions.

Andrew S Grove, CEO, Intel

The Low-price, No-frills Airlines, which showed that:

- newcomers can change an industry – by being creative, innovative and different
- new competitors can, and will, find ways of breaking down apparent barriers to entry
- companies need to find some clear and distinct competitive advantage, something which is both attractive to customers and profitable
- this advantage will come from what organizations do: their distinctive competencies and capabilities
- charismatic and visible strategic leaders often have a major impact on the choice and implementation of key strategies
- people are critically important if strategies are to be implemented effectively

- the Internet is becoming increasingly important; and
- business can be fun!

It is, however, also important to realize that in many organizations certain parts may be 'world class' and highly profitable while other businesses are not. Good practices in the strong businesses can be discerned, transferred and learned, but this may not be enough. Some industries and competitive environments are simply less friendly and premium profits are unlikely. The real danger occurs if the weaker businesses threaten to bring down the strong ones that are forced to subsidize them. It is an irony that companies in real difficulty, possibly through strategic weaknesses, need to turn in an excellent performance if they are to survive. Finally, it must be realized that past and current success is no guarantee of success in the future. Companies are not guaranteed, or entitled to, continued prosperity. They must adapt and change in a dynamic environment. Many fail to do this, for all sorts of reasons, and disappear. Some close down; others are acquired. McDonald's, at the end of this chapter. In summary, it is no longer adequate for organizations to have strong, professional management – they also need good change management. What works effectively today may not be appropriate tomorrow. Organizations need new visions for the future and the capability to deliver them. They require open communications and a team approach, a willingness to listen and respond to customers, the delegation of real power, the ability to share learning across the organization and the ability to use culture to convey aims and values. Change is seen as an opportunity, not a threat. This sometimes implies an entrepreneurial strategic leader. It invariably requires flexibility and innovation, which implies intrapreneurial managers who accept responsibility for driving the change initiatives. Typically such managers will exhibit the following skills and attributes:

- A tolerance of calculated risks
- A combination of leadership, general management and financial skills
- Planning, time and project management skills
- Receptiveness to innovation
- A commitment to continuous learning
- A willingness to delegate
- Motivated by factors other than financial gain
- Self-confident, resilient and persevering
- Good communication skills.

1.2 BASIC CONCEPT OF STRATEGIC MANAGEMENT

More than anyone else, Henry Mintzberg has been responsible for drawing attention to alternative views and perspectives on strategy, all of them legitimate. Mintzberg et al. (1998) provide an excellent summary of his work on this topic. The top oval in Figure 1.1 suggests that strategies can be seen in a visionary context. Here it is implied that strategy can be considered as a clear strategic purpose, intent and direction for the organization, but without the detail worked out. In a dynamic environment, managers would then determine more detailed and specific strategies in 'real time' rather than exclusively in advance. However,

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they would always have a framework of direction to guide their decision-making and help them to determine what is appropriate.

In addition, some strategies come from a visionary input from an entrepreneurial manager, or strategic leader, who spots an opportunity and is minded to act on it. This contrasts with some people's thinking that strategy and planning are synonymous. Certainly, as we shall see later in this chapter, strategic planning has a crucial role in strategy creation, but it does not fully explain how strategies are changed.

Both the visionary and planning perspective are concerned with thinking ahead as far as it might be sensible to think and plan. While the tactical view is also about the future, it is really about the immediate future. The assumption being made here is that competitors in a dynamic market will constantly adopt new ploys in an attempt to steal a short-term gain or advantage. Their tactics may be easily copied, but there can be some temporary advantage when rivals are caught by surprise and need time to react.

Metaphorically, we can relate these ideas to a game of competitive football. There will be a broad purpose concerned with finishing at a certain level in a league or winning a cup competition, and this will influence the fundamental approach to every game. Sometimes a win would be seen as essential; on other occasions a 'clean sheet' would be more desirable or a draw could be perfectly satisfactory.

From this, more detailed game plans will be devised for every match. But, inevitably, 'the best laid schemes o' mice and men gang aft a gley'.

Early goals by the opposition can imply a setback and demand that plans are quickly revised and tactics changed. This is always possible at half-time, but during the match the team will have to rely on shouted instructions from the touchline and leadership from the team captain as play continues. Individual players will always be allowed some freedom of movement and the opportunity to show off their particular skills. New tactics will emerge as players regroup and adapt to the circumstances, but quite often games will be turned around by the individual vision, inspiration and brilliance of key players.

These three views all concern the future and imply change; the notion of position is akin to the idea of freezing time momentarily. It relates to strategic fit and the organization's competitive position at the present time. It is, in effect, a statement of what is happening; and it can be vital for 'taking stock', realizing and clarifying a situation so that future changes are based on clear knowledge rather than assumption.

Of course, organizations come to their present position as a result of decisions taken previously; plans have been implemented and tactics adjusted as events have unfolded. It is again crucial to analyse and understand this evolving pattern, appreciating just what has happened, why and how. This can be a valuable foundation for future decisions, plans and actions but, although history can be a guide to the future, rarely in strategy are events repeated without some amendment. The importance of clarifying the pattern from the various decisions and changes also explains why strategy has irreverently been described as a 'series of, mindless, random events, rationalized in retrospect'!

Our understanding of these alternative perspectives will be strengthened when we look at how strategies are created and changed.

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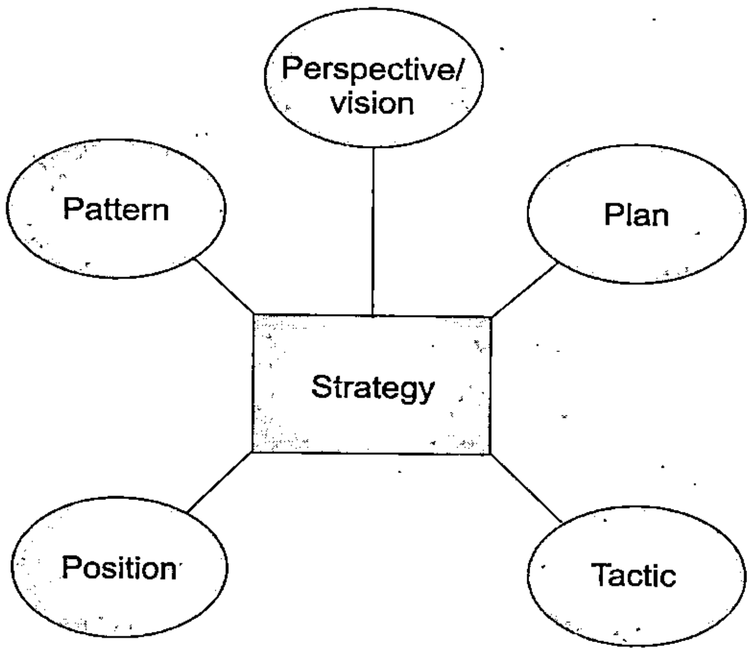

Figure 1.1 Five views of strategy

1.3 BUSINESS POLICY

When we argue that an organization needs a sound, or a winning, business model we mean that there is a need for a very clear picture concerning what the organization is – and what it isn't – and who will buy its products and services and why. The business model thus embraces three key themes: the product (or service); the market; the 'compelling reason to buy'.

It is important to remember here that strategy always involves choices. Organizations have to make decisions about what they intend to do – at the same time ruling out things it is less appropriate or desirable for them to do. Maybe it is because competition is too intense; or perhaps they do not possess the required competencies and capabilities. This picture then needs to be communicated and understood throughout the organization. Moreover, the model – and the strategies which underpin it – need to be reviewed constantly.

The picture should embrace the business as it is now, and how it will be in the future – where and how it will change and grow. One interesting example of choice and timing is the high technology start-up which offered its Internet systems to BT, whose engineers were truly enthusiastic about the prospects. However, in BT it was the marketing and sales people who bought new systems and they felt the product was too far ahead of its time, and, as a consequence, they would be unable to sell it to BT customers. As a result it took 18 months for the market to catch up with the technology.

For the low-cost, no-frills airline. This model may have been pioneered by Southwest Air but it has been copied extensively by others, including easyJet and Ryanair. It is important to realize that the business models for these two competitors, whilst similar, are different.

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Ryanair looks to be low cost in every activity whilst easyJet chooses to incur some higher costs to offer a slightly different service. In particular easyJet opts for main airports in the cities it flies to, whilst Ryanair invariably chooses the cheapest available in the vicinity.

Passengers are likely to have to travel further to catch their flights. In addition, easyJet broke ranks with the basic model when it decided to use more than one plane, adding Airbuses to its Boeing fleet.

The fundamental underpinning to the model is a low-cost culture with a constant search for savings to allow ever-lower prices, but without reducing passenger safety. This demands that only those aspects of the service that are seen as essential or important are included; others that are offered by the traditional full-service airlines are dropped. The market is anyone – business, holiday or general passengers – who wants low prices and will trade off certain aspects of service to get them. The model then has to be delivered and implemented; and this is where we come down to the operational details that support the model. The choice of a single type of aircraft and the selection of fringe airports are typical actions that make up the strategy to deliver the model.

By contrast, Manchester United is far more than a successful football club. It is a collection of diversified but related activities that can be associated with a distinctive brand – a brand which signifies success, such that association with it automatically implies being part of something that is successful. It reflects high quality – and consequently customers expect to have to pay premium prices to buy this association. The 'core market' might be the 60,000 plus fans who turn up at Old Trafford for Premier League matches, but there are many more people all round the world who are interested in having some part of this success story. In Porter terminology, Manchester United is very clearly differentiated – and very profitable. Drawing upon this introduction to the business model we can restate strategy as a set of four visions or articulated pictures – for:

- The businesses and industries the organization should be in – its corporate strategy
- How it will compete in each one in its search for advantage – which takes in its targeted customers
- How every activity which supports these strategies can be linked effectively to create synergy and avoid fragmentation
- How and when to change strategies.

It will be appreciated that all of these support the essential purpose of the organization.

Functional, Competitive and Corporate Strategies

Figure 1.2 reflects that there are three distinct perspectives of strategic analysis:

1. The strategic environment
2. The competing organization
3. The individual strategist.

The diagram summarizes three distinct, but interrelated and interdependent, levels of strategy: corporate (the whole organization), competitive (the distinct strategy for each constituent business, product or service in the organization) and functional (the activities which underpin the competitive strategies).

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Corporate satrategy	The strategic perspective (range, scope, diversity) of the organization
Competitive satrategy	The search for a distinctive competitive advantage for each business/product/service
Functional strategies	The source of competitive advantage in the activities and functions carried out by the business

Figure 1.2 Levels of strategy

Simply, most organizations choose to produce one or more related or unrelated products or services for one or more markets or market segments. Consequently, the organization should be structured to encompass this range of product markets or service markets. As the number and diversity of products increases the structure is likely to be centred on divisions which are sometimes referred to as **strategic business units** (SBUs). Such SBUs are responsible individually for developing, manufacturing and marketing their own product or group of products. Each SBU will therefore have a strategy, which Porter (1980) calls a **competitive strategy**. Competitive strategy is concerned with 'creating and maintaining a competitive advantage in each and every area of business (Porter, 1980). It can be achieved through any one function, although it is likely to be achieved through a unique and distinctive combination of functional activities. For each functional area of the business, such as production, marketing and human resources, the company will have a functional strategy. It is important that **functional strategies** are designed and managed in a co-ordinated way so that they interrelate with each other and at the same time collectively allow the competitive strategy to be implemented properly.

Successful competitive and functional strategies add value in ways which are perceived to be important by the company's stakeholders, especially its customers, and which help to distinguish the company from its competitors. Adding value is explained and discussed further in the supplement to Part One. Mathur and Kenyon (1998) reinforce these points. They contend that competitive advantage is fundamentally about the positioning and fit of an organization in its industry or market, and that success is based on distinct differences and sound cost management.

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Corporate strategy, essentially and simply, is deciding what businesses the organization should be in and how the overall group of activities should be structured and managed. It has been described by Porter as 'the overall plan for a diversified business', although it is perfectly acceptable for a business to elect to stay focused on only one product or service range. This does happen in many companies, especially small businesses.

In this case the corporate and competitive strategies are synonymous. Corporate strategy for a multi-business group is concerned with maintaining or improving overall growth and **profit** performance through **acquisition**, organic investment (internally funded growth), **divestment** and closure. The term strategic perspective is often used to describe the range and diversity of business activities, in other words the corporate strategy.

Each business activity then has a competitive position or strategy. The management of corporate strategy concerns the creation and safeguarding of synergies from the portfolio of businesses and activities.

Synergy and Change

Synergy is a critical aspect of both corporate and competitive strategies. It is important that the functions and businesses within an organization work collectively and support each other to improve effectiveness and outcomes. At all times, companies should carry out efficiently those activities which are essential for creating a distinctive or differentiated competitive position, and avoid incurring unnecessary costs by providing non-essential values. This implies that they clearly understand their markets, their customers and the key success factors that they must meet, i.e., their defined competitive strategy. Moreover, they should constantly seek improvement by driving their operating efficiencies. These activities will be encapsulated in the organization's functional strategies, as illustrated in Figure 1.3.

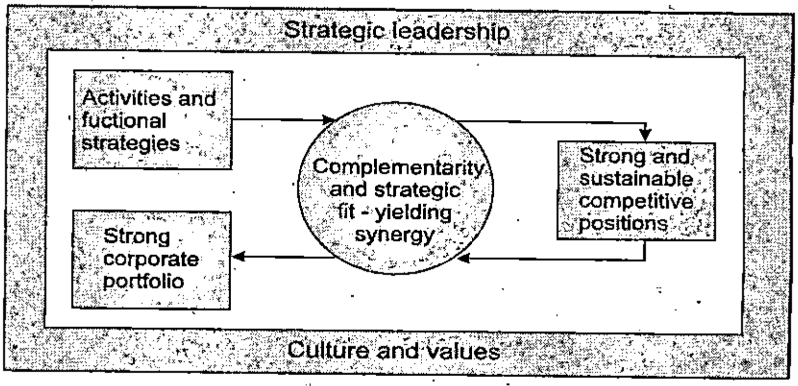

Figure 1.3 Strategic success through complementary activities

Figure 1.3 highlights that these functional strategies must fit a defined, clear competitive strategic position and complement each other to achieve internal synergy. Where they fail to complement each other the company's competitive position will inevitably be weakened. The outcome will be a strong competitive position which can only be sustained by innovation and improvement, and sometimes by the move to a new competitive paradigm. Managing these changes effectively is very dependent upon the style and approach of the strategic leader and the culture and values of the organization. Michael Porter (1996) has argued along similar lines.

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It is important to remember, though, that people are often naturally competitive and their competitive energy should be directed against external rivals rather than members of their own organization. Carefully managed, internal competition for scarce resources can, of course, sharpen managerial skills.

1.4 MISSION, VISION AND OBJECTIVES OF STRATEGIC MANAGEMENT

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

Mission

An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society, like service house, cleaning or products. Mission is the fundamental, unique purpose that sets the company apart from the other firms of its type and identifies the scope of the company operations in the terms of products offered and markets served. Mission include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but also what it wants to become management's strategy vision of the firm's future.

Mission statement describes what the organization is now, vision statement describes what the organization would like to become.

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

"To create and facilitate the development of value-added agriculture"

Here "Create and facilitate" are two clear focus areas. The organization put its energy into these two areas. The organization makes efforts for the development (Create) and to ease (facilitate) the agriculture business. And, whatever is not mentioned here, the organization is not involved. It is a clear direction about what the organization does and what it doesn't.

A mission statement is simple, direct and operative. Now the question is – how do you write a powerful mission statement? What makes an effective mission statement? Let's see the following characteristics of a good mission statement:

Short: The mission statement should be easy to remember. Each person in organizations should be aware of the mission statement to use in context with the work he/she does.

Simple: Mission statement language should be of everyday life. We do not use words like stakeholder values, financial goals, and best practices in daily life. For example, a mission statement – "Help people in achieving work using best practices." How many people dream about best practices? The answer is very few; do you believe, people talk in such a language. The answer is 'NO.'

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Operative: A mission statement should provide a clear direction. It should focus on what an organization does. It also gives a clear route about initiative and resource allocation.

So, what kinds of resources needed for the mission statement mentioned above for the agriculture business?

- Probably SME, who can provide their services for the development and facilitation of the agriculture business.
- And farmers involved for the financial support in the venture.

A mission statement should help to understand:

- "Who we are",
- "What we do"
- and to "which industry we belong to"

For example, mission statements like "Increasing customer satisfaction". Well, it is impossible, anyways – does it provide to which industry a mission belongs to? Or what the organization controls? The answer is no, and hence we cannot claim it as a mission statement. An organization should try to find out a mission statement, which can drive them.

Vision

Very early in the strategy making process, a company senior managers must fight with the issue of what directional path the company should take and what changes in the company's product, market, customer and technology focus would improve its current market position and future prospects. Deciding to commit the company to one path how to try to modify the company's business makeup and the market position it should stake out. A strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are going" and a convincing rational for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps leadership the energies of company personnel in a common direction. A strategic vision is a road map of a company's future providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Objectives

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission. In effect, this is what society gives back to the corporation when the corporation does a good job of fulfilling its mission. The term "goal" is often used interchangeably with the term "objective". In this paragraph, we prefer to differentiate the tow terms. In contrast to an objective, we consider a goal statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion. For example, a simple statement of "increased profitability" is thus a goal, not an objective, because it doesn't state how much profit the firm wants to make the next year. An objective would say something like, "increase profits 5% over last year".

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Strategies

A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximum competitive advantage and minimum competitive disadvantage. Often, the typical business firm considers three types of strategy: Corporate, business and functional.

Corporate strategy: Describes a company's overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. Corporate strategies typically fit within the three main categories of stability, growth strategy by acquiring and other appliance companies in order to have a full line of major home appliances.

Business strategy: Usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market. business strategy may fit within the two overall categories of competitive or cooperative strategies. For example, APPLE computer uses a differentiation competitive strategy that emphasized innovative products with create design.

Functional strategy: The approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximum resource productivity. It is concerned with developing and a distinctive competence to provide a company or business unit with a competitive advantage. Functional strategies are technological follower ship and technological leadership. This helped the company to keep its costs lower than its competitors and consequently to compete with lower prices. in terms of marketing functional strategies. The process of spending huge amounts on advertising in order to create customer demand. This supports competitive strategy of differentiating its products from its competitors.

Policies: A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategies.

All newly appointed chief executives should ask five key questions:

- What are the basic goals of the company?
- What is the strategy for achieving these goals?
- What are the fundamental issues facing the company?
- What is its culture?
- And is the company organized in a way to support the goals, issues and culture?

Bob Bauman, ex-chief executive of SmithKline Beecham

When Sir Ian MacGregor took over the ailing British Steel Corporation he met each senior executive face-to-face and asked him to justify the existence of his part of the organization. Each one was given a maximum of ten minutes.

Traditionally, courses in strategic management have been built around three important elements:

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- strategic analysis
- strategy creation and choice
- strategy implementation.

These three elements are shown in Figure 1.4, together with the key aspects of strategy that relate to them. In this book, however, we typically use the term 'strategic awareness' to embrace the analysis of the current situation and an assessment of the routes forward that are available, and 'strategic change' to reflect the selection of the route to follow and its implementation.

All within the overall purpose of the organization. Strategic management, then, involves awareness of how successful and strong the organization and its strategies are, and of how circumstances are changing. At any time, previously sound products, services and strategies are likely to be in decline, or threatened by competition. As this happens, new 'windows of opportunity' are opening for the vigilant and proactive companies.

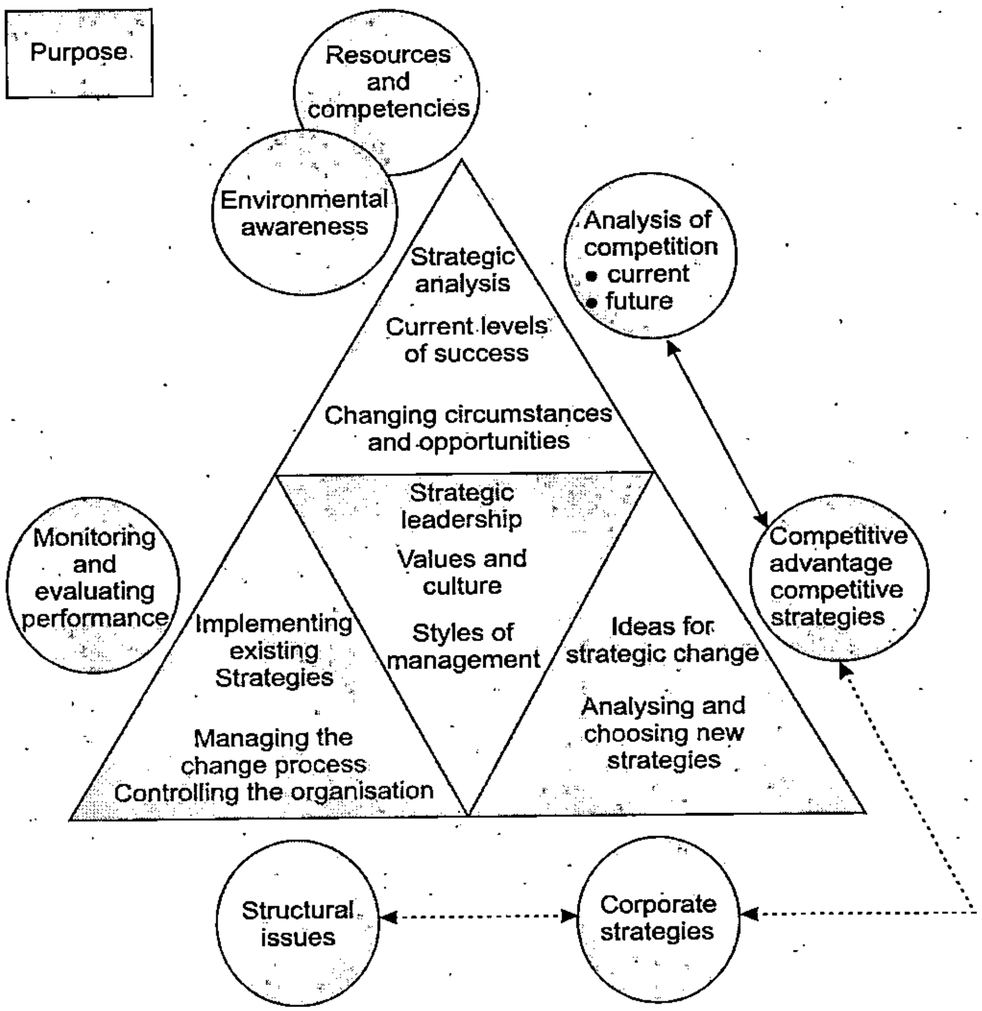

Figure 1.4 Strategic management

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New strategies, which may be changes to the corporate portfolio or changes at the competitive level, must be created. Sometimes these strategic ideas will emerge from formal planning processes; at other times, and particularly in the case of functional and competitive strategies, changes will emerge as managers throughout the organization try out new ideas. The actual strategies being pursued at any time reflect the organization's strategy content, and the important issues are:

- the ability of the organization to add value in meaningful ways, which exploit organizational resources to achieve synergy, and at the same time
- satisfy the needs of the organization's major stakeholders, particularly its shareholders and customers.

The selection of new strategies must take account of these criteria. Existing and new strategies must be implemented. A strategy is only useful when it has been implemented, and hence the organization must have an appropriate structure, clear and contributory functional strategies and systems which ensure that the organization behaves in a cohesive rather than a fragmented way. The larger or more diverse the organization becomes, the more likely it is that this becomes a problem. In multi-product, multinational organizations with considerable interdependence between the products or services and between subsidiaries, for example, divisions may become competitive with each other and not pull together. The processes involved in designing and carrying through any changes must be managed, monitored and controlled.

These process themes can be captured in relevant frameworks for studying strategy, such as the one featured in Figure 1.5 (a), which all tend to follow a pattern:

- appraisal of the current situation and current strategies, invariably using a SWOT (strengths, weaknesses, opportunities and threats) analysis, which itself is likely to be informed by a number or other external and internal analysis frameworks
- determination of desirable changes to objectives and/or strategies - at all levels, corporate, competitive, functional
- a search for, and choice of, suitable courses of action
- implementation of the changes
- monitoring progress; ongoing appraisal.

Historically this process model has been seen as a deterministic framework for strategy creation and strategic management. However, whilst this framework certainly helps us to understand strategy, this is not the same as implying that effective strategies can always be created by systematically following the steps in a model such as this. Such an approach would imply that strategy is top-down and leader-driven, that creating routes forward is relatively straightforward and that the majority of problems are likely to be found at the implementation stage. This is not altogether realistic; and, in fact, many strategic leaders have confirmed it does not reflect the reality of strategic decision-making in practice.

Figure 1.5 (a) therefore shows the process as an unbroken circle rather than a sequential analysis. Figure 1.5 (b) goes a stage further and annotates this basic process model by, first, adding a number of key questions which, realistically, organizations, and managers at various levels in the hierarchy, not just the most senior layer, should be addressing all the time.

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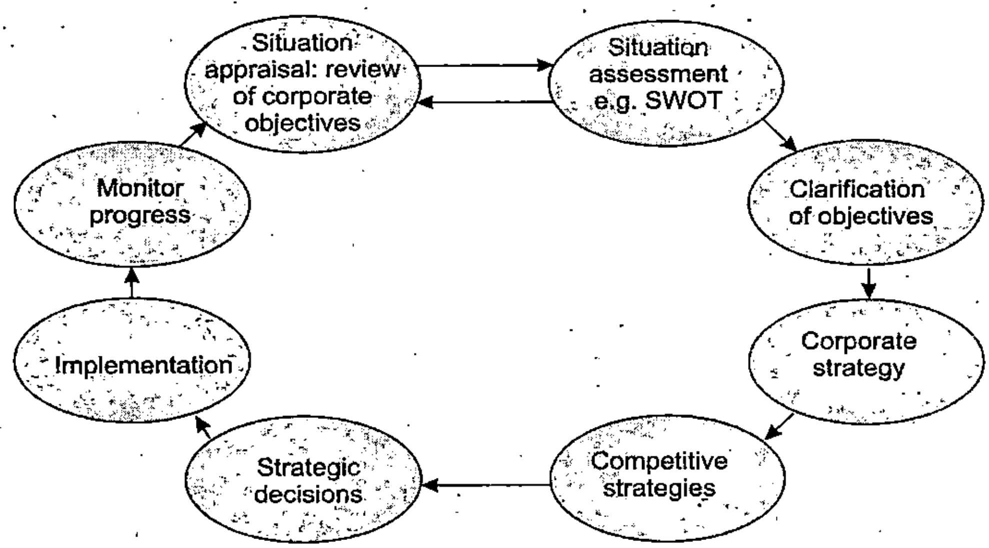

Figure 1.5 (a) Strategic management: awareness and change

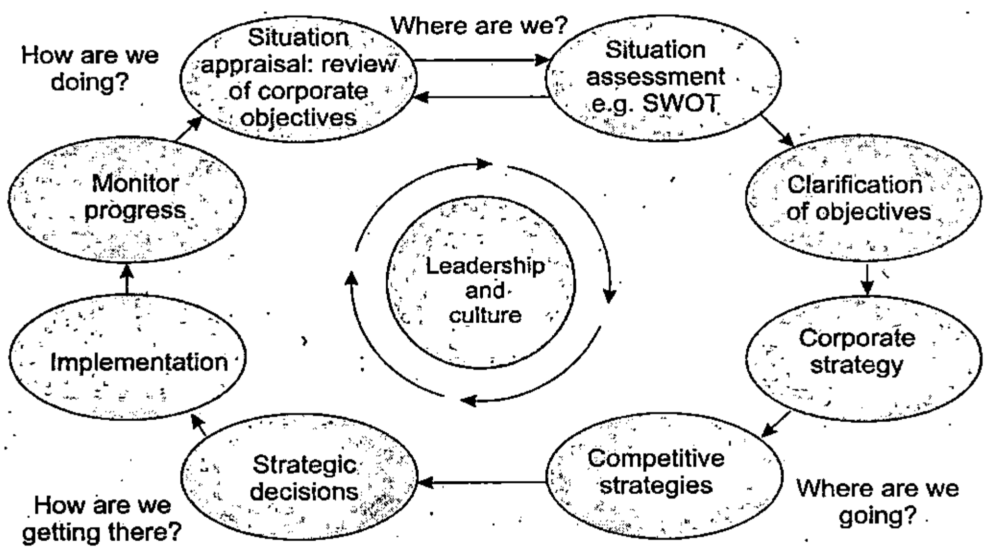

Figure 1.5 (b) Strategic management: awareness and change

These are not issues which only need to be considered once a year as part of a planning cycle; in dynamic environments circumstances are changing all the time and organizations must continuously search for new opportunities as well as appreciating the reactive changes to strategies and tactics that are required in order to remain effective. Leadership and culture have also been placed in the centre of the diagram, illustrating their critical impact on strategic decision making and strategic performance.

Arguably, strategy and strategic change in organizations cannot be understood without some understanding of the contribution of the strategic leader and the way in which the culture acts either as stimulus or constraint on the necessary changes. The way that an organization is structured into divisions and/or functions, and the amount of authority delegated to individual managers must inevitably influence day-today decision-making. These 'coal-face' decisions determine the actual strategies pursued and the levels of success. The objectives that an organization is pursuing in reality therefore stem from strategy implementation. In order to properly appreciate just how well-an organization is doing relative to both its objectives and its competitors, to explore opportunities and threats, to appraise strengths and weaknesses, to evaluate alternative courses of action and so on, it is vital to have an effective information system. How an organization gathers and uses information is therefore another important aspect of strategic management.

1.5 IMPACT OF GLOBALIZATION

Here the emphasis is very much on corporate strategy: diversity, geographical scope and co-ordinating the countries where products are made with the countries where they are sold. Using low-cost labour factories in Eastern Europe and the Far East can prove controversial while still being an economic necessity. In addition, these are often very powerful companies whose annual turnover exceeds the gross national product (GNP) of many of the world's smaller countries. Nevertheless, issues of competitiveness and competitive advantage are as relevant as they are for a small business. One key complication can be currency fluctuations when component supplies and finished goods are moved around the world.

The major dilemma for many global companies concerns their need to achieve global-scale economies from concentrating production in large plants whilst not sacrificing their local identity and relevance in the various markets. To accomplish this they must stay close to their customers and markets, whose specific tastes and preferences may differ markedly, even though they are buying essentially the same product.

The organizational structure can be, and often is, just as important as the strategy. This, in turn, raises a number of important people issues. People may be switched from business to business and from country to country as part of their personal progression. This movement also helps the whole organization to transfer skills and knowledge and to learn good practices from different parts of the business.

Global corporations also need to develop expertise in financial management. Attractive development grants and packages will be available in certain countries and influence strategic developments. Interest rates are not the same around the world, and consequently loans can be more attractive in certain countries and not in others. Moreover, tax rates vary and it can be very beneficial to be seen to be earning profits in low-tax countries instead of high-tax ones.

Not-for-profit organizations

Organizations such as churches and charities clearly fit into this sector very well, but certain other profit-generating businesses, such as museums, zoos and local theatres, are relatively closely aligned. In the case of the latter examples, the profit objective is often designed to create a 'war chest' for future investment rather than to reward an owner or a group of investors. For this reason there are many common characteristics. Money may be perceived differently in not-for-profit organizations than in profit-seeking businesses, but there is still

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a need to create a positive cash flow. A charity, for example, can only spend on good causes if it can generate funds. For this reason, churches and charities can legitimately appear very commercial in their outlook, and this must be accepted alongside the cause that they are targeting.

These not-for-profit organizations need social entrepreneurs or strategic leaders who, in many ways, will be similar to those found in the profit-seeking sector. They will possess similar entrepreneurial and leadership qualities, but they will be driven by a cause, which attracts them to the particular organization and sector. This, in turn, guides the mission, purpose and culture. In addition, there is likely to be a greater reliance on voluntary helpers and possibly managers and others who readily accept salaries and wages below those that they might earn in the profit sector.

There are likely to be variations on the modes of strategy creation discussed herein. There is likely to be some committee structure, involving both salaried employees and unpaid volunteers, the latter often in senior roles. Decision-making can be slow and political in nature, although clearly it does not have to be this way. However, strong and dominant leaders (either paid or unpaid) quite often emerge and are at the heart of strategy-making. Because there is a need for accountability for the funds raised, planning systems are likely to be prominent.

Public sector organizations

In many countries around the world the composition of this sector has changed over recent years. Typically essential service industries, such as telecommunications, gas, electricity, water, and air, bus and rail transport, have been privatized, often resulting in the creation of a number of complementary or even competing businesses. The outcome in each industry has been one or more private companies, some of which have since merged or been acquired, sometimes by overseas parents. In the case of the UK this privatization programme has also included individual companies such as British Airports Authority (BAA), which manages several airports but is largely a retail organization.

Outside direct government control, BAA has expanded overseas and now manages a number of other airports around the world. In every case there is some form of regulation and government influence, as distinct from the direct government control of the past. The trend towards privatization has gathered momentum for many reasons, one factor in Europe being the stronger stance on government subsidies to individual industries by the European Commission. The key appears to lie in the effectiveness of the regulation, which must attempt to balance the needs of all key stakeholders: customers, employees and investors. As a result, we now tend to think of local authorities and public health and emergency services as the archetypal public sector organizations.

Clearly these are service businesses, and ones which will always have to choose and prioritize between different needs and stakeholders. In general, they will always be able to achieve more outcomes if they can acquire more resources. However, they remain largely dependent on central government for their resources and are therefore influenced by the political agenda of the day.

Increasingly, some have greater involvement with the private sector than was the case in the past. The British National Health Service works alongside the private health-care sector and, although their roles and remits differ, the same consultants operate in both sectors. Many services in local communities were subjected to compulsory competitive tendering (CCT) during the early and mid-1990s and, as a result, were outsourced to providers in the private, profit-seeking sector. CCT has now been replaced by the need to find and deliver 'best value'.

Decision-making and style features some element of bureaucracy, in part because of the role of governing bodies, be they elected (local councillors) or appointed (e.g., NHS Trust Boards). As accountability has become increasingly public in recent years, analysis and planning will also be very prominent. Again, however, strong leaders can, and will, make an impact; and, as the public sector environment is no more stablethan the one affecting commercial businesses, emergent strategy is also very important.

1.6 BASIC MODEL OF STRATEGIC MANAGEMENT

The business model provides an explanation of an organization's 'recipe for success', and it contains those factors that essentially define the business. It is, in many respects, the vehicle for delivering the purpose or mission. It encapsulates both 'big picture' and 'little picture' elements and it can be applied to both the present and the future. Over time the model, and the strategies it encapsulates, are likely to change, even if the basic purpose remains constant. Put simply, the business model should clearly show how the business is going to make money. Many dot.com business essentially failed because they did not address the issue of how they were going to make money. They offered technology to deliver a product that customers simply were not prepared to pay for– they failed to blend business and technology innovation.

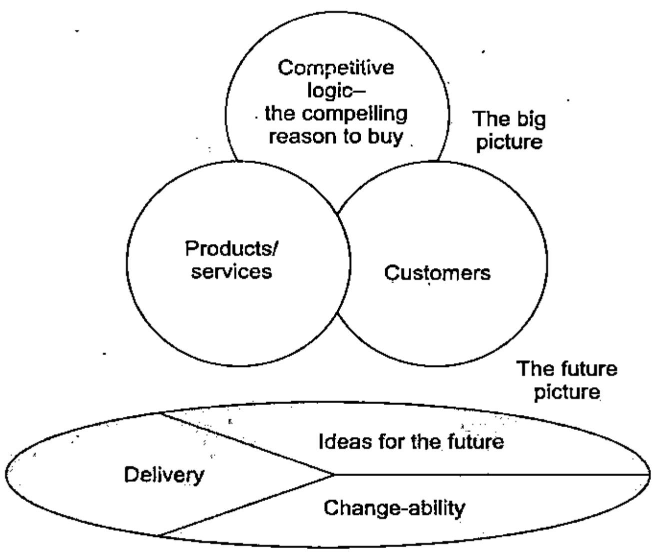

Figure 1.6 The business model

Every organization is practicing a model, even though it may not have thought it through in any depth. Where this is the case, any success could well be short-lived as it

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implies there is a reliance on good fortune rather than analytical insight. One might argue that if the model can't be articulated or written down, then the organization's managers don't know what the model is.

The business model is outlined in Figure 2.1 and the elements of this diagram are discussed below. The three fundamental elements of the model itself are shown at the top, metaphorically mounted on an important base.

The basic themes of the business model are products (or services), customers and competitive logic – the compelling reason for people to buy the products and services. It is, of course, important to recognize that good ideas and a plausible outline model are relatively easy to imagine and define ... the secret lies in delivering the model and implementing the strategies. In military terms, tactics can be trickier than the grand strategy – even though we clearly need both.

Products and services constitute what the organization produces or markets. The range can be broad or narrow, focused or diversified. The choice, like the selection of target customers and competitive strategies, implies a decision concerning what to do and what not to do. There needs to be a clear strategic logic for what is in the range. Every one should be able to make a contribution to the business; none of them should be in a position where they bring harm to any of the others because, perhaps, they are underperforming and demanding cash subsidies.

Customers make up markets – they are the who in the model. Again the coverage can be narrow or broad. The scope of the business can be localized, national or international. And these can vary between the various products. The link between products and customers represents the organization's strategic or competitive position. If it is a strong, or a winning, position, then there is a good reason for this. When we add the third element, competitive logic, we have our why, our compelling reason to buy. These three together constitute the organizational 'big picture'. The competitive logic can be based on price; equally it can be based on difference. There are four basic approaches to the positioning element of the model:

- A narrow product (or service) range for a broad range of customers – the basics of the business model for Starbucks and the low-cost airlines
- A broad product range for a defined segment of the market – Harrods provides a vast choice of items for those people who are willing to pay premium prices and who enjoy being seen out with a Harrods bag
- A narrow range for a targeted niche – hand-made Morgan cars appeal to a limited number of people who want a sports car with an essentially pre-war style and who are willing to join a waiting list of some four years duration
- A broad range for a wide market – Amazon.com has added a diverse range of products to its original books and it sells to anyone who is interested in buying online.

The delivery section of the base is an essential adjunct, even though it may not strictly be part of the outline model. Without a clear strategy for implementing and delivering the model the organization will be compromising on efficiency and effectiveness. This then is the how element and it includes the structure of the organization and the operations and activities carried out by people within the structure. Cost management and synergy are key themes. Unnecessary costs should be avoided; equally it can be a mistake to 'penny-pinch' on things that really matter to customers. At the same time it can be helpful if the activities complement and support each other. This is the 'little picture' behind the 'big picture'.

What works successfully today cannot be guaranteed to work for ever. Business models and strategies have life cycles and therefore organizations must address when they might need to make changes. They need an appreciation of a 'future picture', concerning changes to what, how and for whom. This is the future model.

Essentially the right model changes with circumstances. Therefore developing and adapting the business model is the key to business success. Getting it right is essentially the main test for the top management of any business. When they get the business model wrong profits suffer. In 2003, out of town retailer Matalan had ceased to get it right. Chief Executive John King is quoted as saying: 'I've come to the conclusion the value wasn't good enough, we have not been aggressive enough on price and we went on promotion too late.' As a result, Matalan was forced to cut prices by 50 per cent before Christmas and 75 per cent in the New Year.

We can use Matalan to reprise the main elements of an effective business model. The business model must clearly show and prove how you are going to make money. It must address and answer the following questions.

- What is different about our value proposition?
- Who are our customers?
- What do customers value today?
- What will customers value tomorrow?

The questions asked of customers should also be addressed of investors. The capital markets need to be convinced that a business understands the needs of investors. If not they will not buy into the business model.

Ensuring the future model can also be delivered when it is needed means that the organization needs *change-ability*, which in turn will be very dependent upon its strategic leadership. Hamel (2000) argues that new business models are emerging all the time as fresh opportunities are found. Amongst the examples he cites are:

1. Consolidation in the small and medium-sized enterprises (SME) sector as large organizations grow bigger by systematically absorbing a series of small (and sometimes local) businesses. Examples include funeral services and Hanson, the UK-based aggregates business which operates mainly in the US and UK
2. Throwaway varieties of such products as watches and cameras
3. Individual customizing. Collector's editions of the ubiquitous Barbie doll appeal to certain enthusiasts and command a premium price. Apple's iPod allows people to download music of their own choosing to compile a CD of their favourites.

William Morrison : The William Morrison supermarket group, strongest in the north of England and still a family company in many respects, competes successfully with Tesco, Sainsbury and ASDA. Founded in Bradford and led by the septuagenarian entrepreneur Sir Ken Morrison, and prior to its acquisition of Safeway, Morrisons had approaching a 20 per cent share of the food retailing market in Yorkshire, although across the country as a whole it was nearer 4 per cent. The market leader, Tesco, now has 18 per cent of the UK market.

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Fundamentally the large supermarket chains offer broadly the same product ranges, although there will be some clear differences. Across a wide range of goods there are the leading brands and own-label alternatives, which normally are cheaper. Morrisons' customers are not going to be markedly different from those who pick Tesco or ASDA. They all emphasize competitive prices. Location, of course, and convenience will influence customer choice. Sainsbury is somewhat different as their prices overall are slightly higher. Waitrose (owned by John Lewis) and Marks and Spencer, with a focus on premium products and higher prices, have a different market appeal. So where is the Morrisons 'compelling reason to buy'? The Morrison strategy is not identical to those of its rivals. Morrison focuses on a composite package of 'everyday low prices' (which itself isn't unique – both ASDA and Tesco claim the same), multi-buys and special offers. It is this combination that makes it distinctive. Unusually it also manufactures a substantial proportion of its own food products, even owning its own abattoirs. It packages most of its own fresh food and displays these in-store as they would feature in a traditional open street market. This is very deliberate and it reflects Morrisons' origins as market traders. In addition, every store looks the same. Bananas are hung up to keep them fresh, when normally they will be laid out in trays. Again unusually, it owns its own delivery fleet rather than relying on specialist logistics companies. In a Morrisons store you will see fishmongers and butchers in white hats and striped aprons – which is pretty ubiquitous – but they will be found in a section of the store which is designed to feel like an open street market. The focus is on food; Morrisons is less interested than its main rivals in clothing and other nonfood products. There are no online sales and no loyalty cards.

In this respect we can see Morrisons' northern roots being strongly reflected in its ambience and culture. Some would argue that these northern roots are also reflected in Morrisons taking more trade credit days from its suppliers than any of its leading rivals.

Dell : It has been said that Michael Dell, founder and CEO of Dell Computer, is fast becoming the Henry Ford of the information age – as a mass producer of standardized products. Dell assembles and sells PCs and laptops and, more recently, servers and storage hardware. The company began when Dell was a university student some 20 years ago. In the early days Dell sold only to the business market, and, although this remains his dominant market, home consumers are a growth area. The business model is simple and powerful – and unusual for the industry.

Dell buys in standardized components in order to minimize the need for any expensive R&D. Sales are direct to customers, typically over the Internet. Together with a telephone helpline, this alleviates the need for middlemen and the consequential distributor margins. Dell builds to order and carries very little inventory of finished products.

This cannot happen effectively without strict attention to detail and constant process re-engineering. As a result Dell has relatively low costs. It then adopts a very aggressive pricing policy in order to seize market share from any competitor who has taken its eye off the ball and let its costs increase. The assumption is that this business model can be used for other consumer electrical products such as digital music players and flat screen televisions.

Some critics argue that the model has to be limited as a substantial proportion of consumers would be unwilling to buy without being able to inspect a model in a store. But the logic of this argument becomes thinner as more and more of us know people who have bought a Dell – we can inspect theirs.

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Avon : Like Dell, Avon's business model is also built around direct selling. Avon was 117 years old in 2003, having started life as the California Perfume Company. Most of us would recognize the brand from the 'army' of Avon ladies who deliver catalogues to their customers every few weeks, take their orders and later deliver their choices.

Customers pay their local agent. The products themselves are manufactured in various countries around the world. Although the direct selling remains constant, other elements of the model are constantly changing. Existing product ranges are likely to change at any time; and new products are added, often replacing poor-selling items. Packaging often changes to freshen the appearance of products. No two catalogues are identical, although some products do appear regularly; and there are always special offers. More recently 'well-ness' products for health-and fitness-conscious customers have been included. These range from vitamin supplements to yoga mats. Avon 'Cosmeceuticals', brands endorsed by dermatologists, fit somewhere between medications and cosmetics.

Avon has also diversified to widen its overall customer appeal. It became prominent as a convenient supplier to middle class mothers who were short of time for personal shopping, but this is no longer adequate. Although the average age of Avon's customers is around 39, this average is falling slowly. In part this is affected by the wider product choices; it is also enhanced by the choice of younger role models to promote the products.

Model Yasmin le Bon and tennis stars, Serena and Venus Williams are included here. In addition, in the US, Avon has developed its new Mark range for 16–24 year old customers. Like Ikea, Avon has seen the benefit of moving into China and Russia, two huge consumer markets. However, direct selling is illegal in China and so Avon trades through specialist boutiques.

London Zoo : In the case of London Zoo we see evidence of difficult decisions concerning 'products' and customers. Without at least some retailing activities London Zoo would be out of business. A part of the Zoological Society of London, the zoo has a key scientific purpose related to conservation and the preservation of endangered species. However, those animals that are particularly attractive to most paying visitors are often not the most endangered. Moreover, there is a duty to educate as a large proportion of the visitors are children. Many national animal collections around the world are much more heavily subsidized, but in recent years London Zoo has not been allowed to become grant-dependent. It has had to establish a revenue generating business model without losing sight of its origins and fundamental purpose – within the constraint of its location in a Royal Park which seriously affects any possibility of expansion. London Zoo has therefore had to build a model which balances conservation, education and entertainment.

The Opera : Globally, opera can only survive if it is subsidized, so again the business model must embrace this. The subsidy can be from government – in the UK The Arts Council, which, for example, accounts for 30 per cent of the budget at The Royal Opera House – or corporate and private donors.

Customers are willing to pay very high prices for the best seats as long as the quality performance merits it. And many operagoers are discerning. In part opera is expensive because it demands a large number of singers and musicians. In the UK, prices for the Royal Opera House Covent Garden rise to £160.00 – although the cheapest restricted view seats can sometimes be bought for £3.00. The Metropolitan in New York is more expensive,

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with top prices of US$280.00. But opera houses have to be maintained through the year and orchestras retained. They are not going to be full of customers every night of the year. The market is too limited for that.

Opera has long enjoyed an elitist image; operagoers are so-called aficionados. And yet the reality has changed in recent years. The opera 'product' now extends well beyond the! world's leading opera houses. The change began when *Nessun Dorma* was used as the theme music for the 1990 football World Cup and, on the back of this, the concert by 'The Three Tenors' was broadcast to the world on television and the accompanying CD became the best-selling classical album of all time. More recently more populist singers like Lesley Garrett and Russell Watson have brought operatic arias to an everwider audience. And who will ever forget Julia Roberts being introduced to the opera in the film *Pretty Woman* and being so moved she almost 'peed in her pants'! In other words, the opera 'product' now encapsulates CD and popular television as well as actual performances for a growing and changing market. The leading singers have been very carefully 'packaged' and marketed to give them a wider appeal.

Invensys : Invensys began life as BTR and was later absorbed by another engineering conglomerate, Siebe. When Sir Owen Green stepped down as strategic leader in 1993 BTR had enjoyed some thirty years of acquisition, diversification and growth. It was the seventh largest company in the UK. Ten years later Invensys was relegated from the FTSE 100, the share price had collapsed and the debt was regarded as 'junk'. Things began to go downhill when the once successful business model was no longer appropriate.

Interestingly Hanson, a very similar business to BTR in many respects, was deliberately split into five separate businesses. BTR did not opt for such radical change and has paid a penalty. The BTR business model relied on control through cash. Companies, typically anything involving engineering of some form, were bought if they were undervalued and capable of some rejuvenation. Overheads were reduced and parts might be sold on as the company was split up. Prices were increased because many customers are captive in the short term. Strategic leaders of business units were rewarded for profit success – but there was a penalty for failure! Cash was repatriated from the individual businesses to BTR's head office and invested selectively in those businesses that could provide the highest returns. Synergy and linkages between the businesses was not high on the agenda.

However, as the productivity reforms of the Thatcher government took hold the number of undervalued businesses declined. They were driven out of business altogether. When the economy stagnated, the ability to generate cash as BTR had been able to do in the past was also reduced. This led to less investment in the businesses, which became less competitive as a result. BTR was now in a downward spiral. A new business model was based on divestment and selective acquisition to build a different empire of related businesses – but the company has never been able to restore its cash-generating successes of the 1980s and early 1990s. Invensys now has its fifth strategic leader in ten years.

1.7 STRATEGIC DECISION MAKING

Figure 2.2 shows the relationships between these terms, highlighting their key constituents. The word 'values' is important in both the mission and vision statement, but with a different emphasis. It is important that a mission statement captures how an organization will create and add value for its customers; the vision relates to the corporate values that should be held by employees and visible to the outside world. The expression *aims* is sometimes used as an alternative to mission. The term *goals* is seen as synonymous with objectives, and in this book the terms are used interchangeably.

Specifically, where other works are being referred to and those authors have used the term goal as opposed to objective, their terminology is retained. It is also important to distinguish between long-term and short-term objectives or goals. Thompson and Strickland (1980) provide a useful distinction. They argue that objectives overall define the specific kinds of performance and results that the organization seeks to produce through its activities. The *long-term objectives* relate to the desired performance and results on an ongoing basis; *short-term objectives* are concerned with the near-term performance targets that the organization desires to reach in progressing towards its long-term objectives. Making use of such techniques as management by objectives, these performance targets can be agreed with individual managers, who are then given responsibility for their attainment and held accountable.

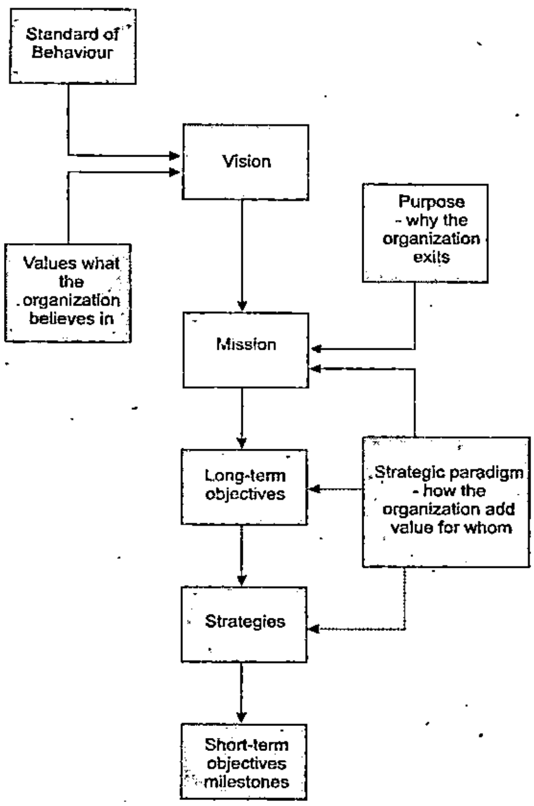

Figure 1.7 Vision and mission statements and objectives

Vision statements

While mission statements have become increasingly popular for organizations, vision statements are less prevalent. The lack of a published statement, of course, is not necessarily

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an indication of a lack of vision. Where they exist they reflect the company's vision of some future state, which ideally the organization will achieve. Terminology and themes such as a world-class manufacturer, a quality organization, a provider of legendary service and a stimulating, rewarding place to work might well appear. The essential elements focus on those values to which the organization is committed and appropriate standards of behaviour for all employees. Possible improvement paths, employee development programmes and measures or indicators of progress should be established for each element of the vision.

Strategy development is like driving around a roundabout. The signposts are only useful if you know where you want to go. Some exits lead uphill, some downhill – most are one-way streets and some have very heavy traffic indeed. The trick is in picking the journey's end before you set out – otherwise you go around in circles or pick the wrong road.

Gerry M Murphy, when Chief Executive Officer, Greencore plc, Ireland

Arne Ness said, when he climbed Everest: I had a dream. I reached it. I lost the dream and I miss it. When we reached our dream we didn't have another long-term objective. So people started to produce their own new objectives, not a common objective, but different objectives depending on where they were in the organization. I learned that before you reach an objective you must be ready with a new one, and you must start to communicate it to the organization. But it is not the goal itself that is important ... it is the fight to get there.

Jan Carlzon, when Chairman and Chief Executive Officer, Scandinavian Airlines System

Mission statements

The corporate mission is the overriding raison d'être for the business. Ackoff (1986), however, claimed that many corporate mission statements prove worthless, one reason being that they consist of loose expressions such as 'maximize growth potential' or 'provide products of the highest quality'. How, he queries, can a company determine whether it has attained its maximum growth potential or highest quality? His points are still valid today. Primarily, the mission statement should not address what an organization must do in order to survive, but what it has chosen to do in order to thrive. It should be positive, visionary and motivating.

Ackoff suggests that a good mission statement has five characteristics. It will contain a formulation of objectives that enables progress towards them to be measured.

- It differentiates the company from its competitors.
- It defines the business(es) that the company wants to be in, not necessarily is in.
- It is relevant to all stakeholders in the firm, not just shareholders and managers.
- It is exciting and inspiring.

Campbell (1989) argues that to be valuable mission statements must reflect corporate values, and the strategic leader and the organization as a whole should be visibly pursuing the mission. He takes a wider perspective than Ackoff by including aspects of the corporate vision and arguing that there are four key issues involved in developing a useful mission. First, it is important to clarify the purpose of the organization – why it exists. Hanson plc, for example, which is referred to at various stages in this book, was led by Lord James Hanson for some 25 years and he stated:

It is the central tenet of my faith that the shareholder is king. My aim is to advance the shareholder's interest by increasing earnings per share.

By contrast, and at the same time, Lex Service Group published an alternative view:

We will exercise responsibility in our dealings with all our stakeholders and, in the case of conflict, balance the interest of the employees and shareholders on an equal basis over time.

The implications of these contrasting perspectives are discussed in the next section of this chapter.

Second, the mission statement should describe the business and its activities, and the position that it wants to achieve in its field. Third, the organization's values should be stated. How does the company intend to treat its employees, customers and suppliers, for example? Finally, it is important to ensure that the organization behaves in the way that it promises it will. This is important because it can inspire trust in employees and others who significantly influence the organization.

It is generally accepted that in successful companies middle and junior managers know where the strategic leaders are taking the company and why. In less successful organizations there is often confusion about this. Mission statements, like vision statements, can all too easily just 'state the obvious' and as a result have little real value. The secret lies in clarifying what makes a company different and a more effective competitor, rather than simply restating those requirements that are essential for meeting key success factors. A mission (or vision) statement which could easily be used by another business, whether in the same industry or not – as many can be – is, simply, of no great value. Companies that succeed long term are those which create competitive advantages and sustain their strong positions with flexibility and improvement. The vision and mission should support this.

The principal purpose of these statements is communication, both externally and internally and, arguably, a major benefit for organizations is the thinking they are forced to do in order to establish sound statements. Nevertheless, many are still worded poorly. In addition, it is essential that the mission (or vision) is more than a plaque in a foyer; employees have to make the words mean something through their actions. For this to happen, employees must feel that the organization actually means what it is saying in the mission and vision statements. There must be an element of trust, for without it the desired outcomes will not be achieved.

The mission clearly corresponds closely to the basic philosophy or vision underlying the business, and if there is a sound philosophy, strategies that generate success will be derived from it. Sock Shop was founded in 1983, with a simple vision. One newspaper has summarized it as, 'shopping in big stores for basic items like stockings is a fag, but nipping into an attractive kiosk at an Underground station, British Rail concourse or busy high street is quick, convenient and can be fun'. From this have emerged six key marketing features or strategies, which have become the foundations of the company's success and rapid growth:

- shops located within areas of heavy pedestrian traffic
- easily accessible products
- friendly and efficient service
- a wide range of quality products designed to meet the needs of customers attractive presentations
- competitive selling prices.

In 1989, after a number of years of growth and success, Sock Shop began to lose money.

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The hot summer weather and the London Underground strikes were blamed for falling sales. Increasing interest rates caused additional financial problems. Moreover, Sock Shop expanded into the US and this had proved costly. However, in February 1990 Sock Shop founder, Sophie Mirman, commented: 'We provide everyday necessities in a fashionable manner ... our concept remains sound. Our merchandise continues to be not to be wary of each other and prices are held back to some extent for fear of losing market share. Suppliers are interdependent and fear that a price decrease will be met by competitors (thus reducing profits) and price increases will not (hence market share will be threatened). There are two types of oligopoly, depending on whether opportunities exist for significant differentiation. In all of these models competition is a major determinant of profit potential and therefore objectives must be set with competitors in mind.

In a monopoly (again somewhat theoretical in a pure sense) excess profits could be made if government did not act as a restraint. In the UK, although such **public sector organizations** as British Gas and British Telecom have been privatized, their actions in terms of supply and pricing are monitored and regulated.

Stakeholder theory

The influence of external stakeholders looks at the business environment, but it is important to introduce the topic at this stage. A further assumption of profit-maximizing theory is that shareholders in the business should be given first priority and be the major consideration in decision-making, and this arose because early economic theorists saw owners and managers as being synonymous.

This assumption no longer holds, however. A study of market models demonstrates the important role played by competitors and by government as a restraining force, and it was also suggested that organizations must pay some regard to their suppliers and distributors. In addition, managers and employees must be considered. The decisions taken by managers which create incremental change will be influenced by the objectives and values that they believe are important. Managers are paid employees, and whilst concerned about profits, they will also regard growth and security as important.

These are all stakeholders. Freeman (1984) defines stakeholders as any group or individual who can affect, or is affected by, the performance of the organization. Newbould and Luffman (1979) argue that current and future strategies are affected by:

- external pressures from the marketplace, including competitors, buyers and suppliers; shareholders; pressure groups; and government
- internal pressures from existing commitments, managers, employees and their trade unions
- the personal ethical and moral perspectives of senior managers.

Stakeholder theory, then, postulates that the objectives of an organization will take account of the various needs of these different interested parties who will represent some type of informal coalition. Their relative power will be a key variable, and the organization will on occasions 'trade off' one against the other, establishing a hierarchy of relative importance. Stakeholders see different things as being important and receive benefits or rewards in a variety of ways, as featured in Table 1.2. Stakeholder interests are not always consistent. For example, investment in new technology might improve product quality and as a result lead to increased profits. While customers who are shareholders might perceptively benefit, if the investment implies lost jobs then employees, possibly managers, and their trade unions may be dissatisfied.

If the scale of redundancy is large and results in militant resistance, the government may become involved. The various stakeholders are not affected in the same way by every strategic decision and, consequently, their relative influence will vary from decision to decision. In 1995 Shell, one of Europe's most successful and respected companies, was forced to change an important strategic decision following a high-profile campaign by a leading pressure group.

Table 1.1 Structural characteristics of four market models

Market	Pure Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of firms	Large	Large	Few or a few dominant	One
Types of product	Standardized identical or almost identical	Differentiated	Standardized or differentiated	Unique
Control over price by suppliers	Few or a few dominant	Standardized or differentiated	Limited by mutual inter-dependence; considerable with collusion takes place	Considerable
Entry conditions	Very easy, no obstacles	Relatively easy	Significant obstacles	Blocked
Non-price competition	None	Yes	Yes	Yes
Examples	Agriculture products; Some chemicals; Printing, Laundry services	Clothing; Furniture; Soft drinks; Plumbers; Restaurant.	Standardized: Cement, sugar, Fertilizer Differentiated; Morganne; Soaps; Detergents	British Gas (domestic consumers); water companies in their regions; local bus companies in certain towns

Shell wanted to sink its redundant Brent Spar oil platform in deep seas some 150 miles west of Scotland. It had reached an agreement with the UK government that, scientifically, this was the most appropriate means of disposal for the platform.

Greenpeace objected and protesters boarded the platform, claiming that it still contained 5000 tonnes of oil which would eventually be released to pollute the sea. The ensuing and professionally orchestrated publicity fuelled public opinion, and there were protests in a

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number of European countries, including attacks on petrol stations in Germany. Shell backed down and agreed to investigate other possibilities for disposal. The UK government expressed both anger and disappointment with this decision.

Table 1.2 Examples of stakeholder interests

Shareholders	Annual dividends; increasing the value of their investment in the company as the share price Increases. Both are affected by growth and profits Institutional shareholders may balance high-risk investments and their anticipated high returns with more stable investments in their portfolio
Managers	Salaries and bonuses; perks; status-form working for a well-known and successful organization; responsibility; challenge; security
Employees	Wages; holidays; conditions and job satisfaction; security - influenced by trade union involvement
Consumers	Desirable and quality products; competitive prices -very much in relation to competition; new products at appropriate times
Distributors	On time and reliable deliveries
Suppliers	Consistent orders; payment on time
Financiers	Interest payments and loan repayments; like payment for supplies, affected by cash flow
Government	Payment of taxes and provision of employment contribution to the nation's exports
Society in general	Socially responsible actions–Sometimes reflected in pressure groups

Independent inspectors later proved that Greenpeace's claims were gross exaggerations – the residual oil was much, much less than 5000 tonnes. The press concluded: 'Shell went wrong in spending too much time convincing government of the case for sea-bed dumping, but not attaching enough importance to consulting other stakeholder groups.' Shell had been made to appear socially irresponsible, yet the ethics of the Greenpeace campaign are questionable; these issues are explored further at the end of this chapter.

Waterman (1994) contends that successful companies do not automatically make shareholders their first priority. Instead, they pay primary attention to employees and customers and, as a result, they perform more effectively than their rivals. The outcome is superior profits and wealth creation for the shareholders. Simon (1964) argues that one of the main reasons for an organization's collapse is a failure to incorporate the important motivational concerns of key stakeholders. Small businesses, for example, are generally weak in relation to their suppliers, especially if these are larger well- established concerns; and if they neglect managing their cash flow and fail to pay their accounts on time they will find their deliveries stopped.

For any organization, if new products or services fail to provide consumers with what they are looking for, however well produced or low priced they might be, they will not

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sell. A 1999 survey by Deloitte Consulting confirmed that 'customer-centric' manufacturing companies worldwide are 60 per cent more profitable than those that are less committed to customers. In addition, they enjoy lower operating costs. Customer- centricity is seen as a 'systematic process which sets objectives for customer loyalty and retention and then tracks performance towards those goals'. It should facilitate the development of higher added value, premium-price products.

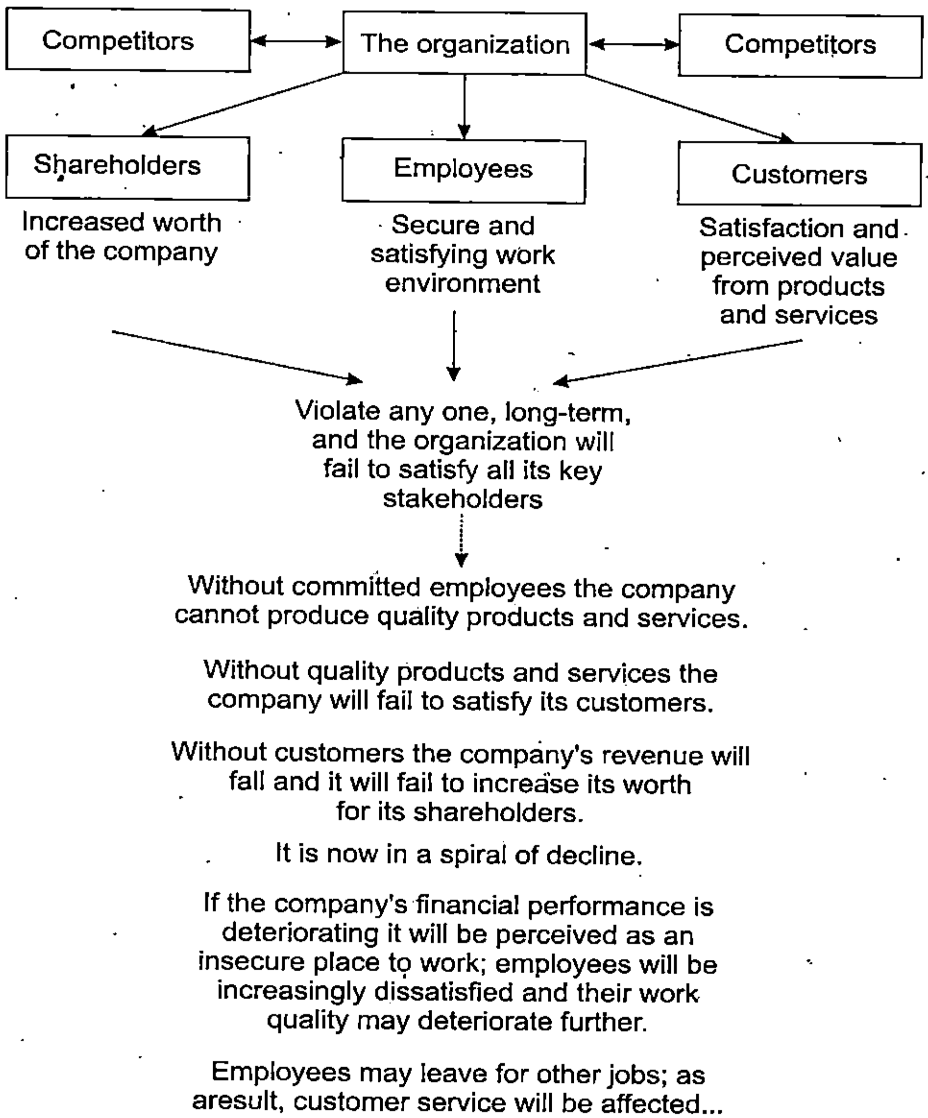

Figure 1.8 Satisfying stakeholders

Figure 1.8 shows that shareholders, employees and customers are the three key stakeholders that the organization must satisfy, but invariably in a competitive environment: if they fail with any group long term they will place the organization in jeopardy through a spiral of decline. Figure 1.9 is an alternative presentation of the same points. On the left

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is a virtuous circle of growth and prosperity. Satisfied, perhaps even delighted, customers enable high financial returns, which can be used in part to reward employees. A perception of fairness here can be instrumental for motivating employees to keep customers satisfied and thus sustain the circle. The right-hand side clarifies that the needs of customers can sometimes conflict with the demands of some shareholders, especially those who are willing to tade off long-term achievement for short- term financial returns. Competitors are always trying to persuade customers to switch allegiance and thus impact on an organization's success.

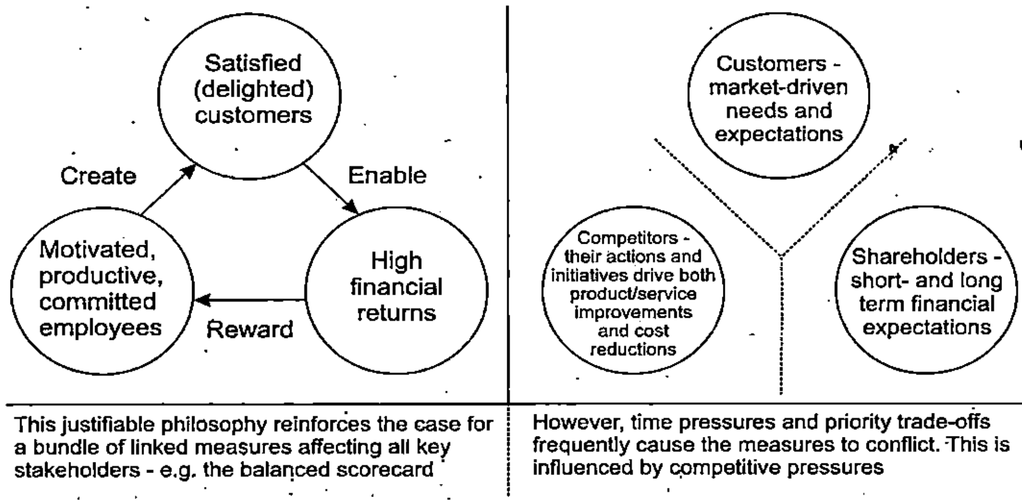

Figure 1.9 Complementary or conflicting measures

While these arguments are, in themselves, convincing, many organizations still fail to satisfy their stakeholders long term. The following theories provide some insight into this reality.

The investor and the employee are in the same position, but sometimes the employee is more important, because he will be there a long time, whereas an investor will often get in and out on a whim in order to make a profit. The worker's mission is to contribute to the company's welfare, and his own, every day. All of his working life he is really needed.

Akio Morita, Joint Founder, Sony

Cyert and March's Behavioural Theory

Stakeholder theory is closely related to the ideas in Cyert and March's A Behavioural Theory of the Firm (1963). Cyert and March argue that the goals of an organization are a compromise between members of a coalition comprising the parties affecting an organization. The word compromise is used as the actual choice is linked to relative power and there are inevitably conflicts of interest. Cyert and March argue that there are essentially five directional pulls to consider:

- production-related, and encapsulating stable employment, ease of control and scheduling
- inventory-related – customers and sales staff push for high stocks and wide choice, management accountants complain about the cost of too much stock

- sales-related – obtaining and satisfying orders
- market share, which yields power relative to competitors
- profit, which concerns shareholders, senior management and the providers of loan capital.

This theory stresses the perceived importance of the short term, as opposed to the long term, because issues are more tangible and because decisions have to be taken as situations change. Organizations adapt over time and it is likely that changes will be limited unless it is necessary to change things more radically. In other words, once a compromise situation is reached there is a tendency to seek to retain it rather than change it, and the goals will change as the values and relative importance of coalition members change.

As a result, organizational slack develops. This is 'payments to members of the coalition in excess of what is required to keep them in the coalition'. It is difficult, for example, to determine the minimum acceptable reward for employees; assets are generally underexploited since it is difficult to know the maximum productivity of a person or machine; and uncertainties mean that less than optimal price, product and promotional policies will be pursued. The existence of slack does allow for extra effort in times of emergency.

This theory can be usefully considered alongside Herbert Simon's (1964) theory of satisficing. Here he contends that managers seek courses of action which are acceptable in the light of known objectives. These actions may not be optimal but they are chosen because of internal and external constraints such as time pressure, a lack of information and the vested interests of certain powerful stakeholders.

Objectives and Constraints

Simon (1964) also makes an important distinction between objectives and constraints. Some of the ends that strategies are designed to achieve are not freely set objectives but constraints imposed on the organization by powerful stakeholders or agencies. Simply, organizational freedom – to set objectives – is constrained. For example, an animal food company might wish to offer low priced feeds for livestock but be constrained by dietary requirements which, by determining ingredients, influence costs and hence prices.

In recent years, many of the world's leading drug companies have changed their strategies as a result of external constraints. Governments have been increasingly reluctant to fund expensive drugs and treatments.

Some companies have closed plants, while others have relocated for lower costs. There has been an increased research focus on treatments that are most likely to receive funding, arguably at the expense of potential breakthroughs in other areas. Priorities and strategies in the UK National Health Service (NHS) are affected by the government's waiting-list targets. Network Rail (which manages and maintains the UK railway infrastructure for the government) has an independent regulator who imposes specific requirements and targets for safety which inevitably affect costs and borrowing needs.

A number of other authors have offered theories in an attempt to explain the behaviour of organizations and the objectives they seek.

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Baumol's Theory of Sales Maximization

Baumol (1959) argues that firms seek to maximize sales rather than profits, but within the constraint of a minimum acceptable profit level. It can be demonstrated that profit maximizing is achieved at a level of output below that which would maximize sales revenue and that, as sales and revenue increase beyond profit maximizing, profits are sacrificed. Firms will increase sales and revenue as long as they are making profits in excess of what they regard as an acceptable minimum. Businessmen, Baumol argues, attach great importance to sales as salaries are often linked to the scale of operations. 'Whenever executives are asked "How's business?", the typical reply is that sales have been increasing or decreasing.'

Williamson's Model of Managerial Discretion

Williamson (1964) argues that managers can set their own objectives, that these will be different from those of shareholders and that managerial satisfaction is the key. Satisfaction increases if a manager has a large staff reporting to him or her, if there are lavish perks and if profits exceed the level required for the essential development of the business and the necessary replacement of equipment. This extra profit can be used for pet projects or the pursuit of non-profit objectives. The manner in which managers reward themselves for success is discretionary.

Marris's Theory of Managerial Capitalism

Marris (1964) again postulates growth as a key concern, as managers derive utility from growth in the form of enhanced salaries, power and status. The constraint is one of security. If, as a result of growth strategies pursued by the firm, profits are held down, say because of interest charges, the market value of the firm's shares may fall relative to the book value of the assets. In such a case the firm may become increasingly vulnerable to takeover, and managers wish to avoid this situation.

Penrose's Theory of Growth

Penrose (1959) has offered another growth theory, arguing that an organization will seek to achieve the full potential from all its resources.

Firms grow as long as there are unused resources, diversifying when they can no longer grow with existing products, services and markets. Growth continues until it is halted. A major limit, for example, could be production facilities either in terms of total output or because of a bottleneck in one part of the operation. Changes can free the limit, and growth continues until the next limiting factor appears.

Another limit is the capacity of managers to plan and implement growth strategies. If managers are stretched, extra people can be employed, but the remedy is not immediate. New people have to be trained and integrated, and this takes up some of the time of existing managers. Pen-rose refers to this issue as the 'receding managerial limit' because again the limiting factor decreases over a period of time.

In a climate of reasonably constant growth and change managers learn how to cope with the dynamics of change; and properly managed, given that over-ambition is constrained and that market opportunities exist, firms can enjoy steady and continuous growth.

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Galbraith's Views on Technocracy

Finally, Galbraith (1969) highlighted the particular role of large corporations, whose pursuit of size requires very large investments associated with long-term commitments. Because of these financial commitments the corporations seek to control their environment as far as they possibly can, influencing both government and consumer, and they in turn are controlled by what Galbraith calls 'technocrats' – teams of powerful experts and specialists. Their purposes are, first, to protect as well as control the organization, and hence they seek financial security and profit, and, second, to 'affirm' the organization through growth, expansion and market share. As is typical of oligopolists, price competition is not seen to be in their interests, and hence aggressive marketing and non-price competition are stressed. In addition, such firms will seek to influence or even control (by acquisition) suppliers and distributors, and they may well see the world, rather than just the UK, as their market. These issues are all explored later in the book.

Galbraith (1963) also identified the growth of 'countervailing power' to limit this technocracy. The growth of trade unions in the past is an example of this, but, as seen in recent years, the technocrats have fought back successfully. The increasing size and power of grocery retailers such as Sainsbury and Tesco, and their success with own-label brands, has put pressure on all product manufacturers, especially those whose products are not the brand leader. As a consequence the owners of the strongest brands have invested heavily to promote their brands and ensure that they are selected, even though there may be cheaper alternatives. Moreover, there have been mergers within retailing in an attempt to strengthen power bases. Tesco has expanded from the UK into Europe, while Wal-Mart has acquired ASDA. Simply, over time there are swings in relative power and, as a result, the potential for consumer exploitation is checked and available profits are shared more widely.

Profit as an Objective

Whether profit is the ultimate objective of profit-seeking business organizations or whether it is merely a means to other ends, which themselves constitute the real objectives. Not-for-profit organizations are considered separately later in this chapter.

Ackoff (1986) argues that both profit and growth are means to other ends rather than objectives in themselves. He argues that profit is necessary for the survival of a business enterprise, but is neither the reason for which the business is formed nor the reason why it stays in existence. Instead, Ackoff contends,

Those who manage organizations do so primarily to provide themselves with the quality of work life and standard of living they desire ... their behaviour can be better understood by assuming this than by assuming that their objective is to maximize profit or growth.

However, it is also important to consider the quality of life of investors (shareholders), customers, suppliers and distributors, as well as other employees of the firm who are not involved in decision-making. Developing earlier points, it can be argued that employees are the major stakeholders, because if the firm goes out of business they incur the greatest losses.

In many respects it does not matter whether profit is seen as an objective or as a means of providing service and satisfaction to stakeholders, as long as both are considered and not seen as mutually exclusive. However, the 'feel' and culture of an organization will be affected.

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In simple terms an organization will succeed if it survives and meets the expectations of its stakeholders. If its objectives relate to the stakeholders, it is successful if it attains its objectives.

The purpose of industry is to serve the public by creating services to meet their needs. It is not to make profits for shareholders, nor to create salaries and wages for the industrial community. These are necessary conditions for success, but not its purpose.

Dr George Carey, retired Archbishop of Canterbury

The responsibility of business is not to create profits but to create live, vibrant, honourable organizations with a real commitment to the community.

Anita Roddick, founder, The Body Shop

The Influence of Shareholders

Some commentators hold the view that too many companies are still encouraged to seek short-term profits in order to please their major institutional shareholders, and that it is only by considering the long term and the interests of all stakeholders that companies will become more effective competitors in world markets. In the UK, for example, Constable (1980) stated: 'Britain's steady relative industrial decline over the past 30 years is related to an insistence on setting purely financial objectives which have been operated in relatively short time scales.'

Institutions such as pension funds effectively control the UK's largest companies through the sizeable blocks of shares that they own; in contested takeovers, for example, individual pension fund managers will be instrumental in determining the outcome. These managers have a remit to earn the best returns that they can obtain for their members. Since the mid-1990s there has been a drive to increase the transparency of these large shareholder blocks, and companies have been required to publish more information.

The issue of short-termism is complex, however , and investigates the debate. Companies, obviously, cannot disregard powerful institutional shareholders. What is crucial is to ensure that there is dialogue and mutual understanding and agreement concerning the best interests of the -company, its shareholders and other stakeholders. In his debate on the short- and long-term perspective, Constable (Table 1.3), contrasts two sets of objectives, ranked in order of priority. He contends that company B is likely to grow at the expense of company A, and that these objective sets, A and B, are essentially those adopted by large UK and Japanese companies, respectively, for much of the period since the Second World War. To suggest that Japanese success rests solely on a particular set of objectives is oversimplifying reality, but it has certainly contributed.

Table 1.3 Contrasting company objectives

Company A	Company B
1. Retun on net assets, 1-3 year time horizon	1. Maintenance and growth of market share
2. Cash flow	2. Maintenance and growth of employment
3. Maintenance and growth of market share	3. Cash flow
4. Maintenance and growth of employment	4. Return on net assets

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Table 1.4 Perceptions of stakeholder importance

Stakeholder	Prioritization by industry strategic leader	Prioritization by analysts with institutional investors
Existing customers	1	1
Existing employees	2	3
Potential customers	3	2
Institutional investors	4	4
Suppliers	5	7
Potential employees	6	6
City analyst	7	5
Private (individual) shareholders	8	10
Business media	9	9
General media	10	11
Local communities	11	12
Members of Parliament/Local Authorities	12	8

In Japan and Germany, however, shareholders do not exert pressure in the same way as they do in the UK. Cross-shareholding between companies in Japan means that only 25 per cent of shares in Japanese businesses are for trading and speculation, and this generates greater stability. In Germany the companies hold a higher proportion of their own shares, and banks act as proxy voters for private investors. Banks thereby control some 60 per cent of the tradeable shares, again generating stability. German companies also adopt a two-tier board structure. A supervisory board has overall control and reports to shareholders and employee unions; reporting to this board is a management board, elected for up to five years.

Table 1.4 pulls together a number of the points discussed here by showing how organizational strategic leaders and institutional investors do not share completely the same perspective on stakeholder priorities, although there are clear similarities with the most important stakeholders. Interestingly, suppliers, key partners in the supply chain, receive a higher priority from strategic leaders, while the institutions rate politicians more highly than do organizational leaders. It is both significant and realistic, that small, individual shareholders are not particularly powerful, because they are generally too disparate to become organized. Individually, they may be able to embarrass an organization with difficult questions at its Annual General Meeting, but this is far from an expression of ongoing power.

The Importance of the Strategic Leader

To conclude this section it is useful to emphasize the key role of the strategic leader, and his or her values, in establishing the main objectives and the direction in which they take the organization. Personal ambitions to build a large conglomerate or a multinational company may fuel growth; a determination to be socially responsible may restrain certain activities that other organizations would undertake; a commitment to high quality will influence the design, cost and marketing approach for products. A strong orientation towards employee welfare, will again influence objectives quite markedly.

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The objectives and values of the strategic leader are a particularly important consideration in the case of small firms. While it is possible for small firms to enjoy competitive advantage, say by providing products or services with values added to appeal to local customers in a limited geographical area, many are not distinctive in any marked way. Where this is the case, and where competition is strong, small firms will be price takers, and their profits and growth will be influenced substantially by external forces. Some small firm owners will be entrepreneurial, willing to take risks and determined to build a bigger business, whereas others will be content to stay small. Some small businesses are started by people who essentially want to work for themselves rather than for a larger corporation, and their objectives could well be concerned with survival and the establishment of a sound business which can be passed on to the next generation of their family.

Each of the ideas and theories discussed in this section provides food for thought, but individually none of them explains fully what happens, or what should happen, in organizations.

In the authors' experience certain organizations are highly growth orientated, willing to diversify and take risks, while others, constrained by the difficulties of coping with rapid growth and implementing diversification strategies, are less ambitious in this respect. Each can be appropriate in certain circumstances and lead to high performance, but in different circumstances they may be the wrong strategy.

Stakeholder theory is extremely relevant conceptually, but organizations are affected by the stakeholders in a variety of ways. Priorities must be decided for companies on an individual basis. Moreover, the strategic leader, and in turn the organization, will seek to satisfy particular stakeholders rather than others because of their personal backgrounds and values. There is no right or wrong list of priorities. However, while priorities can and will be established, all stakeholders must be satisfied to some minimum level. In the final analysis the essential requirement is congruence among environment, values and resources.

So far this chapter has concentrated on profit-seeking organizations and considered just how important the profit motive might be. Not for-profit organizations may be growth conscious, quality conscious or committed to employee welfare in the same way as profit seekers, but there are certain differences which require that they are considered separately.

1.8 FINANCE AND GLOBAL COMPETITIVENESS

Causes generate effects. Actions lead to outcomes. On occasions companies may attempt to seize the competitive initiative and introduce an innovatory change. An action by one competitor which affects the relative success of rivals provokes responses. One action can therefore provoke several reactions, depending on the extent of the impact and the general nature of competition. Each reaction in turn further affects the other rival competitors in the industry. New responses will again follow. What we have in many markets and industries is a form of competitive chaos.

Figure 1.10 shows a competitive business environment which is permanently fluid and unpredictable. For example, British Telecom (BT) continues to face competition from cheap phone call and Internet service providers as well as demands that it provides free access to its network.

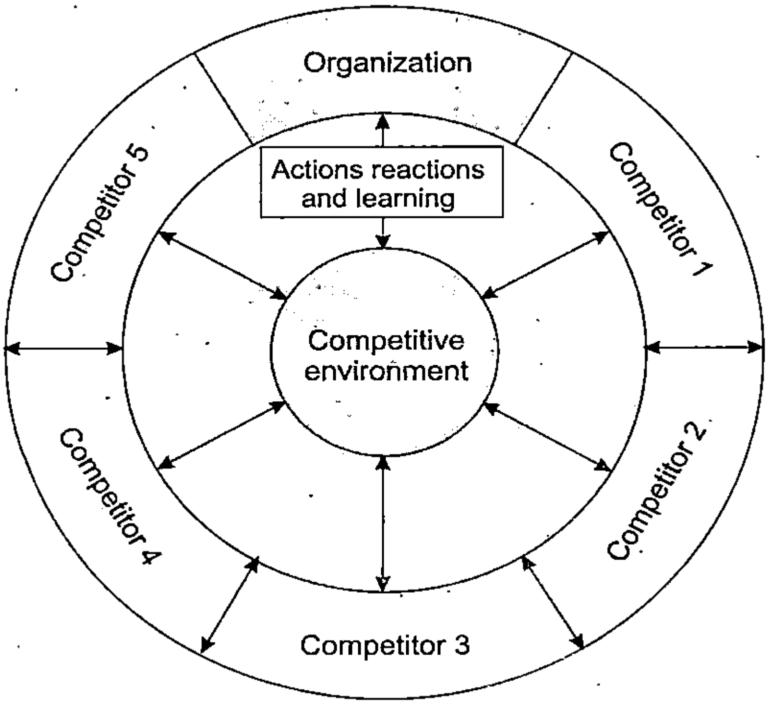

Figure 1.10 Dynamic competition

This is considered a restrictive act and has slowed down the development of both the Internet in the UK and of broadband services. BT must adapt and respond to defend its place in the market, or eventually the government will force regulatory change on them. It is important to differentiate between two sets of similar, but nevertheless different, decisions. First, some actions are innovatory and represent one competitor acting upon a perceived opportunity ahead of its rivals; other actions constitute reactions to these competitive initiatives. Second, some decisions imply incremental strategic change to existing, intended strategies; on different occasions companies are adapting their strategies (adaptive strategic change) as they see new opportunities which they can seize early, or possible future threats which they are seeking to avoid. The process is about learning and flexibility. Often they involve an intrapreneur, an internal entrepreneur. The skills required by organizations are:

- the ability to discern patterns in this dynamic environment and competitive chaos, and spot opportunities ahead of their rivals
- the ability to anticipate competitor actions and reactions
- the ability to use this intelligence and insight to lead customer opinion and outperform competitors.

Ocean Spray has been cited by Rosabeth Moss Kanter (1990) as another US company which spotted a potentially lucrative competitive opportunity missed by its rivals. Small 'paper bottles' for soft drinks were being used in Europe, but the leading US manufacturers did not see them taking off in America and were not enthusiastic. Ocean Spray, which manufactures a range of products, including drinks, from cranberries (sometimes mixed with other fruits)

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had empowered a middle manager from engineering to look for new ideas for the company – an aspect of their planned strategy – and he saw the potential.

The result was an 18-month exclusive rights agreement. The packaging concept proved attractive and the final outcome was a substantial increase in the popularity of cranberry juice drinks. Simply, children liked the package and came to love the drink. Ocean Spray products are now much more evident around the world. The Ocean Spray example illustrates how competition can come from unexpected sources. It is dangerous for any organization to assume that future competitive threats will only come from rivals, products and services that they already know and understand; in reality, it can be the unrecognized, unexpected newcomers which pose the real threat because, in an attempt to break into an established market, they may introduce some new way of adding value and 'rewrite the rules of competition'.

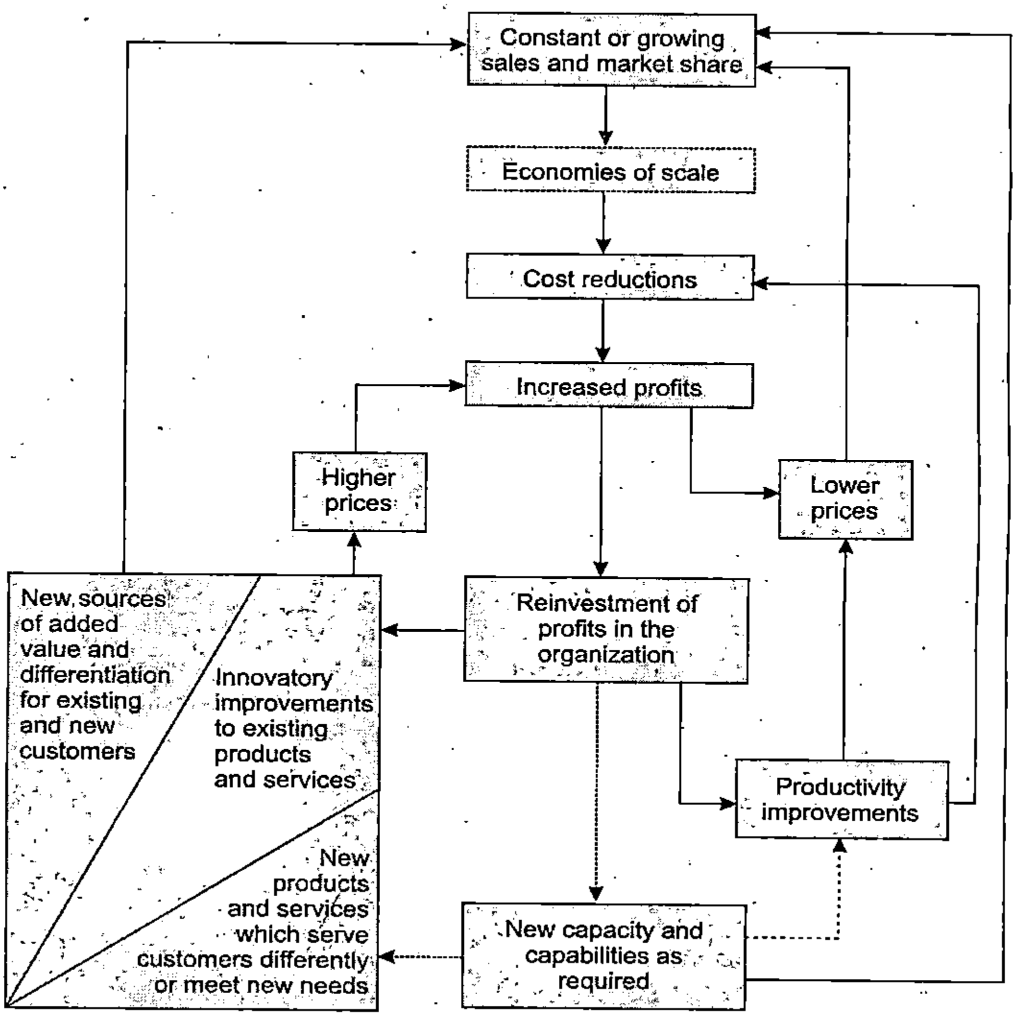

Figure 1.11 The competitive cycle

Bill Gates' view of the future, based on personal computers on every desk, was radically different from that of long-time industry leader, IBM, and it enabled Microsoft to enter and dominate the computer industry. British Airways was surprised by the entry and success of Virgin Atlantic Airways on profitable transatlantic routes, as it perceived its main competition to come from the leading US carriers. Virgin was adding new values, offering high and differentiated levels of service at very competitive prices. The success of Direct Line, with telephone insurance services at very competitive prices, has provoked a response from existing companies; telephone banking is having a similar effect. In both cases the nature of the service has been changed dramatically, and improved for many customers. Figure 1.11 shows how organizational resources need to be used to drive the competitive cycle. Constant, or ideally growing, sales and market share can lead to economies of scale and learning and, in turn, cost reductions and improved profits.

The profits could, in a particularly competitive situation, be passed back to customers in the form of lower prices, but more normally they will be reinvested in the organization. This can generate productivity improvements, sometimes with new capacity and, then, lower prices and/or further cost reductions. The investment can also bring about new sources of added value and differentiation, possibly allowing higher prices and further profit growth. The improved competitiveness should also increase sales and market share and drive the cycle round again. These changes might take the form of gradual, continuous improvements or radical changes to establish new rules of competition.

In this regard the market for DVD players has shown both dramatic growth and massive price reductions. When first introduced, a DVD player was a premium item. Now they are being sold in supermarkets for a fraction of the initial entry price.

1.9 ROLE OF STRATEGIC MANAGEMENT IN MARKETING

A large number of the rapid growth firms present written business plans1 for strategy implementation. The written plans enable CEOs to manage more critical business functions, grow faster and achieve a higher proportion of revenue from new products and services than those whose plans are unwritten. Additionally, written business plan helps growing firms to increase their revenues faster over their competitors than those without a written plan. The major advantages and issues associated with strategic marketing planning are as under:

- Strategy is a major focus for higher revenues and profits- and to hatch new products, expand existing business, and create new markets.
- Business strategy is the single most important management issue and will remain so for the next five years.
- Democratize the strategy process by handing it over to teams of line and staff managers from different disciplines.
- Create networks of relationships with customers, suppliers, and rivals to gain greater competitive advantage.

A company may use strategic marketing planning to identify long-term opportunities and manage day-to-day operations. Strategic marketing planning is an essential instrument to grow present markets, spot growth markets, recognize new product innovation, and stay alert to new opportunities. The Figure 2.7 exhibits the key areas of strategic management and the process thereof.

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Situation Analysis

Marketing plan process begins with a situation analysis of a specific product or market. Whereas the strategies plans look ahead three to five years, the situation analysis requires that you look back three to five years to obtain a historical perspective of business. The situation analysis is divided into three parts: marketing mix analysis, market background, and competitor analysis. For marketing mix analysis, objectively and factually write sales and unit volume by product, analyze pricing and access promotion and distribution. Market background deals with the nature of audience, human factor, the image you convey, what customers think of product, and the frequency of its use. The examination of the background permits you to think extensively about marketplace and customers. The third part also permits you to analyze competitors in detail.

Marketing Opportunities

After you have analyzed the situation, the next step is to evaluate opportunities. Surprisingly, managers often neglect this part of the process. This planning step is exceedingly important, since the whole purpose of conducting the situational analysis is to expose opportunities. Opportunities are voids or gaps in a product, a market, or a service that can be filled to satisfy customer needs and wants. This stage of marketing plan is best achieved by incorporating the input of various functional managers from manufacturing, R&D, product development, finance and sales. Brainstorming is a useful technique for identifying opportunities. For example, consider the features and benefits of product. Study the situation analysis, including competitive intelligence, and allow the ideas to flow. Do not attempt to judge them – just record them as they emerge. The probability is that you will record 90% to 95% of them, form a new product, or render a new service.

Marketing Objectives

Third step in the marketing plan is to work out primary and functional marketing objective. First, develop primary quantitative objective, such as sales in dollars and units, market shares, gross margins, return on investment, return on assets, and any other quantitative information required by the organization. Second, develop functional objectives as they pertain to product, packaging, services, pricing, promotion, and distribution. These functional areas are commonly referred to as the marketing mix. It should be evident that the marketing mix is a key part of the marketing plan in that it represents the controllable factors you can employ to achieve the primary financial and volume objectives. The marketing mix also helps you identify sources of competitive problems and, in turn, suggests possible solutions or strategies.

Strategies and Action Plans

On the basis of marketing objectives, you can now develop the strategies and action plans that translate those objectives into action. Unless you can support objectives with firm action plans, they are useless. They are no more than good intentions until you develop the strategies and tactics that will make them happen. Thus, for each objective, develop a strategy and a tactic action plan. Further, each strategy should include details about what is going to happen, when it is going to happen, and who is responsible for carrying out the action.

Notes

Financial Controls and Budgets

This step in financial plan involves the financial controls, budgets, and variance reports that translate into numbers for the actions that you have stated in the previous steps.

Combinations of the long-term strategic and annual marketing plans form a total strategic marketing plan for any level of an organization, from corporate management down to product line manager. Further, for every major product and market described in the business portfolio, you should develop a specific annual tactical marketing plan. Thus, you combine a long-term strategic viewpoint with a one-year tactical framework to create action – something that the strategic plan by itself could not accomplish and for which the marketing plan alone is too narrow a perspective for today's competitive environment.

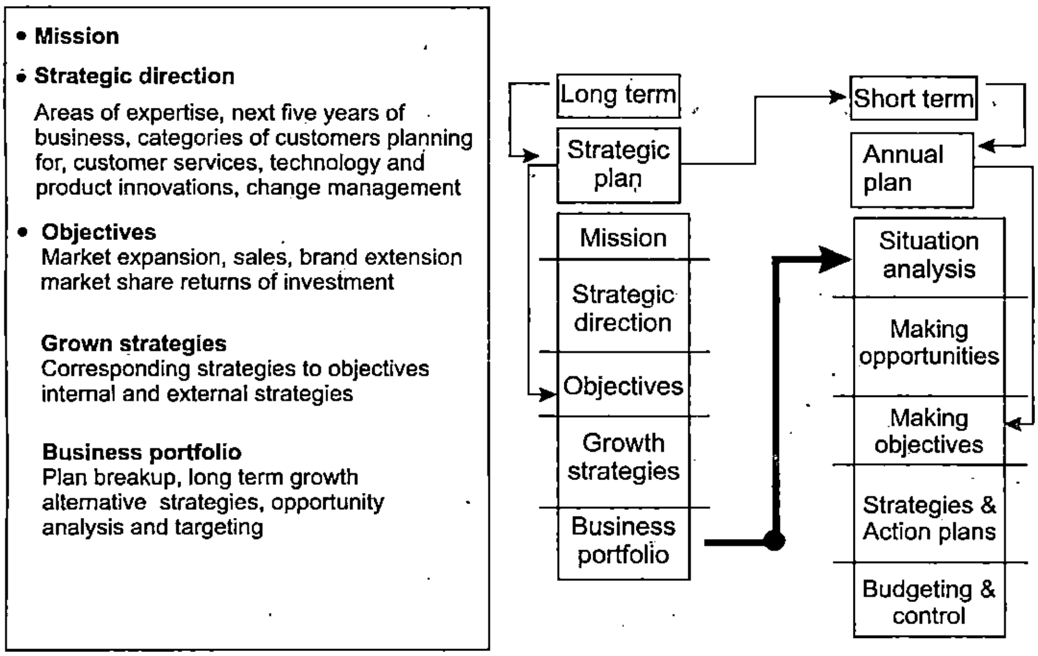

Figure 1.12 Paradigm of strategic marketing management

Financial Controls and Budgets

This step in financial plan involves the financial controls, budgets, and variance reports that translate into numbers for the actions that you have stated in the previous steps.

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1.10 STRATEGIC HUMAN RESOURCE MANAGEMENT

The human resource management that aims to improve the productive contribution of individuals while simultaneously attempting to attain other societal and individual employee objectives has undergone drastic change with the passing of years.

We all know that HRM is concerned with the "people" & keeping the fact in mind that HRM helps in acquiring, developing, stimulating & retaining the outstanding employees as it gives both effectiveness & efficiency to the working of the organization, it has been started being used strategically & is now termed as Strategic human resource management.

The changing role of HRM:

The role of human resource management is changing & is changing very fast, to help companies achieve their goals. HRM has gone through many phases – from hiring & firing to relationship building, from there to legislation role, & now its role is shifting from protector & screener to strategic partner & as a change agent.

Defining SHRM

1. Organizational use of employees to gain or keep a competitive advantage against competitors.
2. Involves aligning initiatives involving how people are managed with organizational mission and objectives.

In today's flattened, downsized & high-performing organizations, highly trained & committed employees – not machines – are often the firm's competitive key. Perhaps the most drastic change in HR's role today is its growing involvement in developing & implementing the company's strategy. In order to understand the modern aspect of HR i.e., SHRM, lets discuss the terms which would help us in understanding the concept:

- Core Competency can be defined as – A unique capability in the organization that creates high value and that differentiates the organization from its competition.
- Mission Statement explains purpose and reason for existence; it is usually very broad, but not more than a couple of sentences & it serves as foundation for everything organization does.
- Strategy: the company's plan of how it will balance its internal strengths & weaknesses with external opportunities & threats in order to maintain a competitive advantage, earlier this role was performed by the line managers, but now it is carried by the HR manager.

Strategies increasingly depend on strengthening organizational competitiveness & on building committed work teams, & these put HR in a central role. In the fast changing, globally competitive & quality oriented industrial environment, it's often the firm's employees – its human resources – who provide the competitive key. And so now it is a demand of the time to involve HR in the earlier stages of development & implementing the firm's strategic plan, rather than to let HR react to it. That means now the role of HR is not just to implement the things out but also to plan out in such a manner that the employees can be strategically used to get edge over the competitors, keeping in mind the fact that this is the only resource (HUMANS), which cannot be duplicated by the competitors.

Benefits of a Strategic Approach to HR:

- Facilitates development of high-quality workforce through focus on types of people and skills needed
- Facilitates cost-effective utilization of labor, particularly in service industries where labor is generally greatest cost
- Facilitates planning and assessment of environmental uncertainty, and adaptation of organization to external forces
- Successful SHRM efforts begin with identification of strategic needs
- Employee participation is critical to linking strategy and HR practices
- Strategic HR depends on systematic and analytical mindset

Corporate HR departments can have impact on organization's efforts to launch strategic initiatives

Role of HRM in Strategic Management

Role in Strategy Formulation: HRM is in a unique position to supply competitive intelligence that may be useful in strategy formulation. Details regarding advanced incentive plans used by competitors, opinion survey data from employees, elicit information about customer complaints, information about pending legislation etc. can be provided by HRM. Unique HR capabilities serve as a driving force in strategy formulation.

Role in Strategy Implementation: HRM supplies the company with a competent and willing workforce for executing strategies. It is important to remember that linking strategy and HRM effectively requires more than selection from a series of practice choices. The challenge is to develop a configuration of HR practice choices that help implement the organization's strategy and enhance its competitiveness.

SHRM and Challenges in Globalized World

Human factor is important and taken into account by the businesses for sustaining their growth in the new era of globalization. Cesyniene (2008) emphasizes that HRM is an essential segment of business to be managed with great care while adopting the expansion strategy in the operations. In this concern, it is vital to establish an effective association between the strategy framework and HRM that is applicable at both the national and international level. Key issues, which are confronted by the organizations in global marketplace, are related to the size and cultural differences that are required to be considered for making investment in the human resource development (Festing, 1997).

Global competitiveness has to be improved and employees are required to be empowered by making centralization of the HR practices. Some issues are related to the staffing policies and training of employees for stimulating creativity and innovation in the business operations. The challenges that have to be recognized by the HR professionals while working in global market are related to the consideration of performance appraisals, compensation packages, training and development, and labour relations in accordance with the employment rules and regulations (Gachoka, 2008).

SHRM is a proactive approach to manage diverse workforce that has a significant influence on the corporate strategy of the multinational corporations. It basically emphasizes

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on the integration and adaptation across the defined hierarchy levels. Effective HR measures have to be adopted by the organizations for coping in the competitive business environment (Kim, 1999). The approach of SHRM is an inherent segment of the organizations success in attaining the defined mission and business strategy. This practice is aimed at establishing a link between the key workforce and strategic goals, which are important for sustaining improvements in the business performance and establishment of culture that promotes the drive for innovation and flexibility (Inyang, 2010).

SUMMARY

- All organizations, large and small, profit-seeking and not-for profit, private and public sector, have a purpose, which may or may not be articulated in the form of a mission and/or vision statement. Strategies relate to the pursuit of this purpose.
- Strategic Management is concerned with the establishment of a clear direction for the organization.
- Strategy is about actions, not plans – specifically the commitment of resources to achieving strategic ends ... concrete steps that immediately affect people's lives, not abstract intentions.
- Strategy can be considered as a clear strategic purpose, intent and direction for the organization, but without the detail worked out.
- Strategy is a major focus for higher revenues and profits- and to hatch new products, expand existing business, and create new markets.
- Synergy is a critical aspect of both corporate and competitive strategies. It is important that the functions and businesses within an organization work collectively and support each other to improve effectiveness and outcomes.
- Corporate strategy, essentially and simply, is deciding what businesses the organization should be in and how the overall group of activities should be structured and managed.
- Freeman (1984) defines stakeholders as any group or individual who can affect, or is affected by, the performance of the organization.
- Strategic marketing planning is an essential instrument to grow present markets, spot growth markets, recognize new product innovation, and stay alert to new opportunities.
- The human resource management that aims to improve the productive contribution of individuals while simultaneously attempting to attain other societal and individual employee objectives has undergone drastic change with the passing of years.
- Marketing plan process begins with a situation analysis of a specific product or market. Whereas. the strategies plans look ahead three to five years, the situation analysis requires that you look back three to five years to obtain a historical perspective of business.

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KEY WORDS

Adaptive Strategy: It is a strategy that breaks free of static plans and is an ongoing learning process of a self-correcting series of intentional experiments.

Business Policy: Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved.

Competitive environment: A competitive environment is a system where different businesses compete with each other by using various marketing channels, promotional strategies, pricing methods, etc. This system has regulations within it that companies should follow.

Core Competency: A unique capability in the organization that creates high value and that differentiates the organization from its competition.

Corporate strategy: It defines the destination towards which a business should move. That decision shapes all the strategies and activities in every other part of that business. A firm's management must consider how to gain a competitive advantage in business areas the firm operates in.

Customer value: It is best defined as a balance between the benefits a customer derives from a service or product and the customer's effort, or the difficulties they face in using or obtaining the product or service in question.

Human resource management (HRM): It is the strategic approach to the effective and efficient management of people in a company or organization such that they help their business gain a competitive advantage.

Marketing opportunity: A marketing opportunity is a sales-accepted lead that has been qualified as being in need of your product or service.

Mission statement: A mission statement is defined as an action-based statement that declares the purpose of an organization and how they serve their customers. This sometimes includes a description of the company, what it does, and its objectives.

Stakeholder: A stakeholder is defined as an individual or group that has an interest in any decision or activity of an organization.

Stakeholder Theory: It is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization.

Strategy: Action plan devised to maintain and build competitive advantage over the competition.

Synergy: It is a critical aspect of both corporate and competitive strategies. It is important that the functions and businesses within an organization work collectively and support each other to improve effectiveness and outcomes.

Vision statement: A vision statement is a business document that states the current and future objectives of an organization. A company's vision must align with its mission, strategic planning, culture, and core values.

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Review Questions

1. What exactly is a strategy? What have you learned about different perspectives, levels and ways in which they are changed?
2. What are the key elements in the strategic management process?
3. How have Marks and Spencer sought to attain and maintain competitive advantage? What do you think their objectives might have been?
4. Draw and discuss the business model for an organization.
5. Discuss briefly the basic features of Policy.
6. Discuss briefly the importance of Business Policy.
7. Discuss briefly different types of Business Policy
8. Draw and discuss the local and global competition.
9. Discuss role of strategic management in marketing.
10. Discuss strategic human resource management.

FURTHER READINGS

1. *Strategic Management;* A.C. Mittal and B.S. Sharma, Vista International Pub., 2006.
2. *Strategic Management;* Garth Saloner, Andrea Shepard, Joel Podolny, Wiley.
3. *Strategic Management: Concepts and Cases;* Milind T. Phadtare, PHI Learning.
4. *Strategic Management: Current Trends and Issues;* Edited by P. Mohana Rao and Trilok Kumar Jain, Deep and Deep.
5. *Business Policy and Strategic Management;* Kazmi Azar, Tata McGrow Hill, 2nd Edition.

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UNIT 2

ENVIRONMENTAL SCANNING AND CORPORATE ANALYSIS

2.0 LEARNING OBJECTIVES

After reading this chapter students will be able to:

- define environmental scanning and explain what is industry analysis
- know about various techniques like SAP, ETOP, OCP etc.
- Discuss corporate portfolio analysis
- describe about strategic budget and audit
- explain about scanning functional resources
- explain various value chain processes.

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2.1 INTRODUCTION

Good ideas for the future can either start inside the organization or be obtained from external contacts, and the ability to synthesize and exploit the information that is available to develop new products, new services and new strategic positions is a reflection of the organization's strategic thinking capabilities.

At one level, matching, exploiting and changing the linkages between resource competency and environmental opportunity is an expression of organizational competitiveness, and the presence (or absence) of competitive advantage. It was shown earlier how it is essential for organizations to seek competitive advantage for every product, service and business in their portfolios. Competitiveness comes from functions and activities, and the effectiveness of the links between them. This is one aspect of synergy. The second aspect of synergy is the relatedness and interdependency of the different products, services and businesses and their ability to support each other in some way.

2.2 ENVIRONMENTAL SCANNING

Environmental scanning is an important part of the business process as it is the responsibility of an organization to keep a check on things which can put negative impacts on their business and their consumers.

The members of the organization look for the prominent internal and external threats which adversely affect the organization. Not only the issues which directly impact their consumers and suppliers but also the issues which impact the competitors and overall environment of the industry are scanned and new strategies are developed to deal with these issues.

Large organizations have employees specially hired for the research purpose who constantly research and learn about market changes and provide information to the higher management so that company doesn't lag behind because of the lack of the knowledge about the market place changes.

Having knowledge about the issues in the business and market changes, management can take important decision for the future of the organization. Followings are the efforts made by the organization to do an environmental scanning:

- Market research is performed and the data collected from the market research process is studied in order to make planning for future actions.
- Comparing the performance of the competitor company in order to learn about their strategies and business ideas.
- Learning from the executives of the organization.
- Analyzing and making decisions on the basis of the demographic data.
- Collecting information from articles issued web pages, journals, magazines, and newspapers, etc.

Importance of Environmental Scanning

Environmental scanning plays an important role in the business process of an organization. There are many advantages of performing environmental analysis that helps the organization to stay safe from the business loss and to stay ahead in the competition.

- By performing environmental analysis, you can learn about the strengths, opportunities, opportunities available, and threats lurking around the industry. Having knowledge about all these things you can take a decision regarding your business and can reform your business strategies.
- The environmental analysis helps us to determine whether the resources such as human resource, capital resource, etc. are being used properly or not. It helps us to curb down the wastage of these important resources.
- Constant environment scanning helps the organization to learn about the opportunities and threats occurring in the industry and on the basis of that information future strategies can be planned and implemented. Hence, it helps the organizations to stay strong in the game.
- Environmental scanning helps you to learn about the business strategies of your competitors. You can take ideas from the strategies and can also form your strategies accordingly so that you can give constant competition to them.
- The data collected from environmental scanning plays an important role in long-term business planning.
- Environmental scanning helps you to stay connected with your consumers. You can learn about the changing expectations of your consumers and provide them services accordingly.

Components of Environmental Scanning

Business environment of an organization can be divided into two types of environment external environment and internal environment. There are different components associated with both the environments. Let us learn about them one by one.

1. *Internal Environmental component:*

Internal environmental components are the components which lie within the organization and changes in these components impacts the overall performance of the organization. There are various internal environmental components such as different resources like human resources, capital resources, technological resources, etc., Objectives, Organizational structure, Value system, corporate structure, and labor union, etc. These components play an important role in structuring the future of an organization therefore, it is important to analyze these components as a part of environmental scanning.

2. *External Environmental components:*

External components are the components which exist outside the walls of an organization. Even though these components are not part of the organization, they still impact the business of the organization. The external environment can be divided into two categories such as Micro environmental components and macro environmental components.

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(A) Micro Environmental components: Micro environment components consist of components such as Competitors, suppliers, industry, organization, consumers, and market, etc.

(B) Macro Environmental Components: Macro environmental components consist of components such as Demographical environment, Economic environment, political environment, cultural environment, technological environment, etc.

Figure 2.1 illustrates the organization in the context of its external environment. Its suppliers and customers, upon whom it depends, and its competitors – both existing and new-in-the-future – are shown as having an immediate impact. Wider environmental forces bear on all the 'players' in the industry, and these are shown in the outer circle as political, economic, social and technological (PEST) forces.

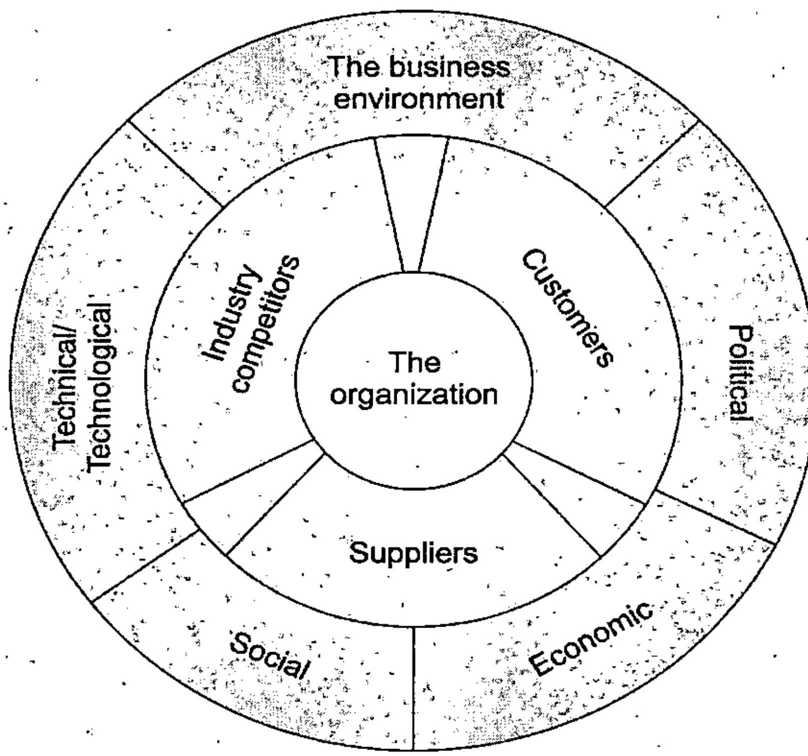

Figure 2.1 The business environment

The forces and influences have been deliberately shown in concentric circles. It is quite typical for us to think of the organization as a group of activities (and/or functions) and then to place everything and everyone else, including suppliers and customers, in a so-called external business environment. Increasingly, it makes considerable sense for the organization to see itself working in partnership with its suppliers, distributors and customers. When this perspective is adopted, then only competitors from the middle ring would be placed in the external environment, together with the general forces which impact upon the whole industry.

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Process of Environmental Scanning

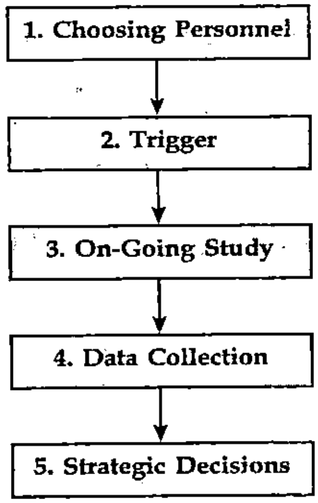

Figure 2.2 Process of Environmental Scanning

Choosing Personnel

Commonly termed as the EAU(Environmental Analysis Unit) is a set of chosen people who focus on the analysis and deliver the results to strategists. However, it's not always necessary to have an extra section for the research work but a special task force is established as mentioned.

Trigger

The term refers to the event that tends the industry to start with the changes or a desire for data. The factors can be outside or inside the organisation like a change in government policy. As a result, managers take environment studies seriously.

On-Going Study

Ongoing study of the environment refers to the greater environment coverage. Making analysis limited leaves few areas leaving the scope of potential spots. However, ongoing research locates better and existing impact of the organisation. Furthermore, the technique serves as the complementary source of informal scanning.

Data Collection

After choosing the path, the information is gathered relating to the specific strategy chosen which may include all the factors affecting the analysis. Also, the analysis should not be made on the whims of higher-level management but rather going through the proper analysis and data interpretation.

Strategic Decisions

This step involves the decision making which should be made by the specified groups plus the people working closely in the area of environmental scanning in strategic management.

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The employees responsible for strategic decisions must make a contact to ensure better performance. Also, the changes may be needed and fluctuate with time. Therefore the awareness of environmental factors is required constantly.

Purpose of Environmental Scanning

Environmental scanning is conducted to collect data on for the various areas such as competition, employment trends. Geopolitical climate, economic condition, industry, technological advancement, industry, and global opportunities, etc.

It is important for an organization to consistently track the changing trends and to develop strategies accordingly. It also helps in decision making, for example, you can learn about the current demands and expectations of the consumers and produce and sell products accordingly so that you can expand your business. However, in less dynamic organization environmental scanning can be done once in a year to just to learn about the issues faced by the organization.

Techniques of Environmental Scanning

Environmental scanning is a process where deep analysis of an environment is done in order to learn about the new opportunities and threats on the basis of which new strategies can be prepared. The different techniques are used for environmental scanning which is as follows:

1. Research

Environment scanning is conducted to learn about the latest trends of the industry and the lurking threats so that opportunities can be exploited and precautionary steps can be taken to reduce the impacts.

Research is an old method that has been used by various industries to learn about the industry in detail. Even there is a different department named as "Research and Development (R&D) department to conduct all research.

2. Getting the opinions of experts

In this method, the management of the organization take the opinion experts who have deep knowledge about the industry and can easily decode its latest trends and recognize the first appearance of the opportunities.

3. SWOT analysis

SWOT stands for Strength, Weaknesses, Opportunities, and Threats. This is a strategic technique opted by an organization to learn about its internal strengths and weaknesses. It is important to learn about business competition and project planning.

SWOT analysis is a technique to learn to identify internal and external factors which can be helpful in achieving the goal of an organization.

4. PEST analysis

PEST analysis is done to learn about the external macro environmental factors. PEST stands for P: Political, E: Economic, S: Social, T: Technological. These external macro environmental factors put an impact on the business of the organization and it is important for an organization to keep a track of them. Political factors are regulated by the government and the changes in the political factors can put a great impact on the business environment, for example, the change in the tax policy or employment laws, etc.

5. Analysis of industry

There is a different organization in an industry which can be your direct or indirect competitors. They are part of the micro-environment. Environmental scanning is done to learn and understand the business strategies of your competitors in order to plan strategies to give competition to them.

6. Delphi method

Environmental scanning in strategic management includes forecasting the state of the future and therefore includes statistical methods. In the Delphi technique, the experts from the internal and external rankings from wide but related fields are asked to fill a questionnaire regarding the problem. The summary is again reviewed and then used to forecast the strategies to be made.

7. Benchmarking

Environmental scanning in strategic management through benchmarking explains setting up standards or an option is chosen by any competitor/individual. If a competitor company manufactures the same product hierarchy with less price then the leading company should learn the concepts (like tear down or value engineering) and apply them. An example of environmental scanning who learned from benchmarking, Xerox corporation.

Objectives of Environmental Scanning

- Detecting scientific, technical, economic, social and political trend and events important to the business.
- Defining the potential threats, opportunity or change for the business implied by those tends and events.
- Promoting a future orientation in the thinking of management and staff.
- Altering management and staff to trends that are converging, diverging, speeding up, slow down or interacting.

2.3 INDUSTRY ANALYSIS

An industry analysis is significant business function which is performed by business proprietors and other management experts to evaluate the present business environment. This is considered as effective market assessment tool designed to provide a business with an idea of the intricacy of a particular industry. Industry analysis reviews the economic, political and market factors that influence the way the industry develops. Major factors can include the power manipulated by suppliers and buyers, the condition of competitors, and the possibility of new market entrants. An Industry is defined as a homogenous group of companies or group of firms that manufacture similar products which serves the same requirements of common set of purchasers. Industry analysis is explained as an evaluation of the relative

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strengths and imperfections of specific industries. Industries are conventionally categorised on the basis of products like steel, pharmaceutical oil and gas industries, textile, and cement.

Industry analysis is defined as an assessment tool designed to offer business entity a comprehensive idea about the complex nature of a specific industry. It includes reviewing the market, political, and economic factors that have a direct impact on the development of an industry.

Necessity of Industry Analysis

Industry environment influences a company's business operations tremendously. Thus, it is absolutely essential for a company to fit its strategy to its industry environment. If it becomes very difficult or impossible to do it, the company must reshape the industry's environment to its advantage by adopting appropriate strategy.

No organizations can expect good strategy-making without a detailed analysis of industry environment. That is why, it is widely recognized that good strategy-making should be preceded by good industry and competitive analysis. Industry analysis provides necessary information about the industry's situations. From this analysis, managers can obtain information regarding many industry-related issues such as the following:

- Economic features of the industry like market size, number of customers and sellers, technology, nature of standardization of product, market growth potential, prospect of making profit etc.
- Strength of competition and competitive pressures.
- Major driving forces in the industry that cause pressures for change.
- Financial and competitive positions of the competitors in the marketplace.
- Strategies undertaken by the competitors.
- Industry's key success factors such as design in garments industry.
- Attractiveness of the industry in terms of growth prospect, degree of uncertainty in the future.

With these data, managers can achieve several purposes:

(i) Identifying and selecting the company's arena by defining its industry and served markets.

(ii) Identifying business opportunities and uncovering niche markets.

(iii) Providing a benchmark for evaluating the company relative to the competitors and, based on it, developing skills and capabilities necessary for success.

(iv) Shortening the company's response time to competitors' moves.

(v) Restricting or preempting competitors' moves.

(vi) Encouraging organizational development through frequent interactions among the executives during the analysis.

(vii) Helping the company to gain a competitive advantage through identifying any area where the company holds a significant advantage over its rivals.

(viii) Enhancing organizational learning by exposing managers to the ideas land actions of their competitors.

(ix) Providing invaluable insights into the industry and competition, which help managers identify appropriate strategy and implement strategy successfully.

Types of Industry Analysis

There are three commonly used and important methods of performing industry analysis. The three methods are:

1. Competitive Forces Model (Porter's 5 Forces)
2. Broad Factors Analysis (PEST Analysis)
3. SWOT Analysis

1. *Competitive Forces Model (Porter's 5 Forces)*

Managers need to analyze competitive forces in the industry's environment in order to identify the industry-related opportunities and threats confronting their company. Michael Porter developed this model, and it gives a true impression of the industry. His framework is known as Five Forces Model, which is shown in Figure 2.3.

According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier.

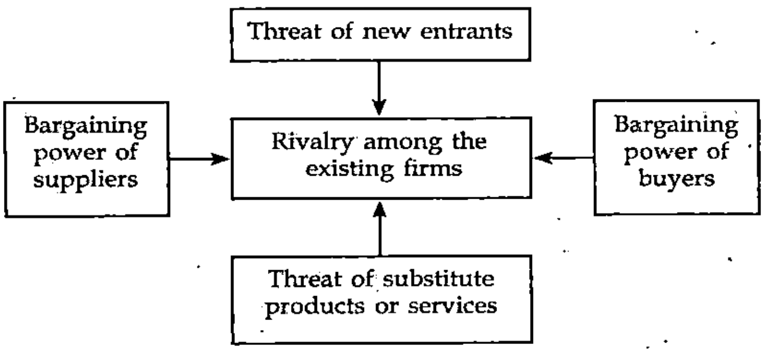

Figure 2.3 Michael E. Porter's Five Forces Model

(i) **Threat of potential entrants:** This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little competitive advantage reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

(ii) **Bargaining power of suppliers:** This refers to the bargaining power of suppliers. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

(iii) **Bargaining power of buyers:** The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is

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the case in an industry with more competitors but with a single buyer constituting a large share of the industry's sales.

(iv) **Threat of substitute goods/services:** The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

(v) **Intensity of industry rivalry:** The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labor unions, etc. also make the competitors fight the battle a little harder.

2. *Broad Factors Analysis (PEST Analysis)*

Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment.

To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These components include:

(i) **Political:** Political factors that impact an industry include specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labor laws, ease of doing business, and overall political stability.

(ii) **Economic:** The economic forces that have an impact include inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.

(iii) **Social:** The social impact on an industry refers to trends among people and includes things such as population growth, demographics (age, gender, etc.), and trends in behavior such as health, fashion, and social movements.

(iv) **Technological:** The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

3. *SWOT Analysis*

SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

(i) **Internal:** Internal factors that already exist and have contributed to the current position and may continue to exist.

(ii) **External:** External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take advantage of the opportunity/avoid the threat.

Importance of Industry Analysis

Industry analysis, as a form of market assessment, is crucial because it helps a business understand market conditions. It helps them forecast demand and supply and, consequently, financial returns from the business. It indicates the competitiveness of the industry and costs associated with entering and exiting the industry. It is very important when planning a small business. Analysis helps to identify which stage an industry is currently in; whether it is still growing and there is scope to reap benefits or has reached its saturation point.

With a very detailed study of the industry, entrepreneurs can get a stronghold on the operations of the industry and may discover untapped opportunities. It is also important to understand that industry analysis is somewhat subjective and does not always guarantee success. It may happen that incorrect interpretation of data leads entrepreneurs to a wrong path or into making wrong decisions. Hence, it becomes important to collect data carefully.

2.4 COMPETITIVE INTELLIGENCE

Competitive intelligence is an important aspect of strategic management. It helps decision-makers measure their performance against rivals and make effective future strategies.

Competitive Intelligence (CI) is the collection and analysis of information to anticipate competitive activity, see past market disruptions and dispassionately interpret events.

Competitive Intelligence (CI) is a process that not many companies seriously consider but all of them can benefit from its accomplishments. Competitive intelligence utilizes multiple different channels to gather data. This data is provided as a resource that enables the recipient to make more educated business decisions. This information isn't always collected from direct competitors of the specific business in question, information is also gathered from indirect competitors and the overall environment of the industry at hand.

Reporting on competitive intelligence can offer the insight needed for any given business to make informed decisions. Whether it be making sure they don't make they same mistakes as a competitor, knowing if an emerging technology is a serious threat or just a passing trend, or learning if those expansion plans are as good an idea as they seem. By knowing where your competitors are at and how the current industry landscape is shaping, your company can be supported by substantial data to make sure you defuse any upcoming threats or take advantage of any obscure opportunities.

Advantages of Competitive Intelligence

Competitive intelligence is important for any organization, as it can give them a competitive advantage over their competitors by enabling their business leaders to make informed decisions. Competitive intelligence is now an integral part of the business strategy of organizations globally as it helps them understand their competitive environment, its opportunities as well as its challenges. By acting as a bridge between information and action, competitive intelligence enables organizations to do the following:

- Monitor market trends, customer expectations, emerging technologies, disruptors, and changes in their industry to better position themselves.

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- Predict their competitors' next moves and be ready to counter them through qualitative and quantitative information.
- Identify future threats that might arise in their industry.
- Find opportunities for business growth.
- Improve their sales pitches to win more deals.
- Benchmark themselves to identify gaps and understand where they can improve.
- Make strategic business decisions with confidence, armed with actionable insights and research.
- Enhance time-to-market, market-entry, and market defense capabilities.

Objectives of Competitive Intelligence

- To provide an advanced warning of risks and opportunities, such as mergers, takeovers, alliances, new products and services.
- To make sure that strategic planning decision, relies on relevant and up-to-date competitive intelligence.
- To ensure that organization is able to adapt and respond to the changing business environment.
- To provide periodic and systematic audit of firm's competitiveness, which provides an unbiased evaluation of firm's actual position, with respect to the environment.

Competitive Intelligence intends to make the firm more competitive with respect to the environment in which the firm operates, i.e. competitors, customers, distributors, and other stakeholders.

Competitive Intelligence Process

There are six main steps in the competitive intelligence process. These steps are to identify competitors, identify areas of concern, gather information, analyze the information found, report on the findings, and make a decision based on the results of competitive intelligence.

Step One: Identifying Competitors

The first step in competitive intelligence is identifying competitors. These preliminary stages may seem obvious, but they are necessary for letting us know where to start our research. This step also includes finding out more about your industry and its size. Is your industry reach small or large? While you may already be aware of and keeping an eye on your direct competitors it's important to know about any newcomers who might be starting up or expanding into your market as well as some bigger players who might become more of a threat as your business grows.

Knowing which competitors to base our research off of gives us specific companies to look into but it also gives us different avenues of information to consider. We know that all businesses do not operate the same. Given the culture, size, and outreach of each industry we know where we should focus our research efforts. If your industry is big enough that you and your competitors are publicly traded it would be in our best interest to compare stock index information. Likewise if you and your competitors are not publicly traded it wouldn't be the best use of our time to look at those sources.

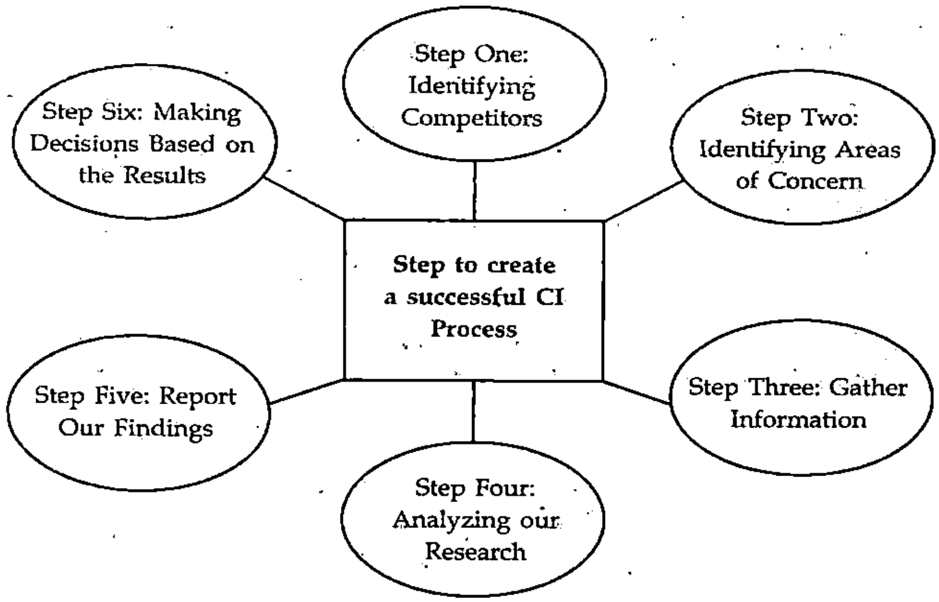

Figure 2.4 Competitive intelligence process

Step Two: Identifying Areas of Concern

Once we have gotten to learn a little bit more about your industry and your competitors, we can start to narrow our plan for analysis down to specific areas of interest. If there are any initially areas of concern that your business is concerned with, we can make those priorities. Knowing what to identify as a key concern will help us narrow our search. Of course, as we find different pieces of information, we can come across areas of concern that weren't thought of at this stage. We will be sure to address these finding in our final report.

With so many different avenues of information available we can't cover everything, in a relevant timeframe. Making sure that we have vital information is our top priority but if we spend too long on the research stage some of that information may become outdated and opportunities may disappear.

Step Three: Gather Information

Now we are finally ready to get to the real research. There are many different areas of competitive intelligence that we investigate in order to formulate our research reports. These components of competitive intelligence are all different areas of interest when it comes to researching competitors. The components of competitive intelligence are as follows:

- Competitors in the News
- Competitor Human Capital Movement
- Competitor Shift
- Competitor Job Listings: New Positions

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- Trade Show News
- Social Media Review
- Market/Stock Index

These components are all of the different resources that we explore while gathering information. As stated before, depending on the kind of industry you are in and the themes shared between you and your competitors, we may focus on one of these areas more than others. There isn't one component of competitive intelligence that is more important than another, but certain components might not be relevant to certain client's research. If your industry doesn't use social media to reach its consumers it wouldn't be in our best interest to spend time researching in this area. Our research covers as many public resources as we access. From social media accounts to trade show announcements we can find the newest updates. By looking at competitor's websites we can find out some of the information that might not be publicized as heavily. Seeing if a competitor is looking to hire new workers with specific skills at a new location can be a key into the fact that they are looking to expand.

Step Four: Analyzing our Research

By taking the information we have found we can start to piece together the narrative of what is up and coming in your industry. By seeing which new technologies are being implemented or if new competitors are gaining market share, we can map out where everyone currently stands in your industry.

The most valuable thing about looking for information from multiple different resources is that you can start to notice patterns. If a competitor is looking for market research from its customers via their website or social media and they start to hire new employees that have different skills from their existing workforce, while also acquiring new resources or facilities it is a clear trend that they are looking to expand their business.

In this analysis stage we can start to formulate some potential strategies for handling these changes. No company is invincible to change, and all industries evolve, shifting their methods and practices to accommodate new technologies and consumer preferences. Many companies fail because they lack the ability to adapt. The main goal of competitive intelligence is to provide companies with the knowledge to prognosticate a solution. It is inevitable that your industry will change but it is up to you to determine how intensely that will affect your operations.

Step Five: Report Our Findings

This is the step where you finally get to see all of the work we have done. With all the information we have found it can be hard to get a full grasp of it all. That is why we create a clear and concise competitive intelligence report that you can use to view all of our findings. Making sure information is categorized well and easy to find is almost as important as the information itself. We hope that this report can lead its usefulness to your company more than just once and one of the ways to ensure that is to make the information clear and available.

Step Six: Making Decisions Based on the Results

Now that the information is in your hands you can do with it what you please. Whether you are working on making decisions with our recommendations or with your team, this is where real action takes place. Decision making can be a hard task, but we hope that our information will ease that burden. We also know that making big changes at any company often takes persuasion and committee approval. By having a thorough report that covers all of the opportunities and threats that face your company from your competitors we hope you can make the changes you wish to see. It helps to have hard evidence when facing a board of executives or shareholders, hesitant to change practices.

Whether these changes are big or small, we hope that our findings can be of benefit to your company. Making any changes, even ones you are excited about, can be intense and often are met with a lot of uncertainty. By being informed, we hope you can feel confident about where to take your company in the future. These kinds of improvements are made with the vested interest of your company's future in mind. By ensuring your company is around to face the problems of the future we know our competitive intelligence has been of value.

Tools and Techniques of Competitive Intelligence

With the rise in the competition in the last few decades, certain tools and techniques are developed to support competitive intelligence efforts made by the organization. Such tools are categorized under different heads, depicted in the figure below:

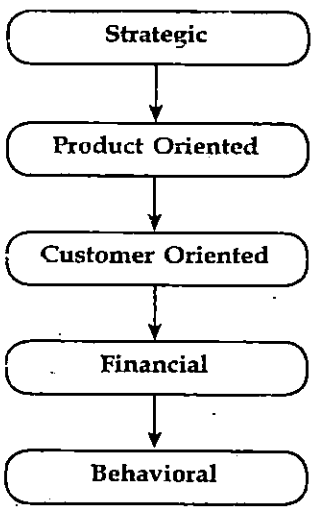

Figure 2.5 Tools and Techniques of Competitive Intelligence

Each and every decision made by the organization is based on certain assumptions, competitive intelligence proves helpful in testing and validating those assumptions. Indeed, those areas that remain uncovered by the organization's assumptions are also considered by it.

Competitive intelligence is of great help in crafting strategies for competing with other firms, by developing an understanding of the industry and the competitors as well. It is beneficial in identifying the strengths, weakness, opportunities, and threats. By engaging in competitive intelligence, the firm can successfully become the market leader and find best practices to do business.

Notes

2.5 ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE (ETOP) STUDY

There are many techniques available for environmental appraisal (assessment), one such technique suggested by Glueck is ETOP the preparation of ETOP involves dividing the environment into different sectors & then analyzing the impact of each sector on the organization. The preparation of an ETOP provides a clear picture to the strategists about which sectors & the different factors in each sector have a favorable impact on the organization.

By the means of an ETOP, the organization knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organizations in formulating strategies to take advantage of the opportunities & counter the threats in its environment.

ETOP analysis (environmental threat and opportunity profile) is the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Meaning of ETOP

ETOP is a device that considers environmental information and determines the relative impact of threats and opportunities for the systematic evaluation of environmental scanning.

ETOP is an environmental analysis results in a mass of information expectations. Structuring of environmental issues is necessary to make them meaning full of strategy related to forces in the environment. They deal with events, trends, issues and formulation. In short, it is a technique to structure environmental issues.

It is the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for purpose of taking strategic decision.

Why ETOP is needed?

- Helps organization to identify opportunities and threats
- To consolidate and strengthen organizations position
- Provides the strategists of which sectors have a favorable impact on the organization.
- Help organization know where it stands with respect to its environment
- Helps in formulating appropriate strategy
- Helps in formulating SWOT analysis (Strategic weakness, opportunities and threats)

ETOP Preparation

The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub factor on the organization is described in the form of a statement.

- Dividing the environment into different sectors such as economical, market, social, international, legal, technological, political, ecological, etc.

- Analyzing the impact of each sector on the organization
- Sub-dividing each environmental sector into sub factors
- Impact of each sub-sector on organization in form of a statement

ETOP Profile Involves

The profile is a technique of environment analysis was organizations make of profile of their external environment. ETOP analysis provides information about environment threats and opportunities and their impact on strategic opportunities for the company. The profile contains mainly three issues, they are:

(i) **Forecasting:** It means predicting the future events and analyzing their impact on present plans business organizations analyze the environment but applying various techniques to forecast government is used to formulate business plans and strategies.

(ii) **Verbal Written information:** Verbal information is collected but hearing and written information is collected by reading articles, journals, newspaper, newsletters etc... common sources of information are radio, television, workforce, outsiders. It informs changes in the environment and prepares business organization to incorporate than in their business plans and strategies.

(iii) **Management Information System [MIS]:** It is a formal method of making available to management to management the accurate and timely information necessary to facilitate the decision making proceeds and enable the organization planning, control and operational functions to be carried out effectively. It helps in making decisions based on future environment.

The profile involves – Environment, Threats and Opportunities Profile

A. *Environmental factors:* It presents the impact of each environmental factor like economic, political and social on the organization. The important factors are as follows:

Table 2.1: The important environmental factors

1. Economic factors	General economic condition, Rate of inflation, Interest rate/ Exchange rate
2. Technological factors	Source of technology, Technological development, Impact of technology
3. Socio cultural factors	Demographic characteristics, Social attitudes, Education level, awareness, and consciousness of rights.
4. Environmental factors	Weather change, Climatic change, Demand related factors, Suppliers related factors.
5. Political factors	Political system, Political structure, its goals and stability, Government policies, degree of intervention
6. Legal factors	Policies related to licensing , monopolies, Policies related to export and import, Policies related to distribution and pricing

Notes

B. Threat Matrix: The threats restrain them from entering into new business lines.

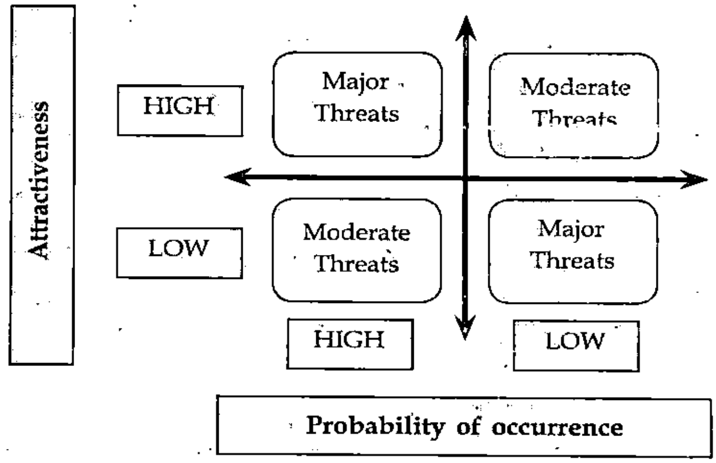

Figure 2.6 Threat Matrix

C. Oppurinity Matrix: The opportunity of the firm indicates new lines of the business.

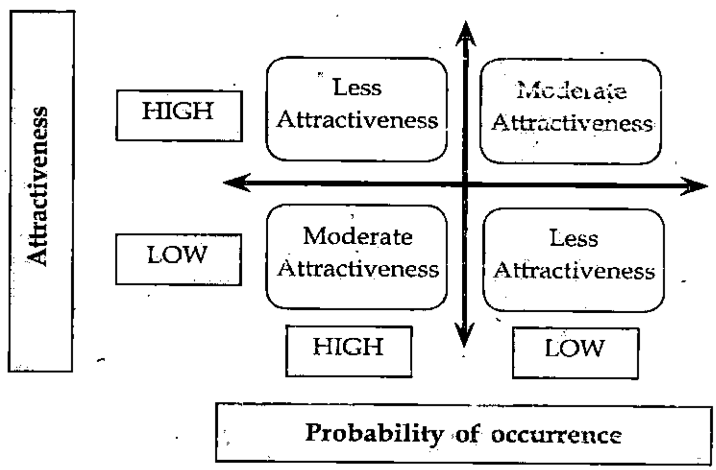

Figure 2.7 Opportunity Matrix

A summary ETOP may only show the major factors for the sake of simplicity. The table 2.2 provides an example of an ETOP prepared for an established company, which is in the Two Wheeler industry.

The main business of the company is in Motor Bike manufacturing for the domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic based n the current Indian business environment.

Table 2.2: Environmental Threat and Opportunity Profile (ETOP) for a Motor Bike company

Environmental Sectors	Impact of each sector
Social (↑)	Customer preference for motorbike, which are fashionable, easy to ride and durable.

Notes

Political (→)	No significant factor.
Economic (↑)	Growing affluence among urban consumers; Exports potential high.
Regulatory (↑)	Two Wheeler industry a thrust area for exports.
Market (↑)	Industry growth rate is 10 to 12 percent per year, For motorbike growth rate is 40 percent, largely Unsaturated demand.
Supplier (↑)	Mostly ancillaries and associated companies supply parts and components, REP licenses for imported raw materials available.
Technological (↑)	Technological up gradation of industry in progress. Import of machinery under OGL list possible.

As shown in the table motorbike manufacturing is an attractive proposition due to the many opportunities operating in the environment. The company-can capitalize on the burgeoning demand by taking advantage of the various government policies and concessions. It can also take advantage of the high exports potential that already exists.

Since the company is an established manufacturer of motorbike, it has a favorable supplier as well as technological environment. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry.

Though the market environment would still be favorable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it. The preparation of an ETOP provides a clear picture for organization to formulate strategies to take advantage of the opportunities and counter the threats in its environment.

The strategic managers should keep focus on the following dimensions:

1. **Issue Selection:** Focus on issues, which have been selected, should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the impotent issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.
2. **Accuracy of Data:** Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variability and low cost of data are some of the important factors, Which must be kept in focus.
3. **Impact Studies:** Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.
4. **Flexibility in Operations:** There are number of uncertainties exist in a business situation and so a company can be greatly benefited buy devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained.

   Some of the key elements for increasing the flexibility are as follows:

   (a) The strategy for flexibility must be stated to enable managers adopt it during unique situations.

Notes

(b) Strategies must be reviewed and changed if required.

(c) Exceptions to decided strategies must be handled beforehand. This would enable managers to violate strategies when it is necessary.

(d) Flexibility may be quite costly for an organization in terms of changes and compressed plans; however, it is equally important for companies to meet urgent challenges.

Advantages and Disadvantages of ETOP

Advantages

- Help to determine the key factor of threats and opportunities.
- Good tool to qualify the factors related to company's strategy.
- Can consider many factors for each special case.
- It provides a clear of which sector and sub sectors have favorable impact on the organization.
- It helps to interpret the result of environmental analysis.
- The organization can assess its competitive position.
- Appropriate strategies can be formulated to take advantage of opportunities & counter the threat.

Disadvantages

- It doesn't show the interaction between the factors.
- It can't reflect the dynamic environment..
- It's a subjective analysis tool

2.6 ORGANIZATIONAL CAPABILITY PROFILE (OCP)

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus , a company could be considered as inherently strong in marketing owing to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure. Organizational capacity is the inherent capacity or potential of an organization to use its strength and overcome its weakness in order to exploit opportunities and face threats its external environment. It is a potential or capacity to perform better without capabilities resources are of no value.

Any advantage a company has over its competitor – it can do something which they cannot or can do better Opportunity for an organization to capitalize – low cost, Superior Quality, R&D skills etc. The OCP describes the skills, knowledge and resources that enable your company to an provide quality products or services to customers. The profile provides useful background information for your marketing and corporate communications you can also use it as part of a formal bid document to win conterentiate.

Notes

Figure 2.8 Organizational capability

Organizational capacity factors are strategic strengths and weaknesses existing in different functional areas within an organization, which are of crucial importance to strategy formulation and implementation. The organisation into six largely accepted and commonly understood functional areas. These are:

(i) Finance
(ii) Marketing
(iii) Operations
(iv) Personnel
(v) Information and
(vi) General management

Financial Capability: Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organisation's capability to implement its strategies. Some of the important factors which influence the financial capability of any organisation are as follows:

- Factors related to usage of funds capital structure, procurement of capital, controllership, financing and relationship with lenders, banks and financial institutions.
- Factors related to usage of funds capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
- Factors related to management of funds financial, accounting and budgeting systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control and tax planning and advantages.

Notes

Marketing Capability: Marketing capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the marketing capability of any organisation are as follows:

- Product related factors – variety, differentiation,mix quality, positioning, advantages, etc..
- Price related factors – pricing objective, policies,changes, protection, advantages, etc..
- Place related factors – distribution,transportation and logistics, marketing channels, marketing intermediaries, etc..
- Promotion related factors – promotional tools, sales promotion, advertising public relations, etc..
- Integrative and systemic factors – marketing mix, market standing, company image, marketing organisation, marketing system, marketing management information system, etc..

Operations Capability: Operations capability factors relate to the production of products or services, use of material resources and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the operations capability of any organisation are as follows:

- Production system – Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, etc..
- Operations and control system – aggregate production planning, material supply, inventory,cost and quality control, maintenance systems and procedures, etc..
- R&D system – personnel facilities, product development, patent rights, level of technology used , technical collaboration and support, etc..

Personnel Capability: Personnel capability factors relate to the existence and use of human resources and skills,and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the Personnel capability of any organisation are as follows:

- The personnel system – systems for manpower planning, selection, development, compensation,communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc..
- Organisational and employees characteristics – corporate image, quality of managers, staff and workers perception about and image of the organisation as an employer,availability of developmental opportunities for employees, working conditions, etc..
- Industrial relations – Union management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc..

Information management Capability: Information management Capability factors relate to the design and management of the flow of information from outside into, and within an organisation for the purpose of decision-making and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the Information management capability of any organisation are as follows:

Notes

- Acquisition and retention of information – sources, quantity, quality and timelines of information, retention capability and security of information.
- Processing and synthesis of information – database management, computer systems, software capability and ability to synthesis of information
- Retrieval and usage of information – Availability and appropriateness of information formats and capacity to assimilate and use information.
- Transmission and dissemination – speed, scope, width and depth of coverage of information, and a willingness to accept information.

General management Capability: General management capability relates to the integration, coordination and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the general management capability of any organisation are as follows:

- General management system – strategic management system, processes related to setting strategic intent, strategy formulation and implementation machinery, strategy evaluation system, management information system, corporate planning system, rewards and incentives system for top managers, etc..
- General managers – orientation, risk propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc..
- External relationship – influence on and rapport with the government, regulatory agencies and financial institutions; public relations, sense of social responsibility, philanthropy, public image as corporate citizen, etc..

Profile of OCP

The OCP is drawn in the form of a chart, the strategists are required to systematically assess the various functional areas and subjectively assign values to different functional capacity factored and sub factor as long a scale ranging from values of -5 to +5.

You to draft the profile, 1st identify the capability that are important to your customer and that differentiates you from competitors and then incorporate them in a presentation or document.

(i) **Customer focus:** Your capability profile must incorporate the information customers and prospects need, when they are evaluating your company as a potential supplier or business partnered customers need to know about your current capability current capability and your future direction. They want to know that you have the technical expertise and market understanding to supply quality products that meet their performance requirement.

(ii) **People:** The skills and knowledge of your people represent an important part of your organizational capability. Describe the qualifications and experience of key staff, together with any outstanding achievement such as awards for innovation, involvement with industry associations or leadership in a particular discipline, the skills of your business partners also contribute to your capability.

(iii) **Resources:** Many other assets contribute to your organizational capability, including patents, products manufacturing facilities, information systems and distribution network.

Notes

Those assets differentiate you from competitors, particularly if they are hard to match, customize the assets to your customers needs a customer with sites in a number of different countries.

(iv) **Stability:** It is an important aspect of organizational capacity, you can build confidence in your customers by demonstrating that you have a stable management team capable of managing your business effectively.

Methods and Techniques of OCP

Inclusive, long term:

- Financial Analysis - Ratio Analysis, EVA, ABC
- Key factor rating - Rating of different factors through different questions
- Value chain analysis
- VRIO framework
- BCG, GE Matrix, PIMS, McKinsey7S
- Balanced Scorecard
- Competitive Advantage Profile
- Strategic Advantage profile
- Internal Factor Analysis Summary

1. Financial Analysis

- Ratio Analysis
- Economic value added[EVA]
  - o NOPAT (Net Operating Profit After Tax)
  - o WACC (Weighted Average Cost Of Capital)
- Activity Based Costing[ABC]
  - o activity in Value chain
  - o specific activities

2. **VRIO Framework:** A resource is an asset, skill, competency or knowledge controlled by the corporation. A resource is strength if it provides competitive advantage e.g. patents, brand name, economies of scale, idea-driven, standardized mass production. It is an analytical technique brilliant for the evaluation of company's resources and thus the competitive advantage. Example – patents, brand name.

- *Value:* Does it provide competitive advantage?
- *Rarity:* Do other competitors possess it?
- *Imitability:* Is it costly for others to reproduce?
- *Organization:* Is the firm organized to exploit the resource?

VRIO - Steps

(i) *Identify:* firms resources- S&W.

(ii) *Combine:* firm's strength into specific capabilities.

(iii) *Appraise:* profit potential, sustainable competitive advantage, ability to convert it to a profitable proposition

(iv) *Select strategy:* firm's resources and capability relative to external opportunity.

(v) *Identify:* resource gaps and invest in upgrading weaknesses

3. **PIMS:** The Profit Impact of Market Strategies (PIMS) is a comprehensive, long-term study of the performance of strategic business units (SBUs) in thousands of companies in all major industries. The PIMS project began at General Electric in the mid-1960s. It was continued at Harvard University in the early 1970s, and then was taken over by the Strategic Planning Institute (SPI) in 1975. Since then, SPI researchers and consultants have continued working on the development and application of PIMS data.

   According to the SPI, the PIMS database is- "a collection of statistically documented experiences drawn from thousands of businesses, designed to help understand what kinds of strategies (e.g. quality, pricing, vertical integration, innovation, advertising) work best in what kinds of business environments. The data constitute a key resource for such critical management tasks as evaluating business performance, analyzing new business opportunities, evaluating and reality testing new strategies, and screening business portfolios."

   The main function of PIMS is to highlight the relationship between a business's key strategic decisions and its results. Analyzed correctly, the data can help managers gain a better understanding of their business environment, identify critical factors in improving the position of their company, and develop strategies that will enable them to create a sustainable advantage. PIMS principles are taught in business schools, and the data are widely used in academic research. As a result, PIMS has influenced business strategy in companies around the world

4. **Balanced Scorecard:** It has been proposed and popularized by Robert. S. Kaplan and David. P. Norton. It is a performance tool which "provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures".

   The scorecard consists of four different perspective performance measures such as-

   - Financial perspective
   - Customer perspective
   - Internal business perspective
   - Innovation and learning perspective

5. **Competitive Advantage Profile:** The competitive profile matrix is a strategic analysis that allows you to compare your company to your competitors, in such a way as to reveal your relative strengths and weaknesses. Inform your strategic decision making. It compares a company and its rivals. The matrix reveals strengths and weaknesses for each company, and critical success factors show areas of success or areas for improvement.

   A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities. It is the reason behind loyalty, and why you prefer one product or service over another.

   There are three different types of competitive advantages that companies can actually use.

Notes

- Cost differentiation
- Product/Service differentiation
- Niche strategies

6. **Strategic Advantage Profile (SAP):** It is also known as SAP. It shows strength and weaknesses of an organization. Preparation of SAP is very similar process to the ETOP.

   SAP is a summary statement which provides an overview of the advantages and disadvantages in key areas likely to affect future operations of a firm. It is a total for making systematic evaluation of strategic advantage factors which are significant for the company in its environment. SAP is the technique of analyzing the internal factor of the organization by preparing a critical picture of different capacity factors. It is a relative strength of the company over its competitors.

7. **Internal Factor Analysis Summary:** It means Internal Factor Evaluation matrix, is a popular strategic management tool for auditing or evaluating major internal strengths & internal weaknesses in functional areas of an organization or a business It also provides a basis for identifying or evaluating relationships among those areas.

   An internal analysis is an exploration of your organizations competency, cost position and competitive viability in the market place Conducting an internal analysis often incorporates measures that provide useful information about your organizations a SWOT analysis.

Examples of Organizational Capability Profile

1. Financial Capability

   Bajaj - Cash Management
   LIC - Centralized payment, decentralized collection
   Reliance - high investor confidence
   Escorts - Amicable relation with FIS (world's top-ranked technology provider to the banking industry)

2. Marketing Capability

   Hindustan Lever - Distribution Channel
   IDBI/ICICI Bank -Wide variety of products
   Tata - Company / Product Image

3. Operations Capability

   Lakshmi machine works - absorb imported technology
   Balmer & Lawrie - R&D - New specialty chemicals

4. Personnel Capability

   Apollo tyres - Industrial relations problem

5. General management capability

   Malayalam Manaroma - largest selling newspaper
   Unchallenged leadership - Unified, stable Best edited and most professionally produced

2.7 SAP SCANNING

The strategic advantage profile (SAP) is a tool for making a systematic evaluation of the enterprises internal factors which are significant for the company in its environment. The

SAP shows the strengths and weakness of an organization in different functional areas. For preparing the SAP it is necessary to analyze the internal environment (related to functional areas like finance, marketing, production, human resources etc.) as well as the external environment of an organization.

Every firm has strategic advantage and disadvantages for,

Example: Large firm have financial strength but they tent to move slowly, compared to smaller firms, and often cannot react to change quickly. No firm is equally strong in all its functions. In other words, every firm has strength as well as weakness.

The strategists must be aware of the strategic advantages or strengths of the firm to be able to choose of the best opportunity for the firm. On the other hand they must regularly analyze their strategic disadvantages or weaknesses in order to face environmental threats effectively.

Example: The strategist should look to see if the firm is stronger in these factors than its competitors. When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.

There are generally 5 functional areas in most of the organizations. These areas are:

1. Marketing and Distribution
2. R & D and Engineering
3. Production and Operations management
4. Corporate resources and personnel
5. Finance and Accounting

1. Marketing and Distribution

- Efficient and effective market research system
- The product service mix: quality of product and service and service
- Strong new - product and new- service leadership
- Patent protection (or equivalent legal protection for life)
- Positive feeling about the firm and its products and services on the part of the ultimate consumer
- Efficient and effective packaging of products (or the equivalent for service)
- Effective pricing strategy for products and services
- Efficient and effective marketing promotion activities other than advertising
- Efficient and effective service after purchase
- Efficient and effective channel of distribution and geographical coverage, including internal efforts.

2. R & D and Engineering

- Basic research capabilities within the firm
- Excellence in product design
- Excellence in process design and improvement
- Superior packaging development being created

Notes

- Improvement in the use of old or new materials
- Ability to meet design goals and customer requirements
- Trained and experienced technicians and scientists
- Work environment suited to creativity and innovation
- Well – equipped laboratories and testing facilities

3. Production and Operations management,
4. Corporate resources and personnel
5. Finance and Accounting

Note: [3, 4 & 5 refer OCP]

Different Approaches

The different approaches are there to develop as competitive advantage. In each of these approaches the principal point is to avoid doing the same thing as the competition on the same bottle ground. So the analyst needs to decide which of these approaches might be pursued to develop a sustainable distinctive competence.

(i) **Key Success Factors (KFS):** It is to compete based on existing strengths. The form can gain strategic advantage if it focuses resources on one crucial point.

(ii) **Avoids head – on competition:** The 2nd approach is still based on existing strengths but avoids head on competition. The firm must look at its own strength which are different or superior to that of the competition and exploit this relative superiority to the fullest.

Example- makes use of the technology; sales network and so on of those of its products which are not directly competing with the products of competitors.

(iii) **Unconventional Approach:** To compute directly with a competitor, it is used for well established, stagnant industry. It may be needed to upset the key factors for success that the competitor has used to build on advantage. The starting point is to challenge accepted assumption about the way business is done & gain a novel advantage by creating new success factors.

(iv) **Means of Innovations:** It can obtain by means of innovation which open new markets or result in new products. This approach avoids head on competition but requires the firm to find new & creative strengths. Innovation often involves market segmentation & finding new ways of satisfying the customer's utility function.

Profile of SAP

It shows in way of chart of each organizations strength and weaknesses on the basis of its different factors. Here we prepare a profile about hoe our company is superior in comparison to other companies. Here we are looking at the environmental aspects & preparing the strategy which can relate our strengths to our opportunities. It enables us to focus on our competencies (strengths) and how to use them.

Notes

Table 2.3 Profile of SAP

Functional Area	Core Factors	(+) or (−)
Production and operation	Good production facilities Old plant and machinery	(+) (−)
Personal factors	Young and motivated force Poor union relation	(+) (−)
Finance and Accounting	Tax holiday Costly finance	(+) (−)
Marketing operations	Effective communication mix Costly employees Rich experiences in market	(+) (−) (+)
R & D and Engineering	No design protection Well developed laboratory Highly qualified research staff	(−) (+) (+)
Organization system	High tech MIS Effective delegation and decentralization No. MBE	(+) (+) (−)

Example of SAP

A picture of the more critical areas which can have a relationship of the strategic posture of the firm in future of TATA DOCOMO

Table 2.4 Example of SAP

Capability Factors	Nature of Impact	Competitive Strength / Weakness
Marketing	(↑)	1st to launch 1paise/per second and applicable for both postpaid and prepaid. Leveraging Tata indicom's distribution channels. Launched popular advertisement campaign "Keep it Simple Silly" and hired Ranbir Kapoor as brand mascot.
Operations	(↑)	Rated congestion free, Innovative tariff plans, first to introduce 3G, bilateral agreement with different operators to share network
Personal	(→)	Set up an institute in record 6 years, PMS was designed, won various HR awards for its HR policies
General	(↑)	High quality experienced top management take proactive
Finance	(↓)	11% market share, 4th largest in India. EBITDA for each customer was around R.75 which was much less than industry average of 110-120. Recently increased its tariff rates

Notes

R & D	(↑)	Invested about 9700 crore in the past two years for GSM network rollout across the country. NTT Docomo is planning to add a R&D centre in India to produce value added services. A M&A's could also be on the cards for Tata Docomo. Business line reported it may choose inorganic growth. First to launch 3G & 1st to Conduct physical 4G trails in India.

Balanced Scorecard Strategic Advantage Profile (SAP)

The Balanced Scorecard approach begins with the promise that financial measures are not sufficient to manage an organization. Financial measures tell the story of past events. They are not helpful to guide the creation of future value through investments in customers, suppliers, employees, technology, or innovation. The Balanced Scorecard complements measures of past performance (lagging indicators) with measures of the drivers of future performance (leading indicators). The objectives and measures of the scorecard are derived from an organization's vision and strategy. These objectives and measures provide a view of an organization's performance from four perspectives.

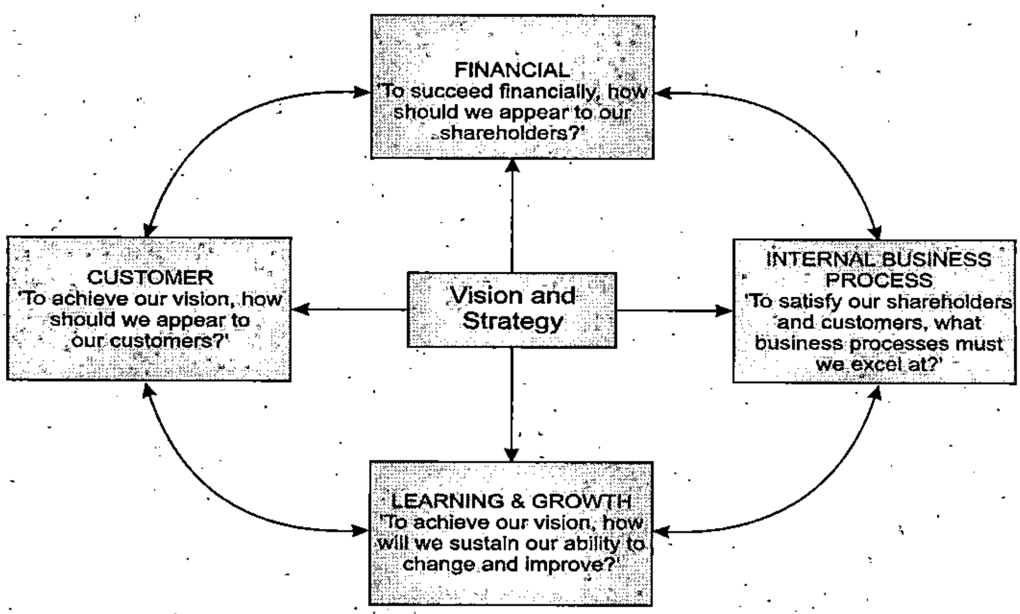

Figure 2.9 The Balanced Scorecard: Four Perspectives

1. *Financial* – the strategy for growth, profitability, and risk viewed from the perspective of the shareholder.
2. *Customer* – the strategy for creating value and differentiation from the perspective of the customer.
3. *Internal Business Processes* – the strategic priorities for various business processes, which create customer and shareholder satisfaction.

4. *Learning and Growth* – the priorities to create a climate that supports organization change, innovation, and growth.

Using the Balanced Scorecard, corporate executives can now measure how their business units create value for current and future customers. They can also learn what investments in people, systems, and procedures are necessary to improve future performance. While retaining an interest in financial performance, the Balanced Scorecard clearly reveals the drivers of superior, long-term value and competitive performance. The Balanced Scorecard tells the story of the strategy.

Information technology that is capable of supporting an effective Strategic Enterprise Management system must be able to develop, maintain, communicate, and operationalize the Balanced Scorecard. This requires the ability to:

- Enable smooth communication across the entire organization during the collaborative development and maintenance of corporate, business unit, and personal Balanced Scorecards.
- Leverage industry-specific best practice through ready-to-use key performance indicator (KPI) catalogs and cause-and-effect templates.
- Integrate BSCs fully into the Strategic Enterprise Management process to support BSC-based business planning and simulation, performance monitoring, and stakeholder communication.
- Link the Balanced Scorecard with the business execution system to speed up translation of strategy into action.
- It supports the development and maintenance process of a Balanced Scorecard through the following functionality:
- Definition of strategic objectives and initiatives by the four perspectives of the Balanced Scorecard.
- Definition of an influence diagram (cause-and-effect linkage) to visualize dependencies among strategic objectives on a Balanced Scorecard.

Once the scorecard has been designed, it must be linked to the management process to create action and results. Companies that successfully implemented Balanced Scorecards did so by reinventing every part of their management system to focus on strategy. From their experiences, we begin to see the criteria for a new management process, tailored to the needs of the new economy. We refer to this process as Strategic Enterprise Management (SEM). The SEM process is built on four principles:

1. **Strategy: A Continuous Process.** During times of transition, the future is highly uncertain. New approaches are being introduced to deal with a new economy. Strategy is a "hypothesis" about what the future will look like and how to get there. As you begin to execute a strategy, the picture of the destination will evolve and change. The SEM process must put this strategic hypothesis at the center of the organization, test it continuously, and change course as required. Strategy must be a continuous process, not an annual event.
2. **Strategy: Everyone's Job.** It is estimated that approximately 50% of all work performed in industrialized countries today is knowledge work. This percentage increases each year. Workforce knowledge represents an asset that we are just beginning to use effectively.

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In this structure, strategic information and decision-making can no longer be left to senior managers. Salesmen or customer service representatives, for example, can change a company's strategy from "low cost provider" to "solution provider" by changing the role that they play with the customer. Knowledge workers make strategic choices every day. Strategy may be formulated at the top but executed and refined at the bottom. The SEM process must ensure that everyone in the organization understands the strategy, is aligned with it, and is capable of executing it.

3. **Strategic Knowledge Networks.** Knowledge is everywhere in the organization. Truck drivers and telephone operators frequently know more about customer preferences than marketing executives or product designers. Traditional organization structures, designed around vertical, functional silos, lock this knowledge up in compartments, making it almost impossible to share. New approaches like "virtual organizations," "networks," and "self-governing teams" have created breakthroughs that allow cross-disciplinary groups to come together and share their knowledge for a common goal. The SEM process must support the work of such strategic knowledge networks, providing the infrastructure for accountability and governance.

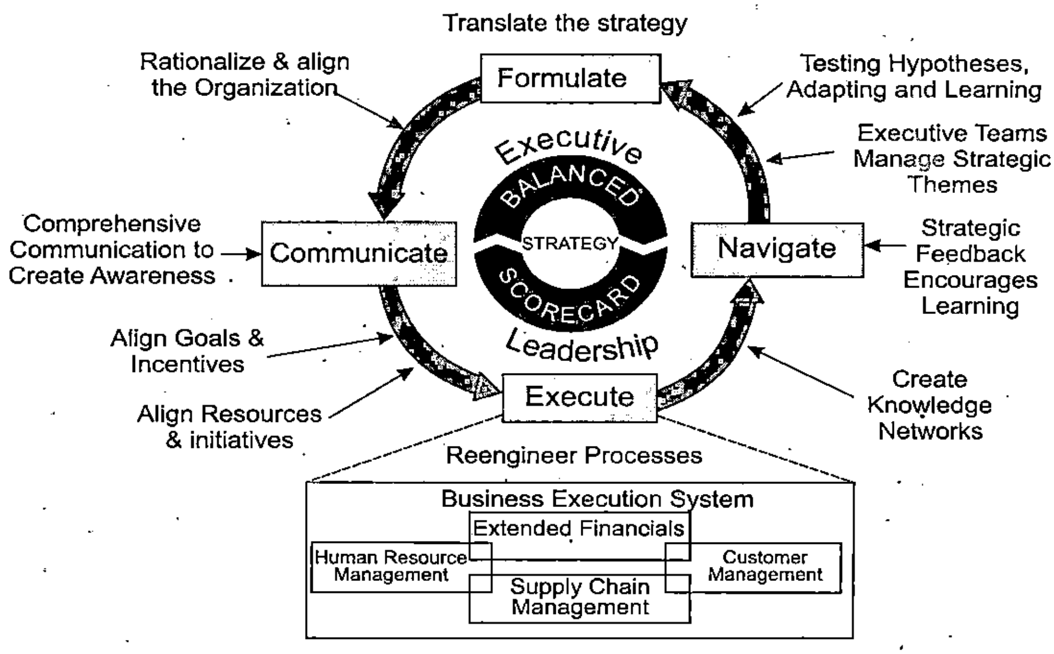

Figure 2.10 The Ingredients of Highly Successful Balanced Scorecard Programs

4. **Strategic Leadership.** John Kotter, in his landmark work on leadership, stresses the distinction between leadership and management. Managers use a set of processes such as planning, budgeting, organizing, staffing, controlling, and problem-solving to keep an organization running smoothly. If practiced well, good management has the potential to "produce a degree of predictability and to consistently produce shortterm results." Leadership, on the other hand, is a set of processes that defines what the future should look like, aligns people with that vision, and inspires them to make it happen despite

the obstacles. If practiced well, good leadership has the potential to produce dramatic change that help make a firm more competitive. While good management is important, executing the dramatic changes implied by strategy requires good leadership. The SEM process must be based on active participation and ownership by those responsible for strategic leadership: the executive team.

These four principles translate into the management process summarized in Figure 2.10. The following pages describe the highlights of this process, as well as lessons learned from successful leading-edge companies, and provide an overview of the functionality of SAP Strategic Enterprise Management to support this process.

2.8 CORPORATE PORTFOLIO ANALYSIS

When the company is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis.

A corporate portfolio analysis takes a close look at a company's services and products. Each segment of a company's product line is evaluated including sales, market share, cost of production and potential market strength. The analysis categorizes the company's products and looks at the competition. The purpose is to identify business opportunities, strategize for the future and direct business resources towards that growth potential.

Portfolio Analysis

Harry Markoulifz 1st developed portfolio analysis in his 1952, in article "portfolio selection" published in "The Journal of Finance". Subsequently, his ideas were further developed by researchers throughout the latter half of the 20th century.

Portfolio analysis is an analytical tool which views a corporation as a basket or portfolio of products or business units to be managed for the best possible returns.

When an organization has a number of products in its portfolio, it is quite likely that they will be in different stages of development. Some will be relatively new and some much older. Many organizations will not wish to risk having all their products at the same stage of development. It is useful to have some products with limited growth but producing profits steadily, and some products with real growth potential but may still be in the introductory stage. Indeed, the products that are earning steadily may be used to fund the development of those that will provide the growth and profits in the future.

So the key strategy is to produce a balanced portfolio of products, some with low risk but dull growth and some with high risk but great potential for growth & profits. This is what we call as portfolio analysis.

Set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multi-product and multi business firms. Adopting a portfolio analysis, resources could be targeted at the corporate level to those business that posses the greatest potential for creating competitive advantage.

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There are several techniques of portfolio analysis that can be used by the business organizations. Some important techniques are:

1. The Boston Consulting Group (BCG) Growth-share matric
2. The General Electric (GE) Business Screen
3. Strategic Evaluation and Action Evaluation (SPACE) Matrix.
4. Directional Policy Matrix (DPM)
5. Hofer's Product / Market Evaluation Matrix.

In short Corporate Portfolio Analysis is set of techniques that helps strategists in taking strategic decision with regard to a particular products or businesses in firm's portfolio. It is used for competitive analysis and strategic planning in various small to large organization including multi-product and multi business firms. This kind of analysis helps to create competitive advantage to the firm.

2.9 RESOURCE-BASED APPROACH

The resource-based view of strategy gradually emerged during the 1980s and 1990s with a series of important contributions, in particular work on core competency from Prahalad and Hamel (1990) and on added value by Kay (1993). This view helps to explain why some organizations succeed in creating competitive advantage and earning superior profits, while others do not. Consequently, it looks at strategies which can be identified with an individual company as distinct from those that are available to all competitors through an understanding of industries and markets.

In other words, market opportunities have to be identified and then satisfied in an individual and distinctive way. Supporters of the resource-based view put forward a number of arguments. As long as there are opportunities which can be identified, it will normally be easier and less risky for organizations to exploit their existing resources in new ways than to seek to acquire and learn new skills and competencies. Innovation matters and new ways of exploiting resources must be found to sustain any competitive advantage.

Importance of Resource-based View Strategy

The resource-based view strategy aims to gain a sustainable competitive advantage. But how can an organization achieve this advantage?

It is through extensive resource analysis, resource allocation, and cross-functional usage of resources. Only when a firm unleashes its workforce's true potential can they innovate better and out-stand in the industry.

Here is how an RBV strategy helps them achieve the same,

Visibility for efficient resource allocation: The comprehensive view of all the resource pools facilitates managers to gain insight into resource skills and competencies. This, in turn, allows managers to allocate resources as per the scope and demand of the project.

- Real-time information helps them make data-driven decisions, leverage talent to the maximum potential, and maximize profitability.

Maintains the competitive advantage: The rise in market volatility propels extensive ad hoc project demands, which often becomes the deciding factor for your company's growth and success. In these situations, resource managers can utilize both their primary and secondary workforce skills to execute critical multi-faceted projects. A Resource-based view strategy on a centralized platform enables demand fulfillment to sustain their competitive advantage.

Cross-functional usage of resources: In a matrix organization, the resource-based strategy model facilitates enterprise-wide visibility of the workforce and its expertise. It helps in allocating appropriate resources from different departments and form a cross-functional team to execute the project. It reduces hiring cycle costs and also helps to leverage the diversified workforce. Besides, employees are also given multi-faceted projects to work on enhancing their professional portfolio.

The Major Concepts of RBV Analysis

RBV is a strategic theory beneficial for understanding why companies outperform other competitors. It is a commonly adopted analytical method used to determine the strengths and limitations of an organization and evaluate the firm's workforce.

With the understanding of resource-based strategy or RBV model, let's emphasize details of its different types of assets.

The Assets of RBV Model

There are two types of assets in the RBV model: tangible and intangible assets.

Tangible Assets: The tangible assets are the physical resources of the firm that are quantifiable. It includes products, machinery, equipment, capital, infrastructure, etc. They can be easily acquired by competitors in identical assets and offer a less competitive advantage in the long run.

Intangible Assets: Intangible assets are resources that are owned by respective organizations and which do not have a physical presence. It includes brand presence, intellectual property, goodwill, trademarks, etc. Unlike tangible assets, intangible assets are built over a long time and cannot be replicated by competitors.

Invariably, intangible resources remain within a business and are the primary source of sustainable competitive advantage.

The Critical Assumptions of RBV

The fundamental principle of the RBV model explains competitive heterogeneity between companies. To transform a short-run competitive advantage into a sustainable one, the two critical assumptions of RBV are that the resources must be heterogeneous and immobile. Let's discuss this in detail here:

Heterogeneous: The primary heterogeneous assumption is that organizations must significantly differ in terms of resources and core competencies. If companies have the same mix of the resource pool, they would not be able to employ different business strategies to outperform each other. On the other hand, companies with a heterogeneous

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workforce when exposed to the same competitive market can outrank each other by implementing different strategies.

For instance, the technology giants- Apple Inc. and Samsung Electronics operate in the same industry (Smartphone & Tablet market) and therefore are subject to the same competitive market. However, they possess disparity in organizational performance due to the difference in resources and their expertise (heterogeneous resources).

Immobile: The second assumption of RBV states that the resources are immobile and thus do not move freely from one company to another (employee movement), at least in the short-run. Due to this immobility, competing firms could not replicate their resources' expertise and implement an appropriate strategy.

Immobile resources include all the intangible assets of a company, such as brand equity, intellectual property, etc., and some of the tangible assets.

However, a firm's sources of competitive advantage go beyond heterogeneity and immobility. Other factors play a vital role in enabling firms to stay competitive.

The VRIO Framework

Adding on to the assumptions, a renowned professor of strategic management, Jay B Barney, in 1991 has introduced a VRIN structure that was later altered by other leading thinkers. The new VRIO Framework is an improvement of the VRIN model and was adapted from Rothaermal's 'strategic management' (2013).

The VRIO analysis categorizes the resources based on their Value, Rarity, Imitability, and Organizational system. Let's understand each of these attributes in detail:

Value: It states that the resources are only valuable to organizations if they contribute to their goal in terms of products or services. Besides transforming inputs to outputs, value-addition also occurs when your resources successfully exploit profitable ventures or bring down external costs.

Rarity: The tangible and intangible resources that very few organizations can only acquire are rare resources. A firm with these rare skill sets in its closet can reap the competitive benefits and stand out in the market. In contrast, companies that possess the same set of resources and skills face competitive parity.

Imitability: The key to competitive sustainability is the decrease in the rare or valuable resources' imitability rate for the long-term. It can only be achieved when the compensation is higher than the cost offered by other companies to mimic these resources and capabilities.

Organization: For a resource to exhibit competitive advantage, the organization, its processes, and systems must be designed in a way that supports a resource for maximum productivity. It includes having the right resource management system to ensure all the critical resource KPIs are optimized and balanced.

Formulating the VRIO Framework is only half the battle won. It is also important to develop and implement a strategy that suits organizational needs. Here is some information to create a strategy that sustains the competitive advantage in the long-run.

How to Develop a Full-Proof RBV Strategy?

The scope of strategy integration in the current business functions results in a competitive advantage. Managers should develop a plan in the RBV-centered organization to leverage internal resources to external opportunities and competition.

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Here are the different steps to develop a strategy when utilizing a resource-based view of the organization:

Identify key resources and competencies

Identifying essential resources and skillset is the first step towards forming an effective RBV strategy for the organization. The multidimensional resource scheduler facilitates the 360-degree visibility of all resource profiles across the enterprise. It helps managers to deploy potential resources based on the demand of the project.

Allocate competent workforce to projects

After analyzing different resource attributes (skill sets, cost rate, location, available capacity, etc.), the next step is resource scheduling. Thus, strategic resource allocation is an essential step that facilitates deploying the right resources with the desired skill set to suitable projects.

'Scheduling the right resources for the right projects is crucial to gain its competitive advantage and success'.

Leverage resources to multiple projects

As mentioned earlier, deploying resources to varied projects facilitates the shared service model in a matrix organization. It encourages the utilization of resources across multiple projects instead of one high-priority project. It will empower the overall resource utilization against their available capacity and enhance its profitability and reduce resourcing costs.

Implement succession planning for niche skills

The resource managers must ensure that the sudden resignation of critical or niche resources does not jeopardize a project delivery. Therefore, an appropriate succession planning and backup strategy should be in place to replicate competent resources. It can be done in advance by providing proper training and development opportunities such as shadowing or knowledge transfer techniques to create its niche skill set.

Conduct regular training to upskill the resource pool

It is worthwhile to invest in multi-skill building practices (Individual Development Plans or IDP) like training, workshops, and certifications. Such initiatives help the resources to diversify their professional spectrum, giving you a competitive advantage, especially against new entrants who are building upon their skills and expertise.

2.10 VALUE CHAIN APPROACH

The value chain approach is one of several market systems approaches to development. The value chain approach seeks to understand the firms that operate within an industry—from input suppliers to end market buyers; the support markets that provide technical, business and financial services to the industry; and the business environment in which the industry operates.

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The value-chain approach aims to identify hotspots and shape corresponding actions built on existing knowledge and available data. It provides a framework applicable to different sectors, products and geographical scales. As an action-oriented approach, its key outcomes are: identifying where the greatest opportunity for improvement occurs, which actions need to be promoted to take advantage of these opportunities, what enabling conditions are needed and which stakeholders should lead such actions.

How is the Value Chain Approach Implemented?

The following implementation principles can be used to design and implement successful value chain development programs:

Facilitating changes in firm behavior

The value chain approach seeks to facilitate changes in firm behavior that increase the competitiveness of the chain and generate wealth for all participating firms, thereby contributing to inclusive economic growth. Changing firm behavior requires an understanding of the financial and non-financial incentives of the various stakeholders—why they behave in the way they do, and what is needed to motivate them to change their behavior. Implementers of the value chain approach identify firms within the industry with the incentives, ability and willingness to address constraints and facilitate upgrading throughout the chain.

Transforming relationships

By making the benefits of win-win relationships explicit to stakeholders, some firms can be encouraged to change the way they relate to others. However, sometimes conflicting incentives and high levels of mistrust diminish the effectiveness of such simple appeals to self-interest.

Targeting leverage points

Value chain project implementers target points of leverage that have a multiplier effect on interventions in order to maximize impact and outreach. Points of leverage include economic and social structures, commercial incentives and social norms and incentives.

Empowering the private sector

The goal of the value chain approach is to enable private-sector stakeholders to act on their own behalf: to upgrade their firms and collectively create a competitive value chain that contributes to economic growth with poverty reduction. The value chain analysis and strategy development process is therefore participatory to the extent possible. The role of the donor and implementing partner is to facilitate and support implementation of the competitiveness strategy by the private sector in such a way that ensures that development objectives—economic growth, poverty reduction and other concerns such as sustainable natural resource management—are also met.

Learning and Adaptive Management

Inherent in this approach is the challenge of working in markets that are dynamic and trying influence behavior that is unpredictable. Achieving successful outcomes in such a context requires continual learning and adaptation to know what is working and under what conditions.

Goals and Outcomes of Value Chain Analysis

Value chain analysis will help you identify areas in your business that can be optimized for efficiency and profitability. You want to not only ensure your mechanical processes are the best they can be, but you also want to keep customers feeling confident and secure so they remain loyal to your business. By analyzing and evaluating product quality and the effectiveness of your services, along with reducing company costs, your business can find strategies to improve its value proposition and stand out in the marketplace.

Benefits of a Value Chain Analysis

There are multiple benefits to value chain analysis:

- Gain a ground-level understanding of the various processes your business uses and the purpose for each.
- Identify current or potential bottlenecks in workflow and other inefficiencies.
- Find tasks that can be automated, outsourced or redesigned.
- Reduce waste and eliminate or de-prioritize unproductive tasks.

Businesses can use the insights they gain from value chain analysis to identify priority processes, streamline workflow and increase efficiencies. These, in turn, reduce costs and overhead, increasing profit margins for the business.

2.11 SCANNING FUNCTIONAL RESOURCES: STRATEGIC BUDGET AND AUDIT

Environments spring surprises on organizations from time to time. Sometimes the surprises constitute opportunities; at other times, threats. The most vigilant and aware organizations will be better placed to respond. Success lies in seeing opportunities 'ahead of the game' and responding in some individual way, ideally one that is genuinely different, appreciated by customers and not easily copied by rivals. The ability to do this comes down to individual, specific to the organization competencies and capabilities, which in turn emanate from the organization's resources. Resources, therefore, make the difference. This argument is explored in greater depth and frameworks are provided which can help us to audit and evaluate strategic resources.

It does not follow that every resource an organization possesses is strategically significant. Sometimes it is tempting to list every positive resource as a strength, but this may be illusory. When we evaluate the resources of an organization in terms of their strategic significance, five factors matter:

1. **Competitive superiority:** The relative value when compared to rival organizations. A resource is not really a competitive strength if it is possessed by every competitor.
2. **Barriers to replication:** It is useful if rivals can be stopped from imitating or replicating any valuable resources.
3. **Durability:** Basically a time advantage relating to 1 and 2.

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4. **Substitutability:** Can competitors neutralize the value of a resource by substituting an alternative?
5. **Appropriability:** Kay (1993) contends that it is essential that the organization possessing the resource benefits from it, rather than the real benefit accruing to someone else, such as a supplier or distributor.

The relationship between environmental forces and internal resources is at the heart of Figure 2.11, which has been adapted from the Harvard Business School approach to strategy (Kelly and Kelly, 1987). Here, selected products, services and markets are seen as environment driven and the competitive environment and stakeholders are shown with resources and values as four key strategic elements linked to corporate objectives.

These elements can be changed, but in many cases not readily and not quickly, and consequently at any point in time they are reasonably fixed. Six operating elements are also incorporated. Marketing relates to how the various products and services are positioned in relation to competitors, and how they are priced, advertised and distributed. Manufacturing involves the types of production process, location issues and technology utilization. Finance incorporates both performance targets and sources of funding. Research and development considers how much to spend on research and development and whether the perspective is short or long term. Human resources relates to the types of people utilized and how they are rewarded. The organization structure encompasses how these functions are co-ordinated and controlled.

These operating elements determine whether or not the corporate objectives are achieved. The different functions in the organization are affected to varying degrees by different stakeholders, and certain stakeholders who have a significant impact on certain functions may have little direct importance for others. Equally, the specific stakeholders may influence individual functions in quite different ways. Their impact upon the whole organization is therefore affected by the organization structure and relative power and influence within the firm. The figure also highlights the strategic value of functional managers taking a more holistic view of the organization and their role and contribution.

How, then, might we audit and evaluate these operating elements or strategic resources? An internal analysis should be a three-stage process:

1. an evaluation of the profile of the principal skills and resources of an organization
2. a comparison of this resource base with the requirements for competitive success in the industry
3. a comparison with competitors to determine the relative strengths and weaknesses and any significant comparative advantage.

Where internal managers carry out this analysis, it is inevitable that there will be some subjective judgement and it will be affected by their position in the organization. In a SWOT (strengths, weaknesses, opportunities and threats) analysis, then, the strengths and weaknesses of resources must be considered in relative and not absolute terms. It is important to consider whether they are being managed effectively as well as efficiently. Resources, therefore, are not strong or weak purely because they exist or do not exist. Rather, their value depends on how they are being managed, controlled and used.

In auditing resources we consider the functional areas of the business, as this is where the human, financial and physical resources are deployed. These areas might include finance, production, marketing, research and development, procurement, personnel and administration. However, it is also important to consider how they are related together in the organization's structure and control systems. A brilliant and successful marketing manager, for example, might seem to represent a strength; however, if there is no adequate cover for him and he leaves or falls ill, it is arguable that the firm has a marketing weakness.

Control systems, such as production and financial control, and the ways in which managers co-operate within the organization influence how well resources are managed for efficiency and effectiveness. Table 2.5, which is not meant to be fully comprehensive, provides a sample of key resource considerations. In completing such an audit the various resources should be evaluated: their existence, the ways in which they are deployed and utilized, and the control systems that are used to manage them. Efficiency measures of the salesforce might include sales per person or sales per region, but the effectiveness of the salesforce relates to their ability to sell the most profitable products or those products or services that the organization is keen to promote at a particular time, perhaps to reduce a high level of stocks. The efficiency of individual distribution outlets can be measured by sales revenue in a similar way. However, the effectiveness of the distribution activity relates to exactly which products are being sold and to whom, whether they are available where customers expect them, and how much investment in stock is required to maintain the outlets. The efficiency of plant and equipment is linked to percentage utilization. The effectiveness involves an assessment of which products are being manufactured in relation to orders and delivery requirements, to what quality and with what rejection levels.

It is also important to assess the relative strengths and weaknesses in relation to competition. Managers must be aware of and must address strategic issues if the resources are to be used for creating and sustaining competitive advantage. Marketing can be looked at from the point of view of managing the activities which comprise the marketing function. Product design and pricing, advertising, selling and distribution would be included here. However, if an organization is marketing orientated there is an implication that employees throughout the organization are aware of consumers and customers, their needs, and how they might be satisfied effectively while enabling the organization to achieve its objectives. Consumer concern becomes part of the culture and values. Consumers and customers are mentioned separately because for many organizations, particularly the manufacturers of products for consumer markets, their customers are distributors and their ultimate consumers are customers of the retailers that they supply. Innovation and quality can be seen as aspects of production or operations management. Again, it is helpful if these factors become part of the culture. An innovatory organization is ready for change, and looking to make positive changes, in order to get ahead and stay ahead of competition. A concern for quality in all activities will affect both costs and consumer satisfaction. In human resources management values are communicated and spread throughout the organization.

Financial management includes the control of costs so that profit is achieved and value is added to products and services primarily in areas that matter to consumers. This should provide differentiation and competitive advantage. Lower costs and differentiation are important themes in competitive strategy. They relate to both an awareness of consumer needs and the management of resources to satisfy these needs effectively and, where relevant, profitably. Marketing orientation and the effective management of production and operations, people and finance are all essential aspects of the creation and maintenance of competitive strength and advantage. Functional and competitive strategies are important for an understanding of

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strategic management in all types of organization, and they are especially important for a large proportion of small businesses and many not-for-profit organizations.

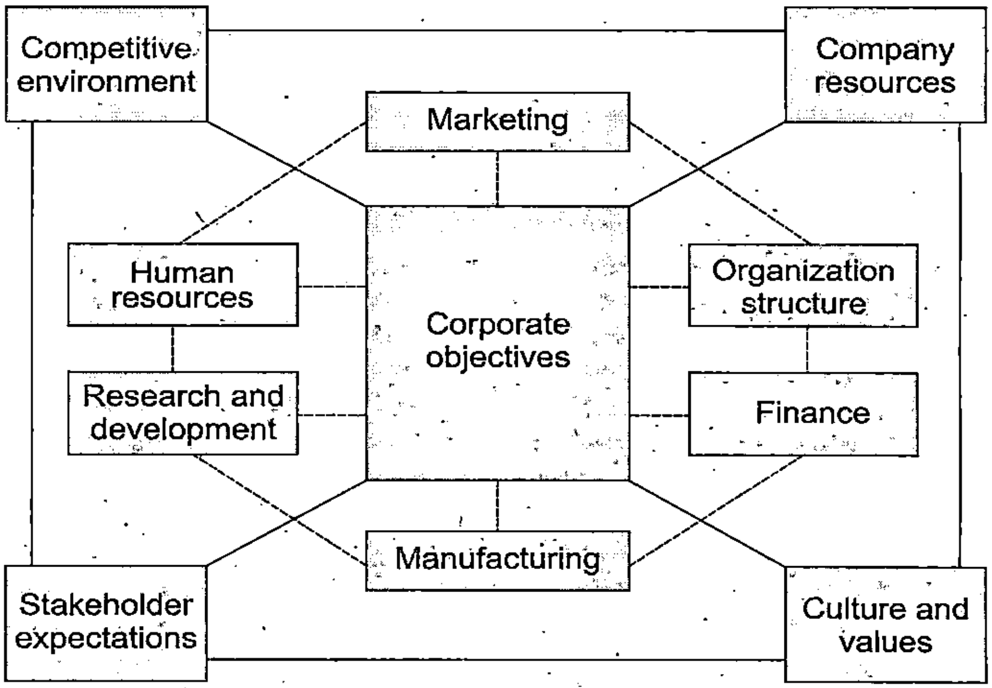

Figure 2.11 Matching the organization and the environment

Corporate strategic changes such as major diversification and acquisition, divestment of business units which are underperforming or international expansion may not be relevant for small firms with a limited range of products or services and a primarily local market, or for not-for-profit organizations with very specific missions. However, these organizations must compete effectively, operate efficiently and provide their customers and clients with products and services that satisfy their needs. Competitive and functional strategies are therefore the relevant issue.

As the Internet becomes more pervasive in our lives some organizations and industries are being presented with wonderful opportunities and, at the same time, real threats. Book retailing has changed with the growth of Amazon.com and the opening of online bookshops by the leading book retailers. Similarly, domestic banking has been changed with the growth of ATMs (automated teller machines or 'holes in the wall'), telephone call centres and Internet accounts. Competitors have had to develop new skills, competencies and capabilities in order to survive, let alone thrive. The challenge, though, did not stop here. It has also been necessary to clarify the key success factors for those customers who opted to avoid the Internet and stick with a personal service. What exactly are their needs and preferences? How can they be satisfied 'wonderfully well'? How can costs be trimmed in the process?

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Table 2.5: Aspects of the resource audit

Resource/function	Key considerations
Marketing	Products and services: range, brand names and stage in life cycle Patents. Strength of sales-force Distribution channels Market information
Operations	Location and plant Capital equipment Capacity Processes Planning and manufacturing systems Quality control Supplies.
Research and development	Annual budget Technology support Quality of researchers Record of success and reputation Spending in relation to industry norm.
Information	Organizational knowledge and extent of sharing Information systems Problem-solving capabilities and procedures
Finance	Capital structure Working capital Cash flow Costing systems and variances Nature of shareholders Relations with bankers
Human resources	Numbers and qualifications Skills and experience Age profile Labour turnover and absenteeism Flexibility Development and training record and pohoes Motivation and culture Managerial competencies and capacity

As the Internet becomes more pervasive in our lives some organizations and industries are being presented with wonderful opportunities and, at the same time, real threats. Book

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retailing has changed with the growth of Amazon.com and the opening of online bookshops by the leading book retailers. Similarly, domestic banking has been changed with the growth of ATMs (automated teller machines or 'holes in the wall'), telephone call centres and Internet accounts. Competitors have had to develop new skills, competencies and capabilities in order to survive, let alone thrive. The challenge, though, did not stop here. It has also been necessary to clarify the key success factors for those customers who opted to avoid the Internet and stick with a personal service. What exactly are their needs and preferences? How can they be satisfied 'wonderfully well'? How can costs be trimmed in the process?

Sometimes the value and constituency of these networks and partnerships can be hard to quantify or even explain. They owe a lot to people and to their history. They are relationships which emerge and strengthen over many years and are dependent upon personal relations and interactions. This often serves to make them even more powerful as they are automatically difficult to replicate. Consequently, architecture can be a vital element of competitive advantage.

As more and more organizations opt to focus on core strengths, activities and competencies, and divest those that are peripheral, the significance of architecture is reinforced and increased. When companies outsource important services such as information technology (IT) or payroll management, or choose to buy in key components they once made for themselves, they need to be able to rely upon, and trust, their new suppliers. Managing relationships, therefore, becomes an important new capability. Some organizations, of course, have chosen to outsource their manufacturing. Dyson has switched its manufacturing to Malaysia to reduce costs. Royal Doulton (china) now focuses on design and marketing and outsources production from Indonesia. Dr Martens boots and shoes are made in China. Hornby, manufacturer of model electric trains and Scalextrix car racing systems, also manufactures in China. However, this move was not directed at reducing costs, per se. Hornby found it could devote two labour hours for every one used in the UK and thus produce models with much higher quality and detail at the same total cost. Without changing its prices, Hornby has seen its sales grow rapidly because of the greater authenticity.

At the same time the company has been innovatory with new products. For example, both Eurostar and the Hogwarts Express from the Harry Potter stories provided new sales opportunities. Buckingham and Coffman (1999) also draw attention to the importance of architecture in their delineation of four levels of customer service. Level 1 is accuracy and level 2, availability. These, they argue, have to be seen as the relatively easy levels, and are generally taken for granted. In other words, without them, a company cannot hope to win repeated business. Levels 3 and 4 are working partnerships and the provision of advice and support. These relate to strategic architecture.

The 'people contribution'

Successful organizations meet the needs and expectations of their customers more effectively than their competitors; at the same time, they generate acceptable financial returns. Achieving these outcomes requires competent and committed people. People, then, are critically important strategic resources. Successful companies will be able to attract, motivate, develop, reward and keep skilled and competent managers and other employees. They will be able to create and implement strategic changes in a supportive culture. People need to be used and stretched to get the best out of them but, correspondingly, they need to be looked after and rewarded.

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However, even successful companies have lean periods, and when these occur, they will again be able to retain their most important people. There is no one best way of achieving this.

Everything that an organization does, in the end, depends on people. Although technology and IT can make a major strategic impact, it is people who exploit their potential. Managers and employees are needed to implement strategies and to this end they must understand and share the values of the organization. They must be committed to the organization and they must work together well. At the same time, where an organization is decentralized and operating in a turbulent environment, the strategic leader will rely on people to spot opportunities and threats, to adapt and create new strategies.

Consequently, it is people who ultimately determine whether or not competitive advantage is created and sustained. Adding new values with innovation, they can be an opportunity and a source of competitive advantage; equally, unenthusiastic, uncommitted, untrained employees can act as a constraint. People's capabilities are infinite and resourceful in the appropriate organizational climate. The basic test of their value concerns how much they – and their contribution – would be missed if they left or, possibly worse, left and joined a competitor. They could take customers with them and not be easily replaced.

Achieving the highest level of outcomes that people are capable of producing will therefore depend upon the human resource practices adopted by the organization. While the issues are clear and straightforward – they involve selection, training, rewards and work organization – there is no single best approach to the challenge. A relatively formal, 'hard' approach can prove very successful in certain circumstances; other organizations will derive significant benefits from a 'softer', more empowered style. One issue here is whether the business is being driven by a small number of identifiable, key decision- makers or by the employees collectively. It is worth considering whether either of the market-driven (the E in E–V–R Congruence) and resource-based (R) views of strategy truly explain what has happened as Semco. Arguably the real driving force behind the changes has been values. Semler, in effect, deregulated Semco, allowing people the freedom to choose how they would work. Certain policies regarding competitiveness guided appropriate behaviour.

To bring out the best in people, they have to be managed well, and this requires leadership. A useful metaphor is that of an orchestra. Every member (manager/employee) is a specialist, with some making a unique contribution which, on occasions, can take the form of a solo performance. Nevertheless, all the contributions must be synthesized to create harmony (synergy), which is the role of the conductor (strategic leader). A single musician (weak link) can destroy a performance; a chain is only as strong as its weakest link. A successful organization, therefore, needs people with appropriate skills and competencies who can work together effectively. People must be:

- committed (commitment can be improved)
- competent (competencies can be developed, and can bring improved product quality and productivity)
- cost-effective (ideally costs should be low and performance high, although this does not imply low rewards for success)
- in sympathy with the aims of the organization (are the values and expectations of all parties in agreement?)

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SUMMARY

- Environmental scanning plays an important role in the business process of an organization. There are many advantages of performing environmental analysis that helps the organization to stay safe from the business loss and to stay ahead in the competition.
- The environmental analysis helps us to determine whether the resources such as human resource, capital resource, etc. are being used properly or not. It helps us to curb down the wastage of these important resources.
- Environmental scanning is conducted to collect data on for the various areas such as competition, employment trends. Geopolitical climate, economic condition, industry, technological advancement, industry, and global opportunities, etc.
- Environmental scanning in strategic management includes forecasting the state of the future and therefore includes statistical methods
- Industry analysis is defined as an assessment tool designed to offer business entity a comprehensive idea about the complex nature of a specific industry. It includes reviewing the market, political, and economic factors that have a direct impact on the development of an industry.
- Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment.
- SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.
- Industry analysis, as a form of market assessment, is crucial because it helps a business understand market conditions. It helps them forecast demand and supply and, consequently, financial returns from the business.
- Competitive intelligence is an important aspect of strategic management. It helps decision makers measure their performance against rivals and make effective future strategies.
- ETOP analysis (environmental threat and opportunity profile) is the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.
- Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas.
- The OCP is drawn in the form of a chart, the strategists are required to systematically assess the various functional areas and subjectively assign values to different functional capacity factored and sub factor as long a scale ranging from values of -5 to +5.
- The strategic advantage profile (SAP) is a tool for making a systematic evaluation of the

enterprises internal factors which are significant for the company in its environment. The SAP shows the strengths and weakness of an organization in different functional areas.

- A corporate portfolio analysis takes a close look at a company's services and products. Each segment of a company's product line is evaluated including sales, market share, cost of production and potential market strength.
- Resource-based view is a strategic theory beneficial for understanding why companies outperform other competitors. It is a commonly adopted analytical method used to determine the strengths and limitations of an organization and evaluate the firm's workforce.
- The value-chain approach aims to identify hotspots and shape corresponding actions built on existing knowledge and available data. It provides a framework applicable to different sectors, products and geographical scales.

KEY WORDS

Choosing Personnel: Commonly termed as the EAU(Environmental Analysis Unit) is a set of chosen people who focus on the analysis and deliver the results to strategists. However, it's not always necessary to have an extra section for the research work but a special task force is established as mentioned.

Competitive Intelligence: It is a process that not many companies seriously consider but all of them can benefit from its accomplishments.

Corporate culture: It is the collection of beliefs, expectations, and values learned and shared by corporation's members and transmitted from one generation of employees to another.

Environmental scanning: It is an important part of the business process as it is the responsibility of an organization to keep a check on things which can put negative impacts on their business and their consumers.

Forecasting: It means predicting the future events and analyzing their impact on present plans business organizations analyze the environment but applying various techniques to forecast government is used to formulate business plans and strategies.

Intangible Assets: Intangible assets are resources that are owned by respective organizations and which do not have a physical presence. It includes brand presence, intellectual property, goodwill, trademarks, etc.

Portfolio analysis: It is an analytical tool which views a corporation as a basket or portfolio of products or business units to be managed for the best possible returns.

Strategic Advantage Profile: It is the technique of analyzing the internal factor of the organization by preparing a critical picture of different capacity factors. It is a relative strength of the company over its competitors.

Strategic budgeting: It is the process of creating a long-range budget that spans a period of more than one year. The intent behind this type of budgeting is to develop a plan that supports a long-range vision for the future position of an entity.

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- **Tangible Assets:** The tangible assets are the physical resources of the firm that are quantifiable. It includes products, machinery, equipment, capital, infrastructure, etc.

Trigger: The term refers to the event that tends the industry to start with the changes or a desire for data. The factors can be outside or inside the organisation like a change in government policy.

Value chain approach: The value chain concept is based on the process view of organizations. It is an idea of considering a manufacturing (or service) organization as a dynamic system, made up of various subsystems each with inputs, transformation processes and outputs.

Industry analysis: It is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services.

Review Questions

1. What do you mean by environmental scanning? What are the steps in environmental scanning?
2. Explain the importance of environmental scanning in entrepreneurship.
3. What are the basics of environmental scanning as part of the strategic planning process?
4. What is industry analysis? How does industry analysis affect strategy formulation?
5. What is competitive intelligence? What are the main components of competitive intelligence?
6. How is competitive intelligence useful to organizations and how does it help managers make decisions?
7. What is corporate portfolio analysis in strategic management?
8. Explain Balanced Scorecard Strategic advantage profile (SAP).
9. Explain Environmental Threat and Opportunity Profile (ETOP).
10. Explain Organizational Capability Profile (OCP).

FURTHER READINGS

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UNIT 3

SWOT / SWOC ANALYSIS

Structure

3.0 LEARNING OBJECTIVES

After reading this chapter students will be able to:

- explain SWOT/ SWOC Analysis
- discuss about TOWS Matrix
- explain various corporate strategist: growth/expansion
- describe diversification and stability
- know about retrenchment & combination strategy.

3.1 INTRODUCTION

A scan of the internal and external environment is an important part of strategic planning process. Environmental factors internal to the firm usually can be classified as strengths [S] or weakness [W] and those external to the firm can be classified as opportunities [O] or threats [T]. Such analysis of the strategic environment is referred to as a SWOT analysis.

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It involves the collection and portrayal of information about internal and external factors which have or may be have, an impact on business.

3.2 SWOT ANALYSIS

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

Meaning

SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a business. It involves specifying the objective of the business and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

Technique is credited to Albert Humphrey, who lends a research project at Stanford University in 1960's and 1970's.

It is a non-financial planning tool. It links the analysis in terms of advantages and disadvantages; and the internal and external business environment (in a matrix format). The Strengths and Weaknesses are defined by measures such as market share, loyal customers, level of customer satisfaction and product quality. Opportunities are new potential areas for business in the future, such as new markets, or new conditions in existing markets. Threats describe how the competition, new technology, or other factors in the business environment may affect the business's development. A technique that enables a group or individual to move from everyday problems and traditional strategies to a fresh prospective. SWOT analysis looks at your strengths and weaknesses, and the opportunities and threats your business faces.

The SWOT Analysis framework is a very important and useful tool to use in marketing Management and other business applications. As a basic tool its mastery is a fundamental requirement for the marketer, entrepreneur or business person. A clear understanding of SWOT is required for business majors.

- It is used as framework for organizing & using data & information gained from situation analysis of internal & external environment.

Factors of SWOT Analysis

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below:

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Strengths

Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

- Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

Weaknesses

Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

Opportunities

Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

Threats

Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

Aim of SWOT Analysis

- To help decision makers share and compare ideas

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- To bring a clearer common purpose & understanding of factors for success
- To organize important factors linked to success & failure in the business world
- To provide linearity to decision making process allowing complex ideas to be presented systematically.

Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner:

- It is a source of information for strategic planning.
- Builds organization's strengths.
- Reverse its weaknesses.
- Maximize its response to opportunities.
- Overcome organization's threats.
- It helps in identifying core competencies of the firm.
- It helps in setting of objectives for strategic planning.
- It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include:

- Price increase;
- Inputs/raw materials;
- Government legislation;
- Economic environment;
- Searching a new market for the product which is not having overseas market due to import restrictions; etc.

- Internal limitations may include-
- Insufficient research and development facilities;
- Faulty products due to poor quality control;
- Poor industrial relations;
- Lack of skilled and efficient labour; etc

Who Needs SWOT Analysis?

They are:

1. Job Holder
    - When supervisor has issues with work output
    - Assigned to a new job
    - New financial year – fresh targets
    - Job holder seeks to improve performance on the job
2. Business
    - When the team has not met its targets
    - Customer service can be better
    - Launching a new business unit to pursue a new business
    - New team leader is appointed
3. Company
    - When revenue, cost & expense targets are not being achieved
    - Market share is declining
    - Industry conditions are unfavorable
    - Launching a new business venture

How to Use the Tool

To carry out a SWOT analysis, write down answers to the following questions where appropriate, use similar questions & whenever possible, consider your answers from your own point of view & from the point of view of the people you deal with.

Strengths:

- What advantages does your company have?
- What do you do better than anyone else?
- What unique or lowest-cost resources do you have access to?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?

Weaknesses:

- What could you improve?
- What should you avoid?

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- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

Opportunities:

- Where are the good opportunities facing you?
- What are the interesting trends you are aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes.
- Local events.

Threats:

- What obstacles do you face?
- What is your competition doing that you should be worried about?
- Are the required specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

Therefore, finally carrying out this analysis will often be illuminating both in terms of pointing out what needs to be done and in putting what we might see as a problem into perspective. You can then use a simple matrix.

FACTORS	POSITIVE	NEGATIVE
INTERNAL	STRENGTH	WEAKNESS
EXTERNAL	OPPORTUNITIES	THREATS

3.3 SWOC ANALYSIS

A SWOC analysis is a strategic planning tool that can be used during the curriculum assessment and review process to make informed decisions based upon collective input from multiple stakeholders. Within the context of curriculum development, a SWOC analysis can be used as a powerful framework to discuss and clearly identify the strengths, weaknesses, opportunities and challenges related to an existing degree program or major (see for example Henzi et al., 2007; and Gordon et al, 2000). The objective of conducting a SWOC analysis (in conjunction with other curriculum assessment tools) is to develop key areas of focus for improving the curriculum. The SWOC analysis is particularly effective when conducted in collaborative group settings at the early stages of the curriculum assessment process (e.g. faculty retreats, student, alumni and/or future employer focus groups).

SWOC analysis is a strategic planning method used to research external and internal factors which affect company success and growth. Firms use SWOC analysis to determine the strengths, weaknesses, opportunities, and challenges of their firm, products, and competition.

SWOC analysis is relevant to SWOT analysis. SWOT examines strengths, weaknesses, and opportunities. But it focuses on threats rather than challenges. The two are similar but they do have their differences, which is why firms may choose to use SWOC or SWOT.

Why is a SWOC analysis important?

A SWOC analysis is a simple yet powerful way to look at the present situation and help you identify your comparative advantages and possible ways to improve performance.

Table 3.1 SWOC Matrix, including guiding questions

	Factors likely to lead to positive change and further improvement in the quality of the program	**Factors which may compromise further improvement in the quality of the program**
	Strengths	**Weaknesses**
FACTORS **Inside the Program (Internal Attributes)**	What have been the strengths of our program? What are we known for? What are we most proud of? What are we doing well? What/ who are our key resources and exemplars? What do we control (people, resources, knowledge) that gives us an advantage? What resources or capabilities allow us to meet our mandate/mission? What positive aspects of the program have students/faculty or others commented on?	What are we doing poorly or struggling with? What frustra-tions/ challenges have students/faculty expressed? What do we need to fix? What are the internal weaknesses and deficiencies in resources or capabilities that may be hindering the program's ability to accomplish it mission/mandate?
	Opportunities	**Challenges**
Outside the Program (External Attributes)	What opportunities will most dramatically enhance the quality of our program? What changes in demand do we expect to see over the next years? What key environmental/ market factors may positively impact the program? Where can we create more value for the program? What external or future opportunities exist for the program? What are some key areas of untapped potential?	What are the key challenges or threats to the quality of our program that need to be addressed? What are others doing that we are not? What future challenges may affect the program? What external or future challenges or threats does the program face?

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3.4 TOWS MATRIX

TOWS Matrix begins with an audit of external threats and opportunities. Such scrutiny gives a clear insight and helps to adopt long term strategies. Thereafter, the internal strengths and weaknesses of a company are taken into consideration. In the next stage, the internal analysis gets intertwined with external analysis to devise a strategy.

TOWS Analysis goes way beyond the conventional SWOT Analysis and aids organizations to remain one step ahead in the ever-changing competitive landscape. The TOWS Matrix can also help in the generation of amazing ideas in relation to fruitful marketing strategies, decision-making, protection against threats, opportunities, diminishing threats, overcoming weaknesses and awareness regarding potential shortcomings.

		INTERNAL FACTOR	
		Strength (S)	Weakness (W)
EXTERNAL FACTOR	Opportunities (O)	Strength/ Opportunities (SO)	Weakness/ Opportunities (WO)
	Threats (T)	Strength/Threats (ST)	Weakness/ Threats (WT)

Figure 3.1 The TOWS Matrix

Although internal and external factors are incompatible features, there still exists a balance between them. Strengths and Weaknesses fall under internal factors and consist of HR policies, manufacturing processes, goals and objectives, attributes of the products and services offered to the target market, core values, work culture, staff, and fundamentals of the company.

On the contrary, Opportunities, and Threats fall under external factors and consists of government policies, dynamic nature of the market, evolving tastes and preferences of the customers, competition in the market, fluctuation rates of the raw materials required for the production and etcetera.

Now, we will move on to the discussion where we will discuss the four potential strategies of the TOWS Matrix. The four TOWS strategies are:

- Strength/Opportunity (SO)
- Weakness/Opportunity (WO)
- Strength/Threat (ST)
- Weakness/Threat (WT)

Strengths and Opportunities (SO) / Maxi-Maxi Strategy

The aim of a Maxi-Maxi Strategy is to utilize internal strengths to make optimum use of the external opportunities available to the company. In other words, the company has to utilize the strengths by using its resources to cash in on potential opportunities.

Example: If a company has reasonably established a brand name in the market and has won the hearts of the consumers, there lies a golden opportunity to explore the new market locations or introducing a new line of products and services for the same target market. Such a step can turn out to be the best for the upliftment of the firm.

Strengths and Threats (ST) / Maxi-Mini Strategy

The aim of a Maxi-Mini strategy is to maximize the strengths of a company while minimizing the threats with the support of these strengths. Thus, a company should take advantage of the internal strengths to avoid massive external threats. This strategy indicates that the management of the organization can employ all the internal strengths to counter any of the possible threats that can come in the way of the business as obstacles.

Example: In the market, there is always a cut-throat competition amongst peers or, between new and old entrants. In such a scenario, to beat the competition, the lagging company needs to take advantage of the internal strengths such as quality, manufacturing techniques, legacy and customer service.

Weakness and Opportunities (WO) / Mini-Maxi Strategy

The Mini-Maxi strategy attempts to minimize the weaknesses and to maximize the opportunities. The aim is to revamp internal weaknesses by making use of external opportunities. The management of the company will detect various alternatives to look past the weaknesses and take control of the opportunities that come up in the course. It is always a wise decision to decline or correct the weaknesses and untap the opportunities.

Example: If the company doesn't possess any expertise in any of the business domains which is necessary for the growth and is gifted an opportunity to ally with another company that has the needed expertise, it works as a fairly convenient situation for both the companies.

Weakness and Threats (WT) / Mini-Mini Strategy

The aim of the Mini-Mini strategy is to minimize weaknesses and minimize threats. This is definitely the most defensive spot in the TOWS Matrix. It is mostly utilized when a company is in a deplorable position. In such a scenario, the company operates in an aggressive environment and has little or no development opportunities. The mini-mini strategy is nothing but a pessimistic style of liquidation of a company.

Example: A company has lost its shine and glory and has lost the faith of the stakeholders. Thus, there exists a threat of losing out on funding and investment by investors. In this case. it might close down poor-selling products, cut down underperforming employees and build a hostile technique of selling. If optimistic, the company might look for merging with another suitable company to leverage its expertise and resources for hanging on to funding.

TOWS Matrix – Apple INC

Let us now apply these four strategies of TOWS Analysis to a famous company called Apple.

Apple Inc. is an American multinational organization specialized in technology and has its headquarters in Cupertino, California. Apple fabricates, builds and sells computer software, electronic products, and online services. The tech giant was established by Steve Jobs, Ronald

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Wayne, and Steve Wozniak in April 1976. It is considered as the world's largest technology company by means of revenue and is also one of the world's most valuable companies.

According to statistics, it is the world's third-largest mobile phone manufacturer after Samsung and Huawei. Apple's renowned products consist of the iPad tablet computers, HomePod smart speaker, iPod portable media player, iPhone smartphone, Mac personal computer, Apple Watch smartwatch, AirPods wireless earbuds, and Apple TV digital media player. The online services provided by Apple are iTunes Store, Mac App Store, Apple TV+, iCloud, Apple Music, the iOS App Store, and Apple TV+. In Fiscal YEAR 2018, the worldwide revenue of Apple totaled to $265 billion.

The strengths, weaknesses, opportunities, and threats of Apple are mentioned below. After glancing through them, we will begin performing our TOWS Matrix according to the rule.

Strengths

- Apple is known as a Market leader and thus, maintains a high standard across several products and services. It is the most trusted brand in the entire marketplace.
- It has a strong brand image and thus helps the audience to differentiate Apple from other competitors and positively influences the purchasing decisions.
- It possesses extensive financial strength and thus has higher profitability and liquidity.
- Apple has also a highly innovative and highly sophisticated supply chain which helps in maintaining efficiency.
- It also has High-profit margins because of the consistent sales of its popular products.
- The premium quality of its products allows Apple to enjoy a large and loyal customer base.

Weakness

- Apple Products are not priced by keeping the competition in mind and can be afforded by a certain section or class.
- There is an availability of a narrow product range compared to its competitors.
- The products and services are only compatible with Apple products and are incompatible with the products of other brands.

Opportunities

- There is a constant rise in demand and craze for mobile devices irrespective of the quoted price.

Threats

- In spite of being market leaders, there has been an emergence of competitors.
- The cost of manufacturing has been constantly on the rise.
- There has been also a decline in the market share of Apple due to the falling demand of Laptops and Personal Computers.

Strengths and Opportunities (SO) of Apple

Since there has been an increase in demand for mobile devices, the company should increase its focus by concentrating on manufacturing and marketing to generate profit. Apple should also leverage its brand value and financial strength to enter into new products and consequently increase their sales and profit. Such a step will aid Apple benefit from its existing customer base and customer loyalty. Further, if it partners with other brands to mass-produce compatible products and create mutually advantageous relationships, it will highly assist Apple in hack into the customer base of other brands.

Strengths and Threats (ST) of Apple

Apple should build a diversified range of products to fabricate its customer base and diminish the pressure of competitiveness. Another most important point is to consider the cultural variance to retain the competitive advantage created by Steve Jobs.

Weakness and Opportunities (WO) of Apple

Since Apple has only high-end products, it should release a cluster of products at an affordable price to make it feasible for middle-class consumers. Creating a larger product sets and thereby, entering into a new product arena will also help Apple to serve new customer segments.

Weaknesses and Threats (WT) of Apple

Releasing a range of competitively priced products to attract middle-class customers can change the scenario altogether to reduce the pressure from competitors. It should also widen the product sets and try to cash in on the capability of the existing supply chain to decrease the manufacturing costs.

Advantages & Disadvantages of TOWS Analysis

We will now elaborate on the major pros and cons of TOWS Analysis.

Advantages of TOWS Matrix

- TOWS Analysis helps to stumble upon strategic ideas by interconnecting the internal and external factors for the organizations.
- It is cost-effective in nature.
- It's user-friendly and can be performed by any layman after learning a few parameters.
- TOWS Analysis can be applied to any company irrespective of the industries and economies.
- It helps organizations to upgrade their strategies with changing dynamics.

Disadvantages of TOWS Matrix

- TOWS analysis becomes tough to handle if we are overloaded with information.
- On many occasions, TWOS Matrix doesn't take the ever-changing competitive environment into consideration and can affect the main agenda of finding out strategies for business in attaining elevated profits, higher sales, creation of brand value and etcetera.

3.5 VARIOUS CORPORATE STRATEGIST: GROWTH/EXPANSION

One of the major competitive tactics that firm adopt to enhance position in market place is growth strategies (Harrison, 2013). It is documented in bulk of studies that growth of

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organization is related to economic development due to processes taking place within the firm (Penrose, E.T, 1959). The more firms grow the more resources they can access, thus firm growth is considered as a path dependent process (Akpinar, 2009). The resource-based view considers a firm's own set of resources and ability as the driver of growth and states that a firm predicts the growth strategies based on its resources and competencies (Otto and Low 1998). These strategies seek an increase in size and the expansion of current operations. There are some approaches companies must use to execute a growth strategy. The method a company uses to expand its business is mainly contingent upon its financial position, the competition and even government directive. Some general growth strategies in business include market penetration, market expansion, product expansion, diversification and acquisition.

Types of Growth Strategies

Two types of growth strategies are developed that include Internal and External.

Internal growth strategy

Internal growth strategies perform several actions that include Designing and developing new products/services, building on existing products/services for new opportunities, increase sales of products/services through better market reach, expanding existing product lines and service offerings, reaching out for new markets and expansion into foreign markets.

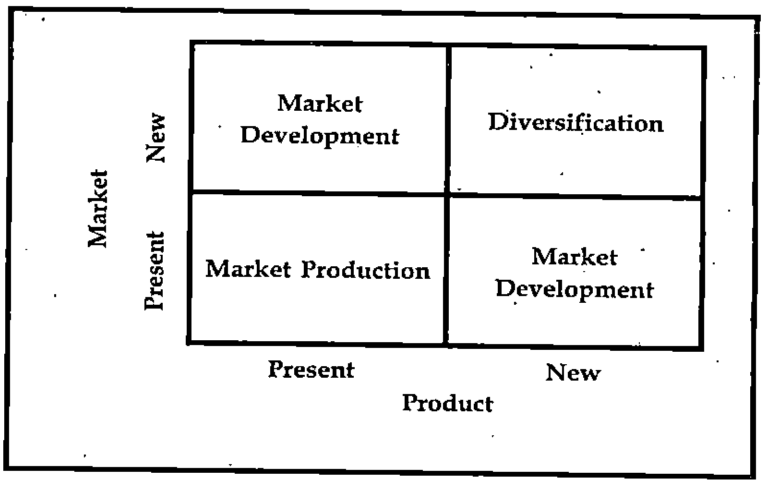

Figure 3.2 Ansoff product market growth strategy

Ansoff product marketing expansion grid: The Ansoff product and market growth matrix is a marketing planning device which generally assists a business in determining its product and market growth. This is usually determined by focusing on whether the products are new or existing and whether the market is new or existing. The model was developed by H. Igor Ansoff. Ansoff. The Ansoff Matrix has four alternatives of marketing strategies that include Market Penetration, product development, market development and diversification.

Market penetration: This usually covers products that are also existent in an existing market. In this tactic, there can be further exploitation of the products without necessarily changing the product or the outlook of the product. Market penetration happens when a company penetrates a market in which current products already exist. These strategies

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enable the business to compete head to head with incumbents in the market. Market Penetration boost sales through effective marketing strategies within the current target market to maintain or grow the market share of the current product range, become the leading player in the growth markets, drive out competitors, increase the usage of a company's products by its current customers.

Market development: It identify new market segments for existing products (Harrison, 2013). Market development strategy involves in expanding the current market through new users. Market Development expand sales in new markets through expanding geographic representation. An organizations current product can be changed, improved and marketed to the existing market. The product can also be targeted to another customer segment.

Product development: These strategies modify existing products (Harrison, 2013). Product Development strategies enhance sale through new products/services. An organization that already has a market for its products might try and follow a strategy of developing additional products, aimed at its current market.

Integration

Vertical integration: Vertical Integration is the degree to which a firm owns its upstream suppliers and its downstream buyers. It increases business activity by moving forward or backward on the industry supply chain and it may also be achieved through external growth in the form of joint venture or acquisition.

Horizontal integration: Horizontal integration is the addition of other business activities of same level of value chain. Horizontal integration is an approach where a company acquires, mergers or takes over another company in the same industry value chain. The main objective of horizontal integration is to grow the company in size, increase product differentiation, achieve economies of scale, decrease competition or enter new markets. Advantages of Horizontal Integration include Economics of scale, Selling more of the same product in different parts of the world, Economics of Scope, Sharing resources common to different products.

Main disadvantages of Horizontal Integration are costs increased work load Increased, responsibilities Anti-trust issues and creating a monopoly. There are three types of Vertical Integration. Backward (upstream) vertical integration is when a company owns some of the subsidiaries that produce some of the inputs used in the production of its products. Forward vertical integration is when a company owns the subsidiaries that market the product. Balanced Vertical Integration is a company that sets up subsidiaries that supply them with inputs as well as market their product. Advantages of Vertical Integration include reduce transportation cost, improve supply chain coordination, more opportunities to differentiate by means of increased control of inputs, capture upstream and downstream profits and increase entry barriers to potential rivals. Disadvantages of Vertical Integration include potentially higher cost due to the lack of supplier competition, Decreased Flexability, developing new competencies may compromise existing competencies, increase bureaucratic costs and monopolization of markets.

Diversification: Diversification is dominant business strategy that intends to increase productivity through greater sales volume obtained from new products or new markets. Diversification Strategy is the enlargement of new products in the new market. Diversification strategy is implemented by the company if the current market is saturated

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due to which revenues and profits are lower. Diversification is considered as the most risky since it requires both product and market development and they may be outside the firm's core competencies. A firm may expand if current product lines do not have much growth potential, or if current operations are not profitable. There are two basic diversification strategies that include concentric/related and conglomerate/unrelated diversification (Hunger and Wheelen, 2009). In related diversification, the business remains in the same industry in which it is familiar with. Related diversification occurs when a firm enters into strategic business area by adding products or services, which are related to the existing core SBA.

The objective of related diversification is to accomplish strategic fit, which allows a firm to achieve synergy. Synergy is the ability of two or more businesses to produce more profits together than they could separately. According to Hunger and Wheelen (2009), this strategy may be suitable if a firm has a tough competitive position but current industry attractiveness is low. Related diversification can be categorized by the direction of diversification, vertical integration (backward and forward) and horizontal integration. Backward integration is described as the firm diversifies closer to the sources of raw materials in the stages of production. It allows a firm to control over the quality of the supplies being purchased (Thomas, 2010).

Unrelated diversification occurs when a firm enters into new SBAs which are not linked to the existing core SBA, either through technology or market needs (Ansoff, 1987, Pp:123). Synergy may result through the application of management capability or financial resources, but the main purpose is to obtain valuable assets that will increase profitability (Thomas, 2010). If unrelated diversified businesses seem to grow faster, the track record of diversification remains poor as in many cases especially if management team lacks experience or skill in the new line of business (Porter, 1987). A firm cannot precisely evaluate the industry's potential, and problems will ultimately occur even the new business is initially successful. In unrelated diversification, there are generally no previous industry relations or market experiences. One can diversify from a food industry to a mechanical industry for instance.

External Growth Strategies

Strategic alliances: A strategic alliance is a form of affiliation that involves a mutual sharing of resources or 'partnering' to improve efficiency. In strategic alliances, the focus is on 'sharing' of resources rather than seeking change in control. Equity investment in each other's company is not any focus. Merger: In merger two firms agree to move ahead and exist as a single new company. Merger can be merger of equals, both companies are of equal sizes, large company merge with smaller one voluntary process and consent of both companies.

Joint venture: A joint venture is mainly a partnership that creates a new entity to which the parties contribute personnel, equipment, cash, intellectual property or other assets. The venture parties agree to a governance structure to manage the entity and a formula to share its revenues, costs and profits. A joint venture can be organized to execute a project for a defined period of time or can be a business relationship that is intended to be open-ended. An entity formed between two or more parties to undertake a specified activity together. Parties agree to create a new entity by both contributing equity, and they then share revenue, expenses, and control of the enterprise. A joint venture can be a good way for an emerging middle market company to diversify its product line and marketing channels, commercialize new products and services, explore entering new markets, acquire new market knowledge, share investments in projects that carry high business or technical risk, increase its ecosystem and sphere of influence.

Acquisition: Acquisition is a deal when one company takes over another company and buyer becomes sole proprietor.

Expansion Strategies

Every enterprise seeks growth as its long-term goal to avoid annihilation in a relentless and ruthless competitive environment. Growth offers ample opportunities to everyone in the organization and is crucial for the survival of the enterprise. However, this is possible only when fundamental conditions of expansion have been met. Expansion strategies are designed to allow enterprises to maintain their competitive position in rapidly growing national and international markets. Hence to successfully compete, survive and flourish, an enterprise has to pursue an expansion strategy. Expansion strategy is an important strategic option, which enterprises follow to fulfill their long-term growth objectives. They pursue it to gain significant growth as opposed to incremental growth envisaged in stability strategy. Expansion strategy is adopted to accelerate the rate of growth of sales, profits and market share faster by entering new markets, acquiring new resources, developing new technologies and creating new managerial capabilities.

Expansion strategy provides a blueprint for business enterprises to achieve their longterm growth objectives. It allows them to maintain their competitive advantage even in the advanced stages of product and market evolution. Growth offers economies of scale and scope to an organization, which reduce operating costs and improve earnings. Apart from these advantages the organization gains a greater control over the immediate environment because of its size. This influence is crucial for survival in mature markets where competitors aggressively defend their market shares.

Conditions for Opting for Expansion Strategy

Firms opt for expansion strategy under the following circumstances:

- When the firm has lofty growth objectives and desires fast and continuous growth in assets, income and profits. Expansion through diversification would be especially useful to firms that are eager to achieve large and rapid growth since it involves exploiting new opportunities outside the domain of current operations.
- When enormous new opportunities are emerging in the environment and the firm is ready and willing to expand its business scope.
- Firms find expansion irresistible since sheer size translates into superior clout.
- When a firm is a leader in its industry and wants to protect its dominant position.
- Expansion strategy is opted in volatile situations. Substantive growth would act as a cushion in such conditions.
- When the firm has surplus resources, it may find it sensible to grow by levering on its strengths and resources.
- When the environment, especially the regulatory scenario, blocks the growth of the firm in its existing businesses, it may resort to diversification to meets its growth objectives.

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- When the firm enjoys synergy that ensues by tapping certain opportunities in the environment, it opts for expansion strategies. Economies of scale and scope and competitive advantage may accrue through such synergistic operations. Over the last decade, in response to economic liberalisation, some companies in India expanded the scale of existing businesses as well as diversified into many new businesses.

Growth of a business enterprise entails realignment of its strategies in product – market environment. This is achieved through the basic growth approaches of intensive expansion, integration (horizontal and vertical integration), diversification and international operations. Firms following intensification strategy concentrate on their primary line of business and look for ways to meet their growth objectives by increasing their size of operations in this primary business. A company may expand externally by integrating with other companies. An organization expands its operations by moving into a different industry by pursuing diversification strategies. An organization can grow by "going international", i.e., by crossing domestic borders by employing any of the expansion strategies discussed so far.

Expansion Through Intensification

Intensification involves expansion within the existing line of business. Intensive expansion strategy involves safeguarding the present position and expanding in the current product-market space to achieve growth targets. Such an approach is very useful for enterprises that have not fully exploited the opportunities existing in their current products-market domain. A firm selecting an intensification strategy, concentrates on its primary line of business and looks for ways to meet its growth objectives by increasing its size of operations in its primary business. Intensive expansion of a firm can be accomplished in three ways, namely, market penetration, market development and product development first suggested in Ansoff's model.

Intensification strategy is followed when adequate growth opportunities exist in the firm's current products-market space. However, while going in for internal expansion, the management should consider the following factors:

- While there are a number of expansion options, the one with the highest net present value should be the first choice.
- Competitive behaviour should be predicted in order to determine how and when the competitors would respond to the firm's actions. The firm must also assess its strengths and weaknesses against its competitors to ascertain its competitive advantages.
- The conditions prevailing in the environment should be carefully examined to determine the demand for the product and the price customers are willing to pay.
- The firm must have adequate financial, technological and managerial capabilities to expand the way it chooses.
- Technological, social and demographic trends should be carefully monitored before implementing product or market development strategies. This is very crucial, especially, in a volatile business environment.

Ansoff's Product-Market Expansion Grid

The product/market grid first presented by Igor Ansoff (1968), shown in Table 3.2, has proven to be very useful in discovering growth opportunities. This grid best illustrates the various intensification options available to a firm. The product/market grid has two dimensions, namely, products and markets. Combinations of these two dimensions result in four growth strategies. According to Ansoff's Grid, three distinct strategies are possible for achieving growth through the intensification route. These are:

Market Penetration: The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its markets share.

Market Development: The firm seeks growth by targeting its existing products to new market segments.

Product Development: The firm develops new products targeted to its existing market segments.

Diversification: The firm grows by diversifying into new businesses by developing new products for new markets.

Table 3.2 Ansoff's Grid

Markets/Products	Current Markets	New Markets
Current Products	Market Penetration	Market Development
New Products	Product Development	Diversification

Market Penetration

When a firm believes that there exist ample opportunities by aggressively exploiting its current products and current markets, it pursues market penetration approach. Market penetration involves achieving growth through existing products in existing markets and a firm can achieve this by:

- Motivating the existing customers to buy its product more frequently and in larger quantities. Market penetration strategy generally focuses on changing the infrequent users of the firm's products or services to frequent users and frequent users to heavy users. Typical schemes used for this purpose are volume discounts, bonus cards, price promotion, heavy advertising, regular publicity, wider distribution and obviously through retention of customers by means of an effective customer relationship management.
- Increasing its efforts to attract its competitors' customers. For this purpose, the firm must develop significant competitive advantages. Attractive product design, high product quality, attractive prices, stronger advertising, and wider distribution can assist an enterprise in gaining lead over its competitors. All these require heavy investment, which only firms with substantial resources, can afford. Firms less endowed may search for niche segments. Many small manufacturers, for instance, survive by seeking out and cultivating profitable niches in the market. They may also grow by developing highly specialized and unique skills to cater to a small segment of exclusive customers with special requirements.
- Targeting new customers in its current markets. Price concessions, better customer service, increasing publicity and other techniques can be useful in this effort.

In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. While following market penetration strategy, the firm continues to operate in the same markets offering the same products. Growth is achieved by increasing its market share with existing

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products. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Unless there is an intrinsic growth in its current market, this strategy necessarily entails snatching business away from competitors. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. Another advantage of this strategy is that it does not require additional investment for developing new products.

Market Development Strategy

Market Development strategy tries to achieve growth by introducing existing products in new markets. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment or when new markets offer better growth prospects compared to the existing ones. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. This is because managers do not normally possess sound knowledge of new markets, which may result in inaccurate market assessment and wrong marketing decisions.

In market development approach, a firm seeks to increase its sales by taking its product into new markets. The two possible methods of implementing market development strategy are, (a) the firm can move its present product into new geographical areas. This is done by increasing its sales force, appointing new channel partners, sales agents or manufacturing representatives and by franchising its operation; or (b) the firm can expand sales by attracting new market segments. Making minor modifications in the existing products that appeal to new segments can do the trick.

Product Development Strategy

Expansion through product development involves development of new or improved products for its current markets. The firm remains in its present markets but develops new products for these markets, Growth will accrue if the new products yield additional sales and market share. This strategy is likely to succeed for products that have low brand loyalty and/or short product life cycles. A Product development strategy may also be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Although the firm operates in familiar markets, product development strategy carries more risk than simply attempting to increase market share since e there are inherent risks normally associated with new product development.

The three possible ways of implementing the product development strategy are:

- The company can expand sales through developing new products.
- The company can create different or improved versions of the current products.
- The company can make necessary changes in its existing products to suit the different likes and dislikes of the customers.

Combination Strategy

Combination strategy combines the intensification strategy variants i.e., market penetration, market development and product development to grow. In the market development and market penetration strategy, the firm continues with its current product portfolio, while the product development strategy involves developing new or improved products, which will satisfy the current markets.

Expansion Through Integration

In contrast to the intensive growth, integration strategy involves expanding externally by combining with other firms. Combination involves association and integration among different firms and is essentially driven by need for survival and also for growth by building synergies. Combination of firms may take the merger or consolidation route. Merger implies a combination of two or more concerns into one final entity. The merged concerns go out of existence and their assets and liabilities are taken over by the acquiring company. A consolidation is a combination of two or more business units to form an entirely new company. All the original business entities cease to exist after the combination. Since mergers and consolidations involve the combination of two or more companies into a single company, the term merger is commonly used to refer to both forms of external growth. As is the case in all the strategies, acquisition is a choice a firm has made regarding how it intends to compete (Markides, 1999). Firms use integration to

(i) increase market share,
(ii) avoid the costs of developing
(iii) new products internally and bringing them to the market,
(iv) reduce the risk of entering new business,
(v) speed up the process of entering the market,
(vi) become more diversified and
(vii) quite possibly to reduce the intensity

of competition by taking over the competitor's business. The costs of integration include reduced flexibility as the organization is locked into specific products and technology, financial costs of acquiring another company and difficulties in integrating various operations. There are many forms of integration, but the two major ones are vertical and horizontal integration.

Vertical Integration

Vertical integration refers to the integration of firms involved in different stages of the supply chain. Thus, a vertically integrated firm has units operating in different stages of supply chain starting from raw material to delivery of final product to the end customer. An organization tries to gain control of its inputs (called backwards integration) or its outputs (called forward integration) or both. Vertical integration may take the form of backward or forward integration or both. The concept of vertical integration can be visualized using the value chain. Consider a firm whose products are made via an assembly process. Such a firm may consider backward integrating into intermediate manufacturing or forward integrating into distribution. Backward integration sometimes is referred to as upstream integration and forward integration as downstream integration. For instance, Nirma undertook backward integration by setting up plant to manufacture soda ash and linear alkyl benzene, both important inputs for detergents and washing soaps, to strengthen its hold in the lower-end detergents market. Forward integration refers to moving closer to the ultimate customer by increasing control over distribution activities. For example, a personal computer assembler could own a chain of retail stores from which it sells its machines (forward integration).

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Many firms in India such as DCM, Mafatlal and National Textile Corporation have set up their own retail distribution systems to have better control over their distribution activities.

Some companies expand vertically backwards and forward. Reliance Petrochemicals grew by leveraging backward and forward integration: it began with manufacturing of textiles and fibres, moved to polymers and other intermediates then went into the manufacture of fibres, then to petrochemicals and oil refining. In power, Reliance Energy wants to do the same thing and the catchphrase that for this vertical integration is ' from well-head to wall-socket'. Reliance Energy's strategy is to straddle the entire value chain in the power business. It plans to generate power by using the group's production of gas, transmit and distribute it to the domestic and industrial consumers, reaping the returns of not just generating power using its own gas but selling what it generates not as a bulk supplier but to the end user.

In essence, a firm seeks to grow through vertical integration by taking control of the business operations at various stages of the supply chain to gain advantage over its rivals. The record of vertical integration is mixed and hence, decisions should be taken after a comprehensive and careful consideration of all aspects of this form of integration. In most cases the initial investments may be very high and exiting an arrangement that does not prove beneficial may be hard. Vertical integration also requires an organization to develop additional product market and technology capabilities, which it may not currently possess.

Factors conducive for vertical integration include

- Taxes and regulations on market transactions,
- Obstacles to the formulation and monitoring of contracts,
- Similarity between the vertically-related activities,
- Sufficient large production quantities so that the firm can benefit from economies of scale and
- Reluctance of other firms to make investments specific to the transaction.

Vertical integration may not yield the desired benefit if,

- The quantity required from a supplier is much less than the minimum efficient scale for producing the product.
- The product is widely available commodity and its production cost decreases significantly as cumulative quantity increases,
- The core competencies between the activities are very different,
- The vertically adjacent activities are in very different types of industries (For example, manufacturing is very different from retailing.) and
- The addition of the new activity places the firm in competition with another player with which it needs to cooperate. The firm then may be viewed as a competitor rather than a partner.

Firms integrate vertically to (1) reduce transportation costs if common ownership results in closer geographic proximity, (2) improve supply chain coordination, (3) capture upstream or downstream profit margins, (4) increase entry barriers to potential competitors, for example, if the firm can gain sole access to scarce resource, (5) gain access to downstream distribution channels that otherwise would be inaccessible, (6) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest and (7) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.

The downside risks of an integration strategy to a company include (1) difficulty of effectively integrating the firms involved, (2) incorrect evaluation of target firm's value, (3) overestimating the potential for synergy between the companies involved, (4) creating a combination too large to control, (5) the huge financial burden that acquisition entails, (6) capacity balancing issues. (For instance, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions), (7) potentially higher costs due to low efficiencies resulting from lack of supplier competition, (8) decreased flexibility due to previous upstream or downstream investments, (however, that flexibility to coordinate vertically -related activities may increase.), (9) decreased ability of increase product variety if significant in-house development is required, and (10) developing new core competencies may compromise existing competencies.

There are alternatives to vertical integration that may provide some of the same benefits with fewer drawbacks. The following are a few of these alternatives for relationships between vertically related organizations.

- Long-term explicit contracts
- Franchise agreements
- Joint ventures
- Co-location of facilities
- Implicit contracts (relying on firm's reputation)

Horizontal Combination / Integration

The acquisition of additional business in

the same line of business or at the same level of the value chain (combining with competitors) is referred to as horizontal integration. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated business. Integration of oil companies, Exxon and Mobil, is an example of horizontal integration. Aditya Birla Group's acquisition of L&T Cements from Reliance to increase its market dominance is an example of horizontal integration. This sort of integration is sought to reduce intensity of competition and also to build synergies.

Benefits of Horizontal Integration

The following are some benefits of horizontal integration:

- Economies of scale-achieved by selling more of the same product, for example, by geographic expansion.
- Economies of scope – achieved by sharing resources common to different products. Commonly referred to as 'synergies'.
- Increased bargaining power over suppliers and downstream channel members.
- Reduction in the cost of global operations made possible by operating plants in foreign markets.

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- Synergy achieved by using the same brand name to promote multiple products.

Hazards of Horizontal Integration

Horizontal integration by acquisition of a competitor will increase a firm's market share. However, if the industry concentration increases significantly then anti-trust issues may arise. Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blunders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturers who entered the software business on the premise that there were synergies between hardware and software. However, a connection between two products does not necessarily imply realizable economies of scope. Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such strategies generally do not arise from the bottom -up, but rather, must be formulated by corporate management.

International Expansion

An organization can "go international" by crossing domestic borders as it employs any of the strategies discussed above. International expansion involves establishing significant market interests and operations outside a company's home country. Foreign markets provide additional sales opportunities for a firm that may be constrained by the relatively small size of its domestic market and also reduces the firm's dependence on a single national market. Firms expand globally to seek opportunity to earn a return on large investments such as plant and capital equipment or research and development, or enhance market share and achieve scale economies, and also to enjoy advantages of locations. Other motives for international expansion include extending the product life cycle, securing key resources and using low-cost labour. However, to mold their firms into truly global companies, managers must develop global mind-sets. Traditional means of operating with little cultural diversity and without global competition are no longer effective firms (Kedia and Mukherji, 1999).

International expansion is fraught with various risks such as, political risks (e.g. instability of host nations) and economic risks (e.g. fluctuations in the value of the country's currency). International expansions increases coordination and distribution costs, and managing a global enterprise entails problems of overcoming trade barriers, logistics costs, cultural diversity, etc.

There are several methods for going international. Each method of entering an overseas market has its own advantages and disadvantages that must be carefully assessed. Different international entry modes involve a tradeoff between level of risk and the amount of foreign control the organization's managers are willing to allow. It is common for a firm to begin with exporting, progress to licensing, then to franchising finally leading to direct investment. As the firm achieves success at each stage, it moves to the next. If it experiences problems at any of these stages, it may not progress further. If adverse conditions prevail or if operations do not yield the desired returns in a reasonable time period, the firm may withdraw from the foreign market. The decision to enter a foreign market can have a significant impact on a firm. Expansion into foreign markets can be achieved through:

- Exporting
- Licensing

- Joint Venture
- Direct Investment

Exporting: Exporting is marketing of domestically produced goods in a foreign country and is a traditional and well-established method of entering foreign markets. It does not entail new investment since exporting does not require separate production facilities in the target country. Most of the costs incurred for exporting products are marketing expenses.

Licensing: Licensing permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possible for technical assistance. Licensing has the potential to provide a very large ROI since this mode of foreign entry also does require additional investments. However, since the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint Venture: There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Joint ventures are favoured when:

- The partners' strategic goals converge while their competitive goals diverge;
- The partners' size, market power, and resources are small compared to the industry leaders; and
- Partners' are able to learn from one another while limiting access to their own proprietary skills.

The critical issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include, conflict over asymmetric investments, mistrust over proprietary knowledge, performance ambiguity – how to share the profits and losses, lack of parent firm support, cultural conflicts, and finally, when and how when to terminate the relationship.

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative; the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

Direct Investment: Direct investment is the ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high degree of commitment and substantial resources.

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3.6 DIVERSIFICATION

Diversification is an investing strategy used to manage risk. Rather than concentrate money in a single company, industry, sector or asset class, investors diversify their investments across a range of different companies, industries and asset classes.

Diversification strategy is applied when companies wish to grow. It is the practice of introducing a new product into your supply chain in order to increase profits. These products could be a new segment of the industry your company already occupies, known as business-level diversification. Alternatively, corporate-level diversification occurs if you penetrate a new market.

Diversification is one of four different growth strategies popularised by Igor Ansoff. Depending on the industry, size, and ambition of your company, one of these growth strategies is more likely to be a fit than the others. They are:

- Penetration
- Product Development
- Market Development
- Diversification

Penetration refers to entering the market at an incredibly low sale price in order to price out your competitors. Product development refers to the creation and testing of new products within your current market. Market development refers to entering new markets outside of your current industry. But, let's talk about diversification.

Types of Diversification Strategies

There are three different types of diversification strategies that are commonly used today. These are:

- Concentric Diversification
- Horizontal Diversification
- Conglomerate Diversification
- Concentric Diversification

Concentric diversification: It refers to the development of new products and services that are similar to the ones you already sell. For example, an orange juice brand releases a new "smooth" orange juice drink alongside it's hero product, the orange juice "with bits".

Horizontal Diversification: Horizontal Diversification refers to the development of new products that are somewhat related to your original lines. For example, while your original product was plant pots, you are now selling seeds for many varieties of herbs and flowers.

Conglomerate Diversification: Conglomerate diversification refers to the development of new products that are unrelated to your original lines. For example, your t-shirt company has now decided to start stocking apple products.

Conglomerate diversification: It is a much riskier strategy than both concentric diversification and horizontal diversification. This is because it requires more outlay in terms of product development and advertising. Plus, due to the goal of penetrating a new industry- this diversification strategy has more likelihood of failure.

What companies use a diversification strategy?

Companies will use a diversification strategy for three main reasons. Therefore, the companies who are using diversification strategy are those who:

- Need to mitigate market risk
- Need to protect their business from the competition
- Need to increase their profits and variety of products stocked

However, this means that the types of companies using a diversification strategy are usually under pressure. For example, a new competitor is taking a portion of business and you'd like to acquire it.

Alternatively, taking the decision to diversify requires a lot of analysis work, which typically needs to be completed in an extremely tight timeline. Let's go through some examples of the companies who choose to use a diversification strategy, and their reasoning.

Mitigate Risk

In times of market volatility or downturn, businesses will look to introduce more products into their line. This spreads their investment across multiple channels, so one product can afford to lose sales while the overall company does not suffer to the same degree.

There is a general riskiness measure that helps to analyse how successful the introduction of a new product might be. This has three major points to satisfy:

- The porter's attractiveness test
- The cost of entry is less than predicted future profits
- The better-off test: do these new products have a synergy or competitive advantage?

Companies that diversify in order to mitigate risk do so because of unsystematic risk. This refers to risk in the specific market, and could be caused by a competitor getting stronger or going out of business, for example.

Competition

When competition is strong, businesses will tend to compare their strategic assets to provide a competitive advantage. Strategic assets refer to the specific resources or capabilities of your company that are scarce or difficult to replicate.

The types of companies who will diversify to protect their company from the competition may merge with such competition. In this case, they take out the competition and begin sharing in the profits. Plus, there are now fewer consumer options which means that pricing is less competitive. This type of diversification may allow businesses to raise their prices.

A different approach to diversification for competitive purposes is to match or outshine your competition with new goods. In this case, you may choose to pair up diversification

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with a penetration pricing strategy in order to undercut your competition. The idea with this is to create loyal, returning customers who then make larger purchases in the future.

Profits

Finally, businesses may choose to diversify in order to raise profits. Concentric diversification is a popular and proven strategy in this case.

For example, coffee shops will add to their line with food supplements such as sandwiches and pastries. This may be used as an upsell at the till point and increase profits. Risk of diversification remains small as the products are similar to those already proven to sell.

In a similar vein, gyms may choose to add a sauna room or physio room to their premises. This would not require any added space, but could be rented out to add another stream of income, thus diversifying.

Examples of Successful Diversification

One of the most prominent examples of diversification strategy is General Electric. Originally, the company was focused on electrical goods. However, over the years they have acquired and created operations in the aeronautic, rail, power plant, gas, and kitchen appliances industries.

Another company that has benefitted from diversification is Apple. They used horizontal diversification to expand their product range from computers to iPods. This created an interlinked range of products that beautifully complimented each other and created an exclusivity to owning Apple. No doubt, this led to the release of the first iPhone, and well, the rest is history!

Finally, Disney took a risk to diversify with theme parks after building their company first within the tv and film industry. The company's ability to commercialise animated characters has also led to profit streams in their cruise experience, alongside branded products ranging from clothing to technology.

So, is diversification the right growth strategy for you?

Whether you're a start-up looking to scale up, or an experienced business owner wanting to explore the possibilities, diversification could be the answer. But, there are other ways to grow your business that shouldn't be overlooked.

3.7. STABILITY

Stability Strategy is a corporate strategy where a company concentrates on maintaining its current market position. A company that adopts such an approach focuses on its existing product and market. A few examples of this strategy are offering the same products to the same clients, not introducing new products, maintaining market share, and more. The Stability Strategy is adopted when the organization attempts to maintain its current position and focuses only on the incremental improvement by merely changing one or more of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively.

Generally, the stability strategy is adopted by the firms that are risk averse, usually the small scale businesses or if the market conditions are not favorable, and the firm is satisfied with its performance, then it will not make any significant changes in its business operations. Also, the firms, which are slow and reluctant to change finds the stability strategy safe and do not look for any other options.

Usually, a company that is satisfied with its current market share or position uses such a strategy. Also, a company following this strategy does not need any additional resources and work using the existing expertise of the workforce. But, this strategy is useful only if there is a simple and stable environment.

Nature of Stability Strategy

A firm following stability strategy maintains its current business and product portfolios; maintains the existing level of effort; and is satisfied with incremental growth. It focuses on fine-tuning its business operations and improving functional efficiencies through better deployment of resources. In other words, a firm is said to follow stability/ consolidation strategy if:

- It decides to serve the same markets with the same products;
- It continues to pursue the same objectives with a strategic thrust on incremental improvement of functional performances; and
- It concentrates its resources in a narrow product-market sphere for developing a meaningful competitive advantage.

Adopting a stability strategy does not mean that a firm lacks concern for business growth. It only means that their growth targets are modest and that they wish to maintain a status quo. Since products, markets and functions remain unchanged, stability strategy is basically a defensive strategy. A stability strategy is ideal in stable business environments where an organization can devote its efforts to improving its efficiency while not being threatened with external change. In some cases, organizations are constrained by regulations or the expectations of key stakeholders and hence they have no option except to follow stability strategy.

Generally large firms with a sizeable portfolio of businesses do not usually depend on the stability strategy as a main route, though they may use it under certain special circumstances. They normally use it in combination with the other generic strategies, adopting stability for some businesses while pursuing expansion for the others. However, small firms find this a very useful approach since they can reduce their risk and defend their positions by adopting this strategy. Niche players also prefer this strategy for the same reasons.

Conditions Favouring Stability Strategy

Stability strategy does entail changing the way the business is run, however, the range of products offered and the markets served remain unchanged or narrowly focused. Hence, the stability strategy is perceived as a non-growth strategy. As a matter of fact, stability strategy does provide room for growth, though to a limited extent, in the existing product-market area to achieve current business objectives. Implementing stability strategy does not imply stagnation since the basic thrust is on maintaining the current level of performance with incremental growth in ensuing periods. An organization's strategists might choose stability when:

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- The industry or the economy is in turmoil or the environment is volatile.
- Uncertain conditions might convince strategists to be conservative until they became more certain.
- Environmental turbulence is minimal and the firm does not foresee any major threat to itself and the industry concerned as a whole.
- The organization just finished a period of rapid growth and needs to consolidate its gains before pursuing more growth.
- The firm's growth ambitions are very modest and it is content with incremental growth
- The industry is in a mature stage with few or no growth prospects and the firm is currently in a comfortable position in the industry

Rationale for Using Stability Strategy

There are a number of circumstances in which the most appropriate growth stance for a company is stability rather than growth. Stability strategy is normally followed for a brief period to consolidate the gains of its expansion and needs a breathing spell before embarking on the next round of expansion. Organizations need to 'cool off' for a while after an aggressive phase of expansion and must stabilize for a while or they will become inefficient and unmanageable. India Cements went through a rapid expansion by acquiring other cement companies before stabilizing and consolidating its operations. Videocon and BPL had first diversified into new businesses and then started consolidating once faced with stiff competition.

Managers pursue stability strategy when they feel that the enterprise has been performing well and wish to maintain the same trend in subsequent years. They would prefer to adopt the existing product-market posture and avoid departing from it. Sometimes, the management is content with the status quo because the company enjoys a distinct competitive advantage and hence does not perceive an immediate threat.

Stability strategy is also adopted in a number of organizations because the management is not interested in taking risks by venturing into unknown terrain. In fact they do not consider any other option as long as the pursuit of existing business activity produces the desired results. Conservative managers believe product development, market development or new ways of doing business entail great risk and therefore, avoid taking decisions, which can endanger the company. A number of managers also pursue consolidation strategy involuntarily. In fact, they do not react to environmental changes and avoid drastic changes in the current strategy unless warranted by extraordinary circumstances.

Sometimes environmental forces compel an organization to follow the strategy of status quo. This is particularly true for bigger organizations, which have acquired dominant market share. Such organizations are usually not permitted by the government to expand because it may lead to monopolistic and restrictive trade practices detrimental to public interest.

Approaches to Stability Strategy

There are various approaches to developing stability/consolidation strategy. The Management has to select the one that best suits the corporate objective. Some of these approaches are discussed below. In all these approaches, the fundamental course of action remains the same, but the circumstances in which the firms choose various options differ.

At this stage, the firms exhibit a simple structure with centralised power at the top of the hierarchy. The primary purpose of this point in time is to establish competencies and generate initial success in terms of products and market.

This is the stage where you will find lots of trial and errors as the companies have to change their products and services in a manner to suit the demands of its customers and establish distinct competencies. The pursuit of a niche strategy and frequent innovations are part of this phase. The product development and delivery stage during the first phase involve employees wearing several hats and leaders being engaged in strategic as well as tactical levels. The significant attributes in this environment are flexibility and lean management of assets and resources for the continued existence of the company. The success in this birth stage is in finding a niche product/market that will provide enough revenues to maintain and develop the organization and often involves growth via vision and creativity.

Understanding the business model will help in getting a close view of the bigger picture so that it becomes possible to know how to generate earnings and revenues and control expenses for future growth and development of the company.

2. The growth or survival phase

The second stage of the organizational life cycle is the growth stage that is also referred to as the survival stage. It is aptly named because at this point; the companies are looking to solidify their roots, establish a framework, pursue growth and develop their capabilities. The onus is on setting targets and generating revenues for expansion and growth plans. There are two possible scenarios in the growth stage; first, some companies enjoy success and growth and can enter the next step with aplomb whereas some organizations are unable to achieve the desired success and subsequently fail to survive.

The growth stage is crucial for an organization, and this is why it puts its onus on early product diversification and sales growth. Product lines are broadened; efforts are on tailoring products to suit new markets, managers try to identify subgroups of customers and make small modifications in product and services to serve them in a better way.

In this stage a functionally-based structure is established, procedures are formalised, some authority is delegated to the middle managers, customers influence decisions, and the goal encompasses fulfilling the wishes of the customer to a higher degree.

The roles now become differentiated, and there is an increase in sales and marketing to generate and fulfil demands. In other words, diversification of the customer base and product line results in the specialization. To maintain control, the organization introduces formal methods and cross-functional activities.

One issue that an organization can face in this stage is autonomy. Fewer onuses on innovation activities and limited decentralisation of power can make the company less responsive to market changes. The growth stage will start to end when the sales of an organization begin to slow down.

3. The maturity phase

The next stage in the organizational life cycle is the maturity stage where the company enters a hierarchal structure of management. In this phase, the companies pay fewer onuses on expansion and more on safeguarding their interests and maintaining the existing growth and

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development strategies and plans. It is the middle and top levels management that take up the mantle of specialising in tasks like routine work, planning, strategising etc.

By the time an organization reaches its maturity level one can see stabilisation in the sales. This happens because of market saturation and high levels of competitive activities.

Some organizations are highly profitable, and the goal then is to maintain smooth functioning to maximise their profits in case the company goes through a declining sales growth phase. The companies put their onus on internal efficiency, and for this, they start installing control mechanisms in place.

Firms remain centralised and functional, and departmental structures continue to exist as they are apt for product-market scope. The delegation of power is less compared to the growth stage because the operations are now more stable and straightforward and do not require the efforts of numerous people.

There is an emphasis on budgets, formal cost controls, performance measures and coordination so that various departments and units can work together effectively.

The maturity phase in an organizational life cycle shows a less proactive and less innovative decision-making stage. This is because the aim of the company at this point is apparent – to focus on efficiency instead of a novelty. It waits for the competition to make the first move and lead the way and then imitates the innovation if necessary.

The maturity stage of an organization can continue for a very long period because as long as the organization is showing good sales and revenues figure there is no need to change the status quo or rock the boat.

4. The renewal phase

The next stage in the organizational life cycle is known as the renewal stage. This is because, at this point, the companies will experience a renewal in their management structure that shifts from a hierarchical organizational structure to a matrix style of organizational structure. This change facilitates flexibility and creativity in the organization.

The renewal stage is also referred to as the revival stage because of its functions. It is an optional stage, and several organizations do not put the onus on it whereas other takes care of it diligently. The revival stage generally occurs between maturity and a decline stage of the organizational life cycle. This happens because an organization recognises the need for drastic changes and initiates plans to implement the set strategies that can alter their current path.

The revival stage is considered for expansion and diversification of product-market scope. Companies try to follow a policy of rapid growth through diversification, innovation and acquisition. This stage involves increased investment and high risks.

The firm forms project teams and task forces to analyse issues and find solution alternatives systematically. Information processing is expanded and becomes diverse because the requirement changes from performance reporting and financial controls to information about customer and market opportunities. This is for identifying the new trends and opportunities to revive the organizational structure.

Significant changes start taking place because of the implementation of various policies by the organization. The revival stage can either be successful, and then the organization can maintain and see high growth or not successful, and this can be identified by the lack of expected sales growth in the company.

5. The decline phase

The last stage of the organizational life cycle is the decline stage that signifies the death of an organization. This can be identified by minimizing sales figures and profitability in the organization. This happens because of market stagnation, reluctance for risk-taking, external challenges, and lack of innovation.

In this stage of the organizational life cycle, organizations start putting the onus on conserving resources. Their sales figures go plummeting downhill because of unappealing product lines and lack of new technologies in the products. The communication between departments and the levels is weak and well-developed mechanism is absent for information processing.

The declining stage is the worst in the organizational life cycle as individuals become preoccupied with personal objectives instead of organizational goals and objectives. This slowly and steadily destroys the feasibility and functionality of the entire company.

5.7 MANAGEMENT AND CONTROL

There are a number of key themes to a synergistic, successful and profitable portfolio of businesses:

- Related competencies and capabilities, which can be transferred between businesses and between each of these businesses and the corporate headquarters, or the overall strategic leader
- The ability to create and build value, both individually and collectively, by the businesses and the corporate headquarters
- The ability to implement strategies and strategic ideas to achieve their potential. This contribution is again individual (in, say, the form of profit streams because of a strong competitive position) and collective, through learning, sharing and the transfer of skills and resources.

In this unit, therefore, a number of key themes are brought together. First, the relatedness of the actual businesses in the portfolio. Where technologies or markets are similar or even the same, there must be relatedness. However, some diversified conglomerates have shown that they can relate unlike businesses to create value. This relates to issues of style and culture, rather than basic strategic logic.

Second, the management of the portfolio of activities to ensure that strategies are implemented effectively. As a result, the overall organization should be demonstrably better off from the existence of the businesses and strategies involved. Its is clearly possible for a problematical business to be a distraction which draws resources (people, money and time in particular) away from potentially more lucrative opportunities. Figure 5.8 shows how strategy and implementation must work together harmoniously for competitive, strategic and (where relevant) financial success. Where the strategy is stretched or particularly demanding for the resources possessed by the organization, there is still likely to be under achievement even

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where there is sound implementation. If the accompanying implementation is also weak, the organization is likely to seem fragmented and fragile. A basically sound strategy, poorly implemented, would typically suggest structural and stylistic flaws.

The basic dilemma for many organizations is understanding why, when something is wrong. If performance is below expectations, is it the strategy or the implementation which is mainly to blame? The reaction of many businesses to the very competitive and increasingly global business environment of the 1990s has been to work on both. Strategies have typically become more focused and structures less hierarchical. Richter and Owen (1997) show how there has been:

- Refocusing - organizations have reduced the number of industries in which they compete, and
- Simpler structures - characterized by smaller head offices and fewer layers of management.

In the end we are left to question whether there has been too much reaction and an over aggressive response, partly the result of pressure from institutional investors and the financial markets, which have tended to be intolerant of diversity. Yet one of the most valuable and respected business in the world, General Electric, remains a very diversified conglomerate. We have tended to assume that diversified conglomerates are strategically illogical, and yet it could be that many managers have simply been unable to manage them in the 1990s when a radically different approach was required from that which succeeded with diversified conglomerates in the 1980s.

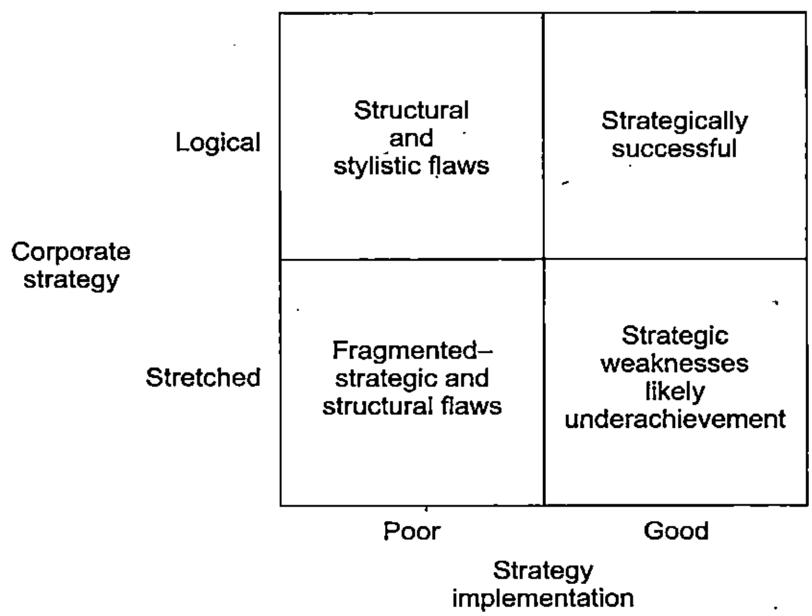

Figure 5.8 Strategy and implementation

Richter and Owen (at the London School of Economics and Public Science) used primary research and secondary data to track the strategic progress of large UK and German

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companies between 1986 and 1996. They found that over this decade 75 per cent of British companies became more focused compared with only 50 per cent in Germany. The figure for the US was even lower. Only 16 per cent of acquisitions (32 per cent for Germany) were in unrelated businesses. Germany experienced more vertical integration than the UK, where it was almost non-existent. At the same time large UK businesses experienced:

- Head-office personnel reductions, from an average of 175 to 100
- The number of business heads reporting to boards coming down from eight to six and
- The number of layers of management in the operating businesses being reduced from seven to five.

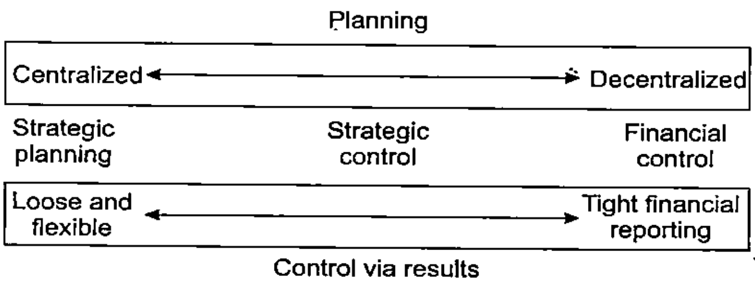

Figure 5.9 Corporate management style

5.8 ACTIVITY BASED COSTING

Activity-based costing (ABC) is a system you can use to find production costs. It breaks down overhead costs between production-related activities. The ABC system assigns costs to each activity that goes into production, such as workers testing a product.

Manufacturing businesses with high overhead costs use activity-based costing to get a clearer picture of where money is going. Because ABC gives specific production cost breakdowns, you can see which products are actually profitable.

By using activity-based costing, you can:

- Take into consideration both the direct and overhead costs of creating each product
- Recognize that different products require different indirect expenses
- More accurately set prices
- See which overhead costs you might be able to cut back on

The questions addressed in this section are the following. What is the appropriate role for corporate headquarters in divisionalized organizations? How much power should be centralized? How independent should the divisions and business units be? These relate to the difference between the divisional and the holding company structures and styles of management, and the themes of integration and behavioural processes within the structural framework are explored further.

In relation to these issues Goold and Campbell (1988) have contrasted the views of Sir Hector Laing, ex-chairman of United Biscuits, with those of Lord Hanson. Laing contended

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that it takes a number of years to build a business, and that during this period corporate headquarters should help the general managers of business units to develop their strategies. Hanson argued that it is more appropriate for head office to remain detached from operations, and instead of involvement to set strict financial targets. All Hanson businesses were reputedly for sale at any time. Both approaches have been shown to work, but with different levels of overall performance and strategic growth patterns. In essence it is all down to the quality of management! The Hanson approach typified that of many diversified conglomerates in the 1980s, but it lost favour with investors in the 1990s. This fact alone was cause enough for many of them to refocus or break up.

These two approaches represent two ends of a spectrum, and a third approach is a compromise between the two. This spectrum is illustrated in Figure 5.9. The determining variables are the extent of centralization and decentralization (which influences the nature and role of strategic planning in the organization) and the nature of key reporting systems (the extent to which they are loose and flexible or tight and financial). Goold and Campbell use three terms – financial control, strategic planning and strategic control – to categorize large UK companies against these criteria.

Financial Control Companies

Financial control is seen as an ideal approach for a holding company where the businesses are independent and unrelated. Hanson and BTR were excellent examples and advocates of this style, which for many years under the leadership of Lord (Arnold) Weinstock was also preferred by the more focused GEC.

- Strategy creation is heavily decentralized to business unit managers. Within their agreed financial targets they are free to develop and change their competitive and functional strategies.
- Budgets and targets – and their achievement – are critically important control mechanisms.
- The small head office monitors financial returns closely and regularly, intervening when targets are missed – head office is a 'controller'.
- Head office also acts as a corporate investment banker for investment capital.
- Achievement is rewarded, and units are encouraged to put forward and chase ambitious targets. Underperforming managers are likely to be removed.
- The head office adds value by acquiring and improving underperforming businesses; if additional value cannot be added it may well sell off businesses.
- There will, typically, be few interdependencies and links between the businesses.
- Growth is more likely to be by acquisition than organic investment, with many financial control companies taking a short-term view of each business and being reluctant to invest in speculative research and the development of longer-term strategies.

Owen Green, chief executive and architect of BTR, had the following philosophy:

1. Never pursue extra sales at the expense of profit margins.
2. Raise prices whenever there is an opportunity.
3. Investment should never exceed the amount written off in depreciation.

The result was high profit margins but a lack of capital investment; growth was mainly by acquisition rather than by investing in the existing businesses. Herein lay the ultimate limitations.

Strategic Planning Companies

Strategic planning tends to be adopted in organizations which focus on only a few, an preferably related, core businesses. Examples include Cadbury Schweppes, United Biscuits and BP. Historically it has been the favoured approach for most public-sector organizations.

- Strategic plans are developed jointly by head office and the business units, with head office retaining the final say. Strategic planning is centralized.
- Day-to-day operations only are wholly decentralized.
- Head office sets priorities and co-ordinates strategies throughout the organization, possibly initiating cross-business strategies, and thereby acts as an orchestrator.
- A long-term perspective is realistic, and the search for opportunities for linkages and sharing resources and best practice can be prioritized. This normally requires central control. Individually the businesses would tend to operate more independently; organization-wide synergies may involve sacrifices by individual businesses.
- Goold and Campbell conclude that there are co-ordination problems if this approach is used in truly diversified organizations.
- Budgets are again used for measuring performance.
- The tight central control can become bureaucratic and demotivate managers, who may not feel ownership of their strategies.

Other dangers are that thinking may become too focused at the centre, with the potential contributions of divisional managers underutilized; and that the organization may be slow to change in response to competitive pressures. Value can be added successfully if corporate managers stay aware and expert in the core businesses and if the competitive environment allows this style to work.

Strategic Control Companies

Financial control and strategic planning are appropriate for particular types of organization, but both styles, while having very positive advantages, also feature drawbacks. The strategic control style is an attempt to obtain the major benefits of the other two styles for organizations that are clearly diversified but with linkages and interdependencies. Value is added by balancing strategic and financial controls.

- Strategy creation involves decentralization to the business units, although head office still controls the overall corporate strategy.
- The role of head office is to review divisional and business plans, and approve strategic objectives and financial targets, accepting that they may need to be changed in a competitive environment. Performing a coaching role, head office encourages businesses to achieve their potential by active involvement and by fostering the spreading of learning and good practice through the organization.

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- Strategy creation and budgetary control can be separated, allowing for more creative performance measurement. Sometimes competitive pressures and misjudgements mean strategies have to be changed, and hoped-for financial targets may be missed. A strategic control style can recognize this and deal with the implications.
- Head office does, however, monitor and control financial performance and success against strategic milestones and objectives.

Although decentralization is a feature, head office still requires considerable detail about the various businesses if it is to ensure that the synergy potential is achieved and very short-term thinking is avoided. Political activity will be prevalent as individual businesses compete with each other for scarce corporate resources.

It was mentioned earlier that GEC, under Lord Weinstock – who was in charge for 32 years – adopted a financial control style. When he retired (in 1996) and was replaced by Lord George Simpson the style was quickly changed to strategic control.

Simpson inherited a GEC that was diversified and financially sound, but it was risk averse and experiencing relatively low growth. It was also in possession of a legendary cash mountain of £2.5 billion. Simpson created a new agenda for growth. With divestments and acquisitions the portfolio was changed. The style also changed. There was to be more focus on customers and people and less on cost control. There was greater decentralization, accompanied by robust reporting systems. It is not unusual to see changes of strategy, structure and style accompanying a change of leadership, especially if a company is in difficulty or the predecessor has been in place for a long time.

Two leading organizations that utilized the strategic control style – ICI and Courtaulds – both concluded that they were over diversified. This belief was strongly reinforced by institutional investor pressure. The attitude of the stock market and their shareholders meant that their share prices were underperforming against the index, the average of the UK's largest companies. There were numerous businesses in each organization, although some were clearly interlinked. At the same time these clusters had little in common and featured different strategic needs and cultures. Because of these differences, and the inevitable complexity, corporate headquarters could not add value with a single entity. Both companies split into two distinct parts to enable a stronger focus on core competencies and strategic capabilities. Courtaulds was split into Courtaulds Chemicals (subsequently acquired by Akzo Nobel of Germany) and Courtaulds Textiles (sold to Sara Lee of the US). ICI separated its chemicals and pharmaceuticals businesses. The former remain as ICI, but many of the activities have been divested and replaced by more consumer- focused businesses. ICI continues to struggle. The others were renamed Zeneca, which soon merged into Astra Zeneca.

Levels of Success

Goold and Campbell (1988) studied 16 large UK companies, including those given as examples above, and concluded that each style has both advantages and disadvantages and that no one style is outstandingly the most successful.

Strategic planning companies proved to be consistently profitable during the 1980s, mainly through organic growth. Head office corporate staff tended to be a quite large group and differences of opinion with general managers sometimes caused frustration within the divisions and business units. Financial control companies exhibited the best financial performance. In a

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number of cases, particularly BTR and Hanson, this resulted from acquisition and divestment rather than organic growth. Short-term financial targets were felt to reduce the willingness of general managers to take risks. There were few trade-offs whereby short-term financial targets were sacrificed for long-term growth. A general manager, for example, might consider a programme of variety reduction and product rationalization with a view to developing a more consistent and effective portfolio. In the short term this would result in reduced revenue and profits before new orders and products improved overall profitability. This temporary fall might be unacceptable in the face of short-term financial targets. Strategic control companies also performed satisfactorily but experienced difficulties in establishing the appropriate mix of strategic and financial targets for general managers. Financial targets, being the more specific and measurable ones, were generally given priority. Goold and Campbell concluded that while the style of management adopted within the structure determines the strategic changes that take place, the overall corporate strategy of the company very much influences the choice of style. Large diverse organizations, for example, will find it difficult to adopt a strategic planning approach. Equally, where the environment is turbulent and competitive, increasing the need for adaptive strategic change, the financial planning approach is less appropriate. Not unexpectedly, Hanson's main acquisitions were of companies in mature, slow-growth sectors.

While companies may appreciate that there is a mismatch between their corporate strategy and style, changing the style can be difficult. Moreover, many organizations will not be able to implement a new style as effectively as the one that they are used to. Goold et al. (1993) revisited the organizations and their research five years later, partly stimulated by the change in fortunes in some of the companies involved. This review reinforced the conclusion that financial control is ideally suited to a group of autonomous businesses in a conglomerate, but it is less suitable for a portfolio of core businesses or ones seeking to compete globally. In 1988 Goold and Campbell had argued that the adoption of a hands-off, financial control style by GEC and other electronics companies in the UK had hindered their development as globally competitive businesses. Global development demands synergy between a number of national businesses.

BTR and Hanson had already begun to focus more on selected core businesses, and their relative performance was deteriorating. Strategic planning continued to add value as long as corporate managers had close knowledge and experience of their core businesses. Where their portfolio was arguably too diverse – although not so diverse that they could be classified as diversified conglomerates – strategic control companies were experiencing difficulties. The researchers poured scorn on the idea that a decentralized structure, supported by a modern budgeting and planning system, would enable a competent management team to add value to almost any new business. Strategic control can only work with an effective mix of tight financial control and devolved authority to instigate emergent strategic changes; to achieve this successfully, head offices again need to appreciate the detail of competitive strategies in the subsidiaries.

Appreciating the specific problems and opportunities faced by subsidiary businesses is particularly important for establishing fair reward systems. Reward systems are likely to be based on specific performance targets, but these could relate to growth in revenue, absolute profits or profitability ratios. Stonich (1982) has suggested that business units might be categorized as having high, medium or low growth potential. Four factors could be used in evaluating their relative performances: return on assets; cash flow; strategic development

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programmes and increases in market share. The relative weighting attributed to each of these four factors would be changed to reflect their specific objectives and whether they were of high, medium or low-growth potential. Return on assets and cash flow would be critical for low growth business units, and market share and strategic development programmes most important for those with high growth potential. The factors would be weighted equally for medium growth. This approach would be particularly relevant where general managers were changed around to reflect their particular styles of management and the current requirements of the business unit.

One question left unanswered concerns the extent to which the conclusions of Goold and Campbell are a result of British management strengths, weaknesses and preferences. Certain Japanese companies appear to grow organically at impressive rates while maintaining strict financial controls and directing corporate strategic change from the centre. This tendency, however, is affected by legislation which restricts the ability of Japanese companies to grow by acquisition and merger. Without this control Japanese firms may have followed different strategies. The next section endeavours to pull together the lessons from this and other research and the cases quoted herein.

Activity-based costing vs. traditional costing

ABC provides an alternative to traditional costing. Traditional costing applies an average overhead rate to direct production costs based on a cost driver (e.g.. hours or volume).

But, some production-related activities use more overhead expenses than others. As a result, traditional costing can give an inaccurate cost of making each product.

Traditional costing is simpler but less specific than activity-based costing. You might consider going with traditional costir·ː if you only make a few products.

You may also use traditional costing for reporting externally (e.g., to investors) and activity-based costing for reporting internally (e.g., to managers).

Benefits and drawbacks of activity-based costing

Although an activity-based costing system gives you accurate production cost details, it can be difficult to implement. That's why you should consider the pros and cons before deciding if it's right for your business.

Benefits of activity-based costing

ABC costing can help with:

- Budgeting
- Overhead decisions
- Product pricing

Budgeting: When creating your budget for the year, you probably try to get as specific as possible when it comes to your incoming and outgoing money.

Activity-based costing can help you to set an accurate budget that breaks down exactly where your money is going—and which products are the most profitable.

Overhead decisions: The ABC system shows you how you use overhead costs, which helps you determine whether certain activities are necessary for production.

Activity-based costing helps you identify where you're wasting money. If you find that some activities cost more than they should, you can find new methods to do something. Or, you can cut out steps (and even products) entirely.

Product pricing: Another benefit of ABC is accurate product pricing. Pricing products can be one of the most difficult decisions you make in business.

Failing to take all of your costs into consideration could result in setting your prices too low. As a result, you might not wind up with a healthy profit margin.

With an ABC system, you can assign costs to each activity in the production process. This shows you all the costs that go into producing a specific product. You can use this data to set a price that more accurately accounts for how much it costs you to create the product.

Drawbacks of an ABC system

Before implementing this type of costing method, consider the cons:-

- Complex
- Not 100% accurate

Complex: Activity-based costing is more complicated than traditional costing. Instead of general overhead costs and production-related activities, you need to be specific.

How much time is Employee A spending on Activity XYZ? What about electricity—how should you split up utility costs by activity?

Getting into the weeds can make it difficult to track data without an elaborate (and tried and true) system. Not to mention, some businesses don't have the job positions and resources to manage an ABC system.

Not 100% accurate: Unfortunately, there isn't a costing method that gives you a completely accurate breakdown of your costs. So although an ABC system is more accurate and detailed than traditional costing, it isn't 100% accurate.

For example, the ABC system requires employees to track how much time they spend on each activity (e.g., research, production, etc.). Your employees might miscalculate or even exaggerate their time spent working on an activity.

Activity-based costing calculation

Interested in using the ABC system in your business? To use this costing system, you need to understand the process of assigning costs to activities.

Take a look at an activity-based costing formula you can use:

(Overhead for Cost Pool / Cost Drivers) X Amount of Activity Cost Driver

Now, let's take a step back and go over what exactly this means.

A cost pool is a group of individual costs associated with an activity. You can create cost pools by identifying the activities that go into creating a product. Once you've grouped your costs into a pool, find the total overhead. Keep in mind that there's no set number of groups you need to have.

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A cost driver is something that controls changes in the cost of an activity. Examples of cost drivers include units, labor or machine hours, and parts. Assign cost drivers (you can have more than one) to each cost pool.

When you divide the total overhead in a cost pool by your total cost drivers, you get a cost driver rate.

5.9 STRATEGIC INFORMATION SYSTEM

The concept of Strategic Information Systems or "SIS" was first introduced into the field of information systems in 1982-83 by Dr. Charles Wiseman, President of a newly formed consultancy called "Competitive Applications," (cf. NY State records for consultancies formed in 1982) who gave a series of public lectures on SIS in NYC sponsored by the Datamation Institute, a subsidiary of Datamation Magazine.

In 1984 Wiseman published an article on this subject (co-authored by Prof. Ian MacMillan) in the Journal of Business Strategy (Journal of Business Strategy, fall, 1984) In 1985 he published the first book on SIS called "Strategy and Computers: Information Systems as Competitive Weapons" (Dow-Jones Irwin, 1985; translated into French by Bertrand Kaulek and into Italian by Professor Fabio Corno of Bocconi University). In 1988 an expanded version of this book called "Strategic Information Systems" was published by Richard D. Irwin. This book was translated into Japanese by Professor Shinroki Tsuji and published by Diamond Publishing. Over 50,000 copies have been sold.

The following quotations from the Preface of the first book ("Strategy and Computers: Information Systems as Competitive Weapons") establishes the basic idea behind the notion of SIS:

"I began collecting instances of information systems used for strategic purposes five years ago, dubbing them "strategic information systems" (Internal Memo, American Can Company (Headquarters), Greenwich, CT, 1980). But from the start I was puzzled by their occurrence. At least theoretically I was unprepared to admit the existence of a new variety of computer application. The conventional view at the time recognized only management information systems, and management support systems, the former used to automate basic business processes and the latter to satisfy the information needs of decision makers. (Cf. articles by Richard Nolan, Jack Rockart, Michael Scott Morton, et al. at that time)...But as my file of cases grew, I realized that the conventional perspective on information systems was incomplete, unable to account for SIS. The examples belied the theory,and the theory in general blinded believers from seeing SIS. Indeed, some conventional information systems planning methodologies, which act like theories in guiding the systematic search for computer application opportunities, exclude certain SIS possibilities from what might be found. (ibid.)"

"This growing awareness of the inadequacy of the dominant dogma of the day led me to investigate the conceptual foundations, so to speak, of information systems. At first, I believed that the conventional gospel could be enlarged to accommodate SIS. But as my research progressed, I abandoned this position and concluded that to explain SIS and facilitate their discovery, one needed to view uses of computer (information) technology from a radically different perspective."

"I call this the strategic perspective on information systems (technology). The chapters to follow present my conception of it. Written for top executives and line managers, they show how computers (information technology) can be used to support or shape competitive strategy."

Most of the second book, Strategic Information Systems, was exposed from 1985 to 1988 to MBA students at the Columbia University Graduate School of Business and to a large number of practitioners seeking to apply SIS concepts to disparate industry settings. Since that time the concept has stimulated journals on the subject, dissertations, and extensive critical research. (References: search Google Scholar, Clusty, et al. using the terms: Strategic Information Systems, SIS, Charles Wiseman, et al.)

Strategic systems are information systems that are developed in response to corporate business initiative. They are intended to give competitive advantage to the organization. They may deliver a product or service that is at a lower cost, that is differentiated, that focuses on a particular market segment, or is innovative._Some of the key ideas of storefront writers are summarized. These include Michael Porter's Competitive Advantage and the Value Chain, Charles Wiseman's Strategic Perspective View and the Strategic Planning Process, F. Warren McFarlan's Competitive Strategy with examples of Information Service's Roles, and Gregory Parson's Information Technology Management at the industry level, at the firm level, and at the strategy level.

General Definition

Strategic information systems are those computer systems that implement business strategies; They are those systems where information services resources are applied to strategic business opportunities in such a way that the computer systems have an impact on the organization's products and business operations. Strategic information systems are always systems that are developed in response to corporate business initiative. The ideas in several well-known cases came from information Services people, but they were directed at specific corporate business thrusts. In other cases, the ideas came from business operational people, and Information Services supplied the technological capabilities to realize profitable results.

Most information systems are looked on as support activities to the business. They mechanize operations for better efficiency, control, and effectiveness, but they do not, in themselves, increase corporate profitability. They are simply used to provide management with sufficient dependable information to keep the business running smoothly, and they are used for analysis to plan new directions. Strategic information systems, on the other hand, become an integral and necessary part of the business, and directly influence market share, earnings, and all other aspects of marketplace profitability. They may even bring in new products, new markets, and new ways of doing business. They directly affect the competitive stance of the organization, giving it an advantage against the competitors. Most literature on strategic information systems emphasizes the dramatic breakthroughs in computer systems, such as American Airlines' Sabre System and American Hospital Supply's terminals in customer offices. These, and many other highly successful approaches are most attractive to think about, and it is always possible that an equivalent success may be attained in your organization.

There are many possibilities for strategic information systems, however, which may not be dramatic breakthroughs, but which will certainly become a part of corporate decision making and will, increase corporate profitability. The development of any strategic information

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systems always enhances the image of information Services in the organization, and leads to information management having a more participatory role in the operation of the organization.

The three general types of information systems that are developed and in general use are financial systems, operational systems, and strategic systems. These categories are not mutually exclusive and, in fact, they always overlap to some. Well-directed financial systems and operational systems may well become the strategic systems for a particular organization.

Financial systems are the basic computerization of the accounting, budgeting, and finance operations of an organization. These are similar and ubiquitous in all organizations because the computer has proven to be ideal for the mechanization and control or financial systems; these include the personnel systems because the headcount control and payroll of a company is of prime financial concern. Financial systems should be one of the bases of all other systems because they give a common, controlled measurement of all operations and projects, and can supply trusted numbers for indicating departmental or project success. Organizational planning must be tied to financial analysis. There is always a greater opportunity to develop strategic systems when the financial systems are in place, and required figures can be readily retrieved from them.

Operational systems, or services systems, help control the details of the business. Such systems will vary with each type of enterprise. They are the computer systems that operational managers need to help run the business on a routing basis. They may be useful but mundane systems that simply keep track of inventory, for example, and print out reorder points and cost allocations. On the other hand, they may have a strategic perspective built into them, and may handle inventory in a way that dramatically impacts profitability. A prime example of this is the American Hospital Supply inventory control system installed on customer premises. Where the great majority of inventory control systems simply smooth the operations and give adequate cost control, this well-know hospital system broke through with a new version of the use of an operational system for competitive advantage. The great majority of operational systems for which many large and small computer systems have been purchased, however, simply help to manage and automate the business. They are important and necessary, but can only be put into the "strategic" category it they have a pronounced impact on the profitability of the business.

All businesses should have both long-range and short-range planning of operational systems to ensure that the possibilities of computer usefulness will be seized in a reasonable time. Such planning will project analysis and costing, system development life cycle considerations, and specific technology planning, such as for computers, databases, and communications. There must be computer capacity planning, technology forecasting, and personnel performance planning. It is more likely that those in the organization with entrepreneurial vision will conceive of strategic plans when such basic operational capabilities are in place and are well managed.

Operational systems, then, are those that keep the organization operating under control and most cost effectively. Any of them may be changed to strategic systems if they are viewed with strategic vision. They are fertile grounds for new business opportunities.

Strategic systems are those that link business and computer strategies. They may be systems where a new business thrust has been envisioned and its advantages can be best realized through the use of information technology. They may be systems where new computer technology has been made available on the market, and planners with an entrepreneurial spirit perceive how the new capabilities can quickly gain competitive advantage. They may be systems where operational management people and Information Services people have brainstormed together over business problems, and have realized that a new competitive thrust is possible when computer methods are applied in a new way.

There is a tendency to think that strategic systems are only those that have been conceived at what popular, scientific writing sometimes calls the "achtpunckt." This is simply synthetic German for "the point where you say 'acht!' or 'that's it!'" The classical story of Archimedes discovering the principle of the density of matter by getting into a full bathtub, seeing it overflow, then shouting "Eureka!" or "I have found it!" is a perfect example of an achtpuncht. It is most pleasant and profitable if someone is brilliant enough, or lucky enough, to have such an experience. The great majority of people must be content, however, to work step-by-step at the process of trying to get strategic vision, trying to integrate information services thinking with corporate operational thinking, and trying to conceive of new directions to take in systems development. This is not an impossible task, but it is a slow task that requires a great deal of communication and cooperation. If the possibilities of strategic systems are clearly understood by all managers in an enterprise, and they approach the development of ideas and the planning systematically, the chances are good that strategic systems will be result. These may not be as dramatic as American Airline's Sabre, but they can certainly be highly profitable.

There is general agreement that strategic systems are those information systems that may be used gaining competitive advantage. How is competitive advantage gained?. At this point, different writers list different possibilities, but none of them claim that there may not be other openings to move through.

Some of the more common ways of thinking about gaining competitive advantage are:

Deliver a product or a service at a lower cost. This does not necessarily mean the lowest cost, but simply a cost related to the quality of the product or service that will be both attractive in the marketplace and will yield sufficient return on investment. The cost considered is not simply the data processing cost, but is the overall cost of all corporate activities for the delivery of that product or service. There are many operational computer systems that have given internal cost saving and other internal advantages, but they cannot be thought of as strategic until those savings can be translated to a better competitive position in the market.

Deliver a product or service that us differentiated. Differentiation means the addition of unique features to a product or service that are competitive attractive in the market. Generally such features will cost something to produce, and so they will be the setting point, rather than the cost itself. Seldom does a lowest cost product also have the best differentiation. A strategic system helps customers to perceive that they are getting some extras for witch they will willingly pat.

Focus on a specific market segment. The idea is to identify and create market niches that have not been adequately filled. Information technology is frequently able to provide the capabilities of defining, expanding, and filling a particular niche or segment. The application would be quite specific to the industry.

Innovation. Develop products or services through the use of computers that are new and appreciably from other available offerings. Examples of this are automatic credit

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card handing at service stations, and automatic teller machines at banks. Such innovative approaches not only give new opportunities to attract customers, but also open up entirely new fields of business so that their use has very elastic demand.

Almost any data processing system may be called "strategic" if it aligns the computer strategies with the business strategies of the organization, and there is close cooperation in its development between the information Services people and operational business managers. There should be an explicit connection between the organization's business plan and its systems plan to provide better support of the organization's goals and objectives, and closer management control of the critical information systems.

Many organizations that have done substantial work with computers since the 1950's have long used the term "strategic planning" for any computer developments that are going to directly affect the conduct of their business. Not included are budget, or annual planning and the planning of developing Information Services facilities and the many "housekeeping" tasks that are required in any corporation. Definitely included in strategic planning are any information systems that will be used by operational management to conduct the business more profitably. A simple test would be to ask whether the president of the corporation, or some senior vice presidents, would be interested in the immediate outcome of the systems development because they felt it would affect their profitability. If the answer is affirmative, then the system is strategic.

Strategic system, thus, attempt to match Information Services resources to strategic business opportunities where the computer systems will have an impact on the products and the business operations. Planning for strategic systems is not defined by calendar cycles or routine reporting. It is defined by the effort required to impact the competitive environment and the strategy of a firm at the point in time that management wants to move on the idea.

Effective strategic systems can only be accomplished, of course, if the capabilities are in place for the routine basic work of gathering data, evaluating possible equipment and software, and managing the routine reporting of project status. The calendarized planning and operational work is absolutely necessary as a base from which a strategic system can be planned and developed when a priority situation arises. When a new strategic need becomes apparent, Information Services should have laid the groundwork to be able to accept the task of meeting that need.

Strategic systems that are dramatic innovations will always be the ones that are written about in the literature. Consultants in strategic systems must have clearly innovative and successful examples to attract the attention of senior management. It should be clear, however, that most Information Services personnel will have to leverage the advertised successes to again funding for their own systems. These systems may not have an Olympic effect on an organization, but they will have a good chance of being clearly profitable. That will be sufficient for most operational management, and will draw out the necessary funding and support. It helps to talk about the possibilities of great breakthroughs, if it is always kept in mind that there are many strategic systems developed and installed that are successful enough to be highly praised within the organization and offer a competitive advantage, but will not be written up in the Harvard Business Review.

Another way of characterizing strategic information systems is to point out some of the key ideas of the foremost apostles of such systems.

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Corporate Development Structure

Corporate development is usually implemented in large companies led by a corporate development executive with a mergers and acquisitions (M&A) background. They are typically certified public accountants (CPA) or hold a master's degree in business administration. Team members likely have experience in investment banking and law.

In general, a corporate development team includes:

- Vice president or head of corporate development
- Director or senior director
- Manager or associate
- Analyst

Their responsibilities typically include:

- Identifying potential target companies
- Developing relationships with target companies
- Conducting mergers and acquisition-related activities (negotiation, diligence and integration)
- Securing financing
- Performing financial modeling and analysis
- Managing portfolios
- Improving the customer experience
- Communicating strategic plans to company executives

Types of Corporate Development

The types of corporate development:

Management restructuring

In management restructuring, corporation development calls for changes within the current management. This reshaping may require eliminating existing positions, replacing some leaders with more suitable managers with greater skill sets or creating positions to fill in gaps in productivity.

The purpose of restructuring management is to improve the management team, which should directly and positively affect the staff they oversee and build a stronger company.

Corporation growth

When a company is looking to grow, its corporate development team often facilitates strategic expansion. This may include entering new markets with a different target consumer, creating new products and phasing out old ones. Many of these responsibilities require a high level of experience in marketing and business strategy, so corporations hire external teams to focus solely on this development process.

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Corporate Development Stages

The stages or plays of growth of any company are as follows:

Development: During the development phase, identify and define your idea and begin fleshing it out; delve into researching the market you will potentially entering. Garnering financing for your idea is also an essential part of this stage.

Start-Up: Agility is essential during the start-up stage as you refine your product and/ or services and business model. Establishing your customer base and disrupting your market will be two of the many challenges here.

Growth: Now you should be generating regular revenue and "surviving," which means you will want to continue to fine tune your business model. This time with an eye for growth and expansion as you work to increase your customer base and revenue.

Expansion: Consider here how entering new markets could be beneficial to growth and revenue generation. Keeping an eye to the future and generating more rapid growth is key during this stage.

Maturity: When your company is a strong force in its market and bringing in steady revenue, you have reached maturity. Some might consider an exit strategy after some time in the maturity stage, or turn to investigating ways to disrupt the market and identify new development initiatives, thus beginning a new development cycle.

Strategies for Corporate Development

M&A: The larger the company (i.e. Fortune 500 companies), the more likely Corporate Development is using M&A for growth and spending a great deal of time deal-sourcing, developing relationships, and cultivating a pipeline. Why are these businesses spending so much time and energy on mergers and acquisitions? M&A allows for growth in numerous ways (and somewhat faster growth), such as entering new markets, reducing competition, and acquiring talent and technology.

Long-term Partnerships: Engaging in long-term partnerships can be easier than engaging in M&A, while still providing some noteworthy benefits. For instance, these partnerships can end (or at least ease) price wars, block competitors, and provide access to new products. Perhaps the benefit with the largest impact is that both companies can be exposed to new customer bases and markets. The best, most profitable, and lasting, long term partnerships begin organically with a clear understanding of each company's values and goals. Some famous partnerships we currently are seeing include Nike and Apple and Casper and West Elm. In addition to the aforementioned benefits, these companies also have prospered from co-marketing strategies.

Divestitures and Carve-outs. Divestitures of specific assets can also allow for growth. Namely, divestitures and carve outs can raise capital for companies. Sometimes this capital will be used for M&A activities.

Strategic Alliances. Alliances are seen as similar to partnerships. However, strategic alliances are agreements between two companies with similar goals. There are multiple types of strategic alliances such as sales alliances and geographical alliances. Examples include Barnes and Noble and Starbucks, and the pairing of realty companies with specific banks and/or mortgage brokers.

4.4 CORPORATE RESTRUCTURING

Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy.

The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.

Usually, the concerned entity may look at debt financing, operations reduction, any portion of the company to interested investors. In addition to this, the need for corporate restructuring arises due to the change in the ownership structure of a company. Such change in the ownership structure of the company might be due to the takeover, merger, adverse economic conditions, adverse changes in business such as buyouts, bankruptcy, lack of integration between the divisions, over-employed personnel, etc.

Types of Corporate Restructuring

Financial Restructuring

This type of restructuring may take place due to a severe fall in the overall sales because of adverse economic conditions. Here, the corporate entity may alter its equity pattern, debt-servicing schedule, equity holdings, and cross-holding pattern. All this is done to sustain the market and the profitability of the company.

Organisational Restructuring

Organisational restructuring implies a change in the organisational structure of a company, such as reducing its level of the hierarchy, redesigning the job positions, downsizing the employees, and changing the reporting relationships. This type of restructuring is done to cut down the cost and to pay off the outstanding debt to continue with the business operations in some manner.

Reasons for Corporate Restructuring

Corporate restructuring is implemented in the following situations:

Change in the Strategy: The management of the distressed entity attempts to improve its performance by eliminating certain divisions and subsidiaries which do not align with the core strategy of the company. The division or subsidiaries may not appear to fit strategically with the company's long-term vision. Thus, the corporate entity decides to focus on its core strategy and dispose of such assets to the potential buyers.

Lack of Profits: The undertaking may not be enough profit-making to cover the cost of capital of the company and may cause economic losses. The poor performance of the undertaking may be the result of a wrong decision taken by the management to start the division or the decline in the profitability of the undertaking due to the change in customer needs or increasing costs.

Reverse Synergy: This concept is in contrast to the principles of synergy, where the value

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of a merged unit is more than the value of individual units collectively. According to reverse synergy, the value of an individual unit may be more than the merged unit. This is one of the common reasons for divesting the assets of the company. The concerned entity may decide that by divesting a division to a third party can fetch more value rather than owning it.

Cash Flow Requirement: Disposing of an unproductive undertaking can provide a considerable cash inflow to the company. If the concerned corporate entity is facing some complexity in obtaining finance, disposing of an asset is an approach in order to raise money and to reduce debt.

Characteristics of Corporate Restructuring

- To improve the Balance Sheet of the company (by disposing of the unprofitable division from its core business)
- Staff reduction (by closing down or selling off the unprofitable portion)
- Changes in corporate management
- Disposing of the under utilised assets, such as brands/patent rights.
- Outsourcing its operations such as technical support and payroll management to a more efficient 3rd party.
- Shifting of operations such as moving of manufacturing operations to lower-cost locations.
- Reorganising functions such as marketing, sales, and distribution.
- Renegotiating labour contracts to reduce overhead.
- Rescheduling or refinancing of debt to minimise the interest payments.
- Conducting a public relations campaign at large to reposition the company with its consumers.

Types of Corporate Restructuring Strategies

Merger: This is the concept where two or more business entities are merged together either by way of absorption or amalgamation or by forming a new company. The merger of two or more business entities is generally done by the exchange of securities between the acquiring and the target company.

Demerger: Under this corporate restructuring strategy, two or more companies are combined into a single company to get the benefit of synergy arising out of such a merger.

Reverse Merger: In this strategy, the unlisted public companies have the opportunity to convert into a listed public company, without opting for IPO (Initial Public offer). In this strategy, the private company acquires a majority shareholding in the public company with its own name.

Disinvestment: When a corporate entity sells out or liquidates an asset or subsidiary, it is known as "divestiture".

Takeover/Acquisition: Under this strategy, the acquiring company takes overall control of the target company. It is also known as the Acquisition.

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- **Joint Venture (JV):** Under this strategy, an entity is formed by two or more companies to undertake financial act together. The entity created is called the Joint Venture. Both the parties agree to contribute in proportion as agreed to form a new entity and also share the expenses, revenues and control of the company.

Strategic Alliance: Under this strategy, two or more entities enter into an agreement to collaborate with each other, in order to achieve certain objectives while still acting as independent organisations.

Slump Sale: Under this strategy, an entity transfers one or more undertakings for lump sum consideration. Under Slump Sale, an undertaking is sold for consideration irrespective of the individual values of the assets or liabilities of the undertaking.

4.5 MERGERS & ACQUISITIONS

Mergers and acquisitions, or M&A for short, involves the process of combining two companies into one. The goal of combining two or more businesses is to try and achieve synergy - where the whole (new company) is greater than the sum of its parts (the former two separate entities).

Mergers occur when two companies join forces. Such transactions typically happen between two businesses that are about the same size and which recognize advantages the other offers in terms of increasing sales, efficiencies, and capabilities. The terms of the merger are often fairly friendly and mutually agreed to and the two companies become equal partners in the new venture.

Acquisitions occur when one company buys another company and folds it into its operations. Sometimes the purchase is friendly and sometimes it is hostile, depending on whether the company being acquired believes it is better off as an operating unit of a larger venture.

The end result of both processes is the same, but the relationship between the two companies differs based on whether a merger or acquisition occurred.

Mergers and Acquisitions

A merger or an acquisition in a company sense can be defined as the combination of two or more companies into one new company or corporation.

The main difference between a merger and an acquisition lies in the way in which the combination of the two companies is brought about.

In a merger there is usually a process of negotiation involved between the two companies prior to the combination taking place. For example, assume that Companies A and B are existing financial institutions. Company A is a high street bank with a large commercial customer base. Company B is a building society or similar organisation specialising in providing home loans for the domestic market. Both companies may consider that a merger would produce benefits as it would make the commercial and domestic customer bases available to the combined company.

There will obviously be some complications and difficulties involved but there are also some obvious potential synergies available. For example, company B might be able to use its home loans experience to offer better deals to potential and existing mortgage customers

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of company A. The two companies may decide to initiate merger negotiations. If these are favourable, the outcome would be a merger of the two companies to form a new larger whole.

In an acquisition the negotiation process does not necessarily take place. In an acquisition company A buys company B. Company B becomes wholly owned by company A. Company B might be totally absorbed and cease to exist as a separate entity, or company A might retain company B in its pre-acquired form. This limited absorption is often practised where it is the intention of company A to sell off company B at a profit at some later date. In acquisitions the dominant company is usually referred to as the acquirer and the lesser company is known as the acquired. The lesser company is often referred to as the target up to the point where it becomes acquired.

In most cases the acquirer acquires the target by buying its shares. The acquirer buys shares from the target's shareholders up to a point where it becomes the owner. Achieving ownership may require purchase of all of the target shares or a majority of them. Different countries have different laws and regulations on what defines target ownership.

Acquisitions can be friendly or hostile. In the case of a friendly acquisition the target is willing to be acquired. The target may view the acquisition as an opportunity to develop into new areas and use the resources offered by the acquirer. This happens particularly in the case of small successful companies that wish to develop and expand but are held back by a lack of capital. The smaller company may actively seek out a larger partner willing to provide the necessary investment. In this scenario the acquisition is sometimes referred to as a friendly or agreed acquisition. Alternatively, the acquisition may be hostile. In this case the target is opposed to the acquisition. Hostile acquisitions are sometimes referred to as hostile takeovers.

One tactic for avoiding a hostile takeover is for the target to seek another company with which it would rather merge or be acquired by. This third company, if it agrees, is sometimes referred to as a white knight, as it 'comes to the rescue' of the threatened target.

In hostile takeovers the acquirer may attempt to buy large amounts of the target's shares on the open market. The problem with this action is that the target's share price will tend to increase in value as soon as any large-scale purchases are detected.

In order to minimise share price rises, the acquirer may attempt to buy as much stock as possible in the shortest possible time, preferably as soon as the markets open. This practice is sometimes referred to as a dawn raid, as it attempts to take the market (insofar as is possible) 'by surprise'.

In both friendly and hostile takeovers the decision on whether or not to sell shares in the target lies with the shareholders. If all or a large proportion of target shareholders agree to sell their shares, ownership will be transferred to the acquirer. Shareholders generally will agree to a merger if they are recommended to do so by the board of directors and if they stand to make a profit on the deal. The acquirer may offer either cash or its own shares in exchange for target shares. Cash transactions offer shareholders an immediate potential profit, whereas shares offer a longer-term investment. Share transactions tend to be more attractive to shareholders in a buoyant market as the value of the shares is likely to increase more rapidly than in a stagnant market.

Mergers and Acquisitions Life Cycle

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The mergers and acquisitions (M&A) life cycle is broken down into three categories: Strategy, Execution, and Integration.

Strategy

Strategic planning helps protect you from M&A failures. Just because you want to buy a company doesn't mean you should buy that company. There are several questions you should ask yourself when researching target companies.

- Why do you want to acquire, or merge with, another company?
- What is your business objective?
- Do the target company's products or services fit with your objectives?
- What value will the deal bring you?
- What is the value of the target company?
- Does the company culture fit with your company?

These types of questions can help you narrow your choices as you screen the companies you are interested in, determine target company valuations, structure deals, and analyze how your business decisions will give you an advantage in the current market.

Importance of synergy

Synergy is a combined action or operation. Many companies decide to merge with or acquire another business based on potential synergies that can come from combining similar products and technologies. The following are some benefits that synergy can bring when companies merge:

- Combine workforces—Identify and eliminate redundancies and restructure workflows to increase efficiency and to accommodate increased business volume.
- Combine technologies—Combining similar technologies can help a company to achieve strategic advantages in your market.
- Reduce costs—Consolidation can improve your purchasing power and decrease costs as you negotiate better terms with vendors based on the need for more materials because of increased output.
- Market expansion—There is potential that combining companies will create an advantage in a particular market, or enter into a market that was not previously available to you.

Execution

During this phase, you'll want to gather experts and people with M&A experience. You need people who are expert advisors in HR, IT, operations, legal, taxes, and finances to help you cover all your bases and to help the transition run smoothly.

All of this experience, expertise, and knowledge come together to ensure that closing the deal will continue to meet the goals and objectives you established during the strategy stage.

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Integration

Integration brings another set of challenges because now two companies with two cultures need to figure out how best to work together.

You will need to put together an integration team to help the integration run smoothly. Members of this team should include:

- Senior executives to keep stakeholders informed about merger progress, to communicate the value of the merger, and to ease concerns about the company's future.
- Due diligence team to retain important information. The due diligence team works with the integration team to ensure that all data is successfully transferred, that there are no redundancies, and that no information is lost.
- Human resources to communicate with and answer questions from employees about job positions, benefits, roles, and expectations going forward.
- Change management experts to help the purchased company feel cared for, to drive employee morale, and to help employees and stakeholders buy in to the idea of being acquired. Change management experts can help to avoid problems.

Consider using existing org charts and drawing new charts as needed during the integration phase. Org charts can give you valuable information like where people are physically located, what teams they are assigned to, their specific roles and responsibilities, and who reports to whom. This information can give you insight as you plan for restructuring organizations, departments, and business units. It can also help you understand the human capital of the organization that was just purchased.

Steps for the buyer in the M&A process

Following a step-by-step process is essential for successfully navigating your way through the complexities of M&A. Below we briefly discuss 10 steps that the purchasing companies typically use during the M&A process.

Step 1: Develop an acquisition strategy

This step falls within the strategy phase of the M&A lifecycle. It is essential that you know why you want to acquire a company and what you expect to gain from the merger.

Step 2: Set the M&A search criteria

Determine the criteria for searching for potential targets, such as location, industry, profit margins, customer base, and so on.

Step 3: Search for potential acquisition targets

Use the search criteria you identified to look for and evaluate companies that may fit with the goals you want to achieve from acquiring the other company.

Step 4: Begin acquisition planning

Contact the companies that were found in your searches. Get more information to begin evaluating the potential value of a deal and to see how open the company is to M&A.

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Step 5: Perform valuation analysis

When you find a company that is interested, ask for financial, market, and other information that will help you to begin determining the company's value as a standalone company and a potential acquisition target.

Step 6: Begin negotiations

Create some valuation models to give you enough information to make a reasonable offer. After the offer is made, negotiate terms and iron out details.

Step 7: Perform M&A due diligence

When the offer is accepted, your due diligence team starts an exhaustive process that works to confirm or correct the purchasing company's assessment of the target company's value. The team performs a detailed examination and analysis of the target company's entire operations including finances, assets, liabilities, customers, employees, and so on.

Step 8: Draft a purchase and sale contract

If due diligence does not unearth any major problems or concerns, write up a final contract for the purchase by the acquirer and the sale by the target company. The contract defines the type of purchase agreement—asset purchase or share purchase.

Step 9: Develop a financing strategy for the acquisition

Financial options have most likely already been explored, but at this step you need to work out the details after the purchase and sale contract is signed.

Step 10: Close the deal and begin acquisition integration

After the deal is closed, the management teams from both companies work together to integrate the two businesses into one as seamlessly as possible. Members of the HR team and change management experts work to make employees feel like they are all part of the same team. Use org charts to get a quick overview of company hierarchy to help with restructuring and reorganization.

Steps for the seller in the M&A process

It's possible that a purchasing company might have more experience in the M&A process than the selling company. However, the seller also plays a key role in the process and should not just sit back and let the buyer call all the shots. The following are a few steps for the seller to take to help with mergers and acquisitions.

Step 1: Define the strategy

Just like the buyer needs to know why they are looking to acquire a company, the seller should have a clear idea of why they want to sell. Know what the rationale is and what objectives you want to achieve from the sale. Identify the buyers, or the qualities you want in potential buyers, that would contribute to an ideal selling situation.

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Step 2: Compile information

Put together a comprehensive informational kit to formally present your company's products and services, technology, financial standing, and market positions to buyers.

Step 3: Contact buyers

Whether a buyer reaches out to you or you reach out to potential buyers, be strategic and only talk to companies that will be a good fit. Contact more than one buyer, but don't waste time with buyers who are unlikely to acquire your business.

Step 4: Take bids

Ideally, after companies have talked to you and evaluated the informational materials you have put together, the offers will start coming in. You never want to take the first offer. Weigh all the offers to see which is the most beneficial for you and for the buyer.

Step 5: Meet and negotiate with interested bidders

Meet with the companies that are interested in purchasing your company to find out more about their intentions, what their needs are, and what they are proposing and offering. After you have looked at bids from the interested parties, start the negotiations. Refer to your defined strategy to help you narrow down to the best candidates. Remember that until the company is sold, it is still your company. Any promises made by either side are moot until negotiations are completed and the final agreement is signed.

Step 6: Draft an agreement

The buyer and the seller work together to draft a mutually beneficial deal. Once you enter into an exclusivity agreement, it means that you are locked into an agreement with the company that wants to acquire your company. At that point you can't seek out other buyers or enter into negotiations with other entities.

Step 7: Facilitate buyer's due diligence

The buyer will have to complete due diligence before the sale can be completed. It can take up to two months to complete due diligence. Help speed up the process by gathering all documentation ahead of time and stay in close contact with your buyer to help solve any problems and issues that may come up.

Step 8: Get final board agreement

When the due diligence process is completed and the buyer wants to go forward with the purchase, get final agreement from the board.

Step 9: Sign the agreement

When both companies have signed the final agreement, the company has been sold and has merged with or been acquired by the buyer.

Advantages/Disadvantages of Mergers and Acquisitions

Advantages of mergers and acquisitions

Merging companies or acquiring another company can bring a number of benefits to those involved with the business. Some advantages relate to how the business can interact with and serve its customers, while others improve efficiencies for employees. Here are some of the advantages that can come with mergers and acquisitions:

Improved economic scale: A larger business, or one that has joined forces with another business, will typically have higher needs in terms of material and supplies. By purchasing the necessary raw materials and/or supplies at higher volumes, the business can improve its scale through lower costs and potentially pass those lower costs onto the end consumers.

Lower labor costs: A merger or acquisition may result in multiple staff members doing the same job at each individual company. By coming together and eliminating extraneous staff, a business can reduce its overall labor costs while maintaining a stronger, more effective labor force. Those involved in the M&A may review the performance of individuals in similar roles and choose the best talent for each position in the new company.

Increased market share: When two companies come together that operate in the same industry or provide similar goods or services, the newly formed company can enjoy a greater market share, tapping into the resources that both bring to the business deal.

More financial resources: All companies involved in a merger or acquisition pool their financial resources, increasing the overall financial capacity of the new company. New investment opportunities may present or the company may be able to reach a wider audience with a larger marketing budget or more significant inventory capabilities.

Enhanced distribution capacities: A merger or acquisition may expand a company geographically, which would increase its ability to distribute goods or services on a wider scale.

Disadvantages of mergers and acquisitions

While mergers and acquisitions can be beneficial for the businesses involved, certain drawbacks may present that should be carefully considered by all parties. Some examples of potential disadvantages associated with mergers and acquisitions include:

Increased legal costs: Merging two companies is a legal business transaction that often requires the involvement of several key professionals. Those involved will typically have to bring in lawyers who specialize in this type of deal, as well as financial professionals who can assist with the assets and other financial details. The legal costs associated with merging and acquiring can be high.

Expenses associated with the deal: In addition to the need to pay the professionals assisting with the logistics of the merger or acquisition, the business that is acquiring the other would be responsible for paying a sum of money for that business and its assets. That cost may be viewed as a disadvantage for a business.

Potentially lost opportunities: The time, energy and money that goes into a merger or acquisition could require the businesses involved to forego other potential opportunities.

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Differences between Mergers and Acquisitions

In an acquisition, the company acquiring the other company typically maintains its business name, legal structure and operations. In a merger situation, the companies involved may choose a new name that better reflects the vision of the new, joined company, or they may choose to use one of the existing company names to maintain brand awareness and loyalty.

From a legal standpoint, the company acquired by another company essentially ceases to exist under its previous name and as its own legal entity. It is absorbed by the acquiring company, and if the acquired company sold or traded stock, the stock would be owned and managed by the acquiring company.

Although the two terms are often used interchangeably, certain situations are mergers and others are acquisitions, depending on the terms of the business deal. If a company does not wish to be taken over by another, this situation is regarded as an acquisition and may be referred to as a hostile takeover. The difference often presents in the way the merger or acquisition is presented to the employees, board of directors and shareholders. However, many merger and acquisition situations are mutually beneficial and allow companies to grow their presence and expand their reach.

4.6 STRATEGIC ALLIANCES

Strategic alliances are becoming more and more prominent in the global economy. According to Peter F. Drucker, the management guru, the greatest change in corporate culture, and the way business is being conducted, is the accelerating growth of relationships based not on ownership, but on partnership (Drucker, 1996). He also observed that there is not just a surge in alliances but a worldwide restructuring of companies in the shape of alliances and partnerships. His views are endorsed by the fact that even a cursory search for strategic alliances in business dailies produces numerous press releases about companies forming alliances. According to a recent survey by the global consulting major, Booz, Allen and Hamilton, strategic alliances are spreading in every industry and are becoming an essential driver of superior growth. The number of alliances in the world is surging — for instance, more than 20,000 new alliances were formed in the U.S. between 1987 and 1992, compared with 5100 between 1980 and 1987 and 750 during the 1970s. The firm also predicts that within the next five years, the value of alliances is projected to range between $30 trillion to $50 trillion. The survey also reveals that more than 20% of the revenue generated from the top 2,000 U.S. and European companies now comes from alliances, with more predicted in the near future. These same companies also earned higher return on investment (ROI) and return on equity (ROE) on their alliances than from their core businesses. The report also concludes that leading edge alliance companies are creating a string of interconnected relationships, which allows them to overpower the competition (www.boozeallen.com).

Generally two or more companies collaborate to create a new product or a service in a strategic alliance. Ideally this new product or service will bring a unique value proposition to the market as agreed by the collaborating parties. The potential of 47 strategic alliances' strategy is enormous and if implemented correctly can dramatically Strategic Alliances improve an organization's operations and competitiveness (Brucellaria, 1997).

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According to a survey conducted by Coopers & Lybrand, 54 percent of firms that formed alliances did so for joint marketing and promotional purposes (Coopers and Lybrand, 1997). Companies are also forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk and to achieve or ensure competitive advantage (Wheelen and Hungar, 2000). However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed (Soursac, 1996). The failure rate of strategic alliances strategy is projected to be as high as 70 percent (Kalmbach and Roussel, 1999), and hence, an appreciation of the factors that contribute to strategic alliance success and failure is critically important.

The rest of the unit explores why and how companies are forming strategic alliances, examine risks and problems associated with entering and maintaining successful strategic alliance and identify factors that may impact the success of strategic alliances in an increasingly competitive marketplace. Important implications for the successful introduction and implementation of strategic alliances are also discussed.

A strategic alliance is a partnership between two businesses to achieve mutual goals and growth, while still retaining independence. Such partnerships are usually long-term in nature, with each business bringing its expertise and resources to the table. But not all alliances are considered "strategic." There are five accepted criteria to check whether or not a potential partnership is strategic for your business. Meeting even one of these criteria can qualify as a strategic alliance:

1. The partnership is essential to the achievement of the main business objective. In other words, engaging or not-engaging in the alliance will significantly impact whether or not the objective is successfully met.
2. The partnership is indispensable in creating or maintaining any business aspect that functions as a competitive advantage.
3. The partnership cements the ability to overcome competitor threats.
4. The partnership builds, supports, or maintains strategic decision-making.
5. The partnership significantly reduces risk.

Types of Strategic Alliances

There are three main types of strategic alliances: a joint venture, an equity strategic alliance, and a non-equity strategic alliance.

1. **Joint ventures (JV):** In a joint venture, two companies come together to form a third distinct legal business entity - a "child" company - by means of a binding contract.

   One example is Tata Starbucks, a JC between Starbucks Corporation and Tata Global Beverages, the world's second largest tea producer. In 2012, the two beverage giants partnered together with 50-50 ownership to leverage their individual brands of coffee and high-quality tea and coffee.
2. **Equity strategic alliances:** In an equity strategic alliance, one partner purchases equity in another company. Alternatively, both partners can also purchase equity in each other's companies.

   Panasonic's $30 million investment in Tesla is a good example of an equity strategic alliance. Along with the purchase of Tesla stock, Panasonic also brought its cutting edge battery cell technology to the partnership.

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While Tesla was already using Panasonic batteries on its vehicles, the equity strategic alliance further helped Panasonic,in its mission to be the number one green innovation company in the electronics industry.

3. **Non-equity strategic alliances:** In a non-equity strategic alliance, partners pool resources toward a mutual business objective in a more informal agreement. There are no child entities or shared equity. For this reason, non-equity strategic alliances are one of the most common.

   Popular non-equity strategic alliances are distribution partnerships. For example, Fedex teamed up with BigCommerce to provide quick and convenient delivery for ecommerce customers.

   Business owners who use BigCommerce have access to FedEx ecommerce solutions, which include four months of free shipping service and significant shipping discounts afterward. In exchange, Fedex enjoys brand presence on the growing network of BigCommerce stores.

Reasons for joint ventures and strategic alliances

- The cost of acquisition may be too high.
- Legislation may prevent acquisition, but the larger size is required for critical mass.
- Political or cultural differences could mean that an alliance is more likely to facilitate integration than would a merger or acquisition.
- The increasing significance of a total customer service package suggests linkages through the added value chain – to secure supplies, customize distribution and control costs. At the same time individual organizations may prefer to specialize in those areas where they are most competent. An alliance provides a solution to this dilemma.
- The threat from Japanese competition has driven many competitors into closer collaboration, but they may not wish to merge. For example, American and European car manufacturers have taken stakes in Japanese businesses, where outright acquisition is unlikely.
- Covert protectionism in certain markets necessitates a joint venture with a local company. This has been particularly true in China, one of the world's fastest growing economies.

The likely outcomes

- In simple terms, increased competency, synergy and a stronger global presence are the potential outcomes targeted most frequently by alliance and joint venture partners.
- Greater innovation could well accrue from the pooling and sharing of ideas and competencies, which in turn enables greater focus (by each partner) combined with resource leverage.

Advantages of a Strategic Alliance

Strategic alliances offer the core advantages of increasing resources, accessing new markets, growing brand awareness, and more. Below are some of the top strategic alliance advantages:

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Increased resources: Strategic alliances enable businesses to gain access to supplementary resources in the form of knowledge, products, or other assets without changing their core functions.

Every business has its own expertise and most prefer to stick to their core competencies. Being able to share the best of what each one has to offer and turn them into something greater than the sum of its parts can take business relationships to exponentially greater heights.

Plus, what you learn from another company [illegible] can often be adapted and applied to your own business.

Access to new markets: One of the most popular reasons to enter into strategic alliances is to gain access to another market. This is especially common when a new product, event, or campaign is being launched.

Offering something new together with a partner creates a sense of excitement and exclusivity, which can help with market penetration for both businesses.

Expanded customer base: In a strategic alliance, it's typical for businesses to be publicly mentioned by their partner. In fact, businesses often choose partners based on their local presence or position in another market.

The added exposure brought by a strategic alliance offers both businesses a larger customer base they may not have been able to reach alone.

Agile growth: A strategic alliance brings the benefit of having double the manpower, skillset, knowledge, and more. Reaching your objectives can instantly be done much quicker and more efficiently.

However, since the costs and risks are also shared, the informal nature of a strategic alliance makes it a good way to explore an idea in a shorter time frame, at significantly lower costs.

Greater brand awareness: With an expanded customer base and growth into new markets, strategic alliances have the added advantage of building brand awareness. Partnering with a business that has a positive reputation can also enhance your own through association.

Disadvantages of a Strategic Alliance

On the surface, a strategic alliance looks like a great business strategy to scale quickly with minimal risk.

However, this isn't always the case. Strategic alliances come with their own set of challenges, which you should be aware of when considering this type of partnership:

Search for the right partner: Most of the work involved in setting up a strategic partnership is in engaging with the right partner. Take your time to choose a partner with the same values, vision, and most importantly, the commitment to making the best of the relationship.

Can they give an equal amount of time and resources? Do they have a positive reputation? If you don't see eye to eye with your partner, you may encounter some difficulties working together in a strategic alliance.

Unable to let go of control: Letting go of some control is necessary for a strategic partnership to be effective. You're agreeing to share resources and responsibilities, and

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different businesses do things in different ways. (This can be more pronounced when partners are from different countries or cultures.)

Bring up any new ideas and set clear expectations at the start. Then, maintain open lines of communications to ensure the partnership is progressing on the right track.

At the end of the day, a strategic alliance is not just about you – it's about getting the best for both parties involved.

Lack of transparency: Strategic alliances require both parties to share certain amounts of information and resources. To do this, establishing a foundation of mutual trust and faith is essential.

Sometimes, a business may not represent itself accurately and deliberately hide or misrepresent aspects that could have considerable bearing on the partnership. Or a partner may start out with a high level of enthusiasm, but isn't able to maintain that level of dedication throughout the partnership.

In cases like these, the other partner may feel misled and no longer see value in the relationship.

Increase in liability: Strategic alliances can increase the level of liability for all stakeholders. If one business mismanages its resources, lands in financial trouble, or fails to hold up their end of the bargain, its partner can also suffer as a result.

Even if a business experiences difficulty outside the parameters of the strategic alliance, if it affects the strategic alliance in any way, the partner may also be responsible for sharing the burden of any liability.

How do you create a strategic alliance?

Strategic alliances are a great way for businesses to pool resources together and experiment in new markets. If you've been thinking of entering into a strategic alliance, it's important to take the proper steps that will set you up for success.

Here are some general steps to guide you in setting up a successful strategic alliance from the get-go:

Step 1: Assess the market and validate your idea

Before even looking for a strategic partner, it's important to do an initial assessment of the business environment, target market, and validate your idea.

Start by coming up with the best possible product or solution that can be provided, the best possible product or solution you can offer, and what you need to bridge any gaps between the two. What you identify in the gap between both solutions (what can be provided and what you can offer) is essentially what your partner should be able to help you with.

Step 2: Choose the right partner

The next step is identifying the right strategic partner. Here are some questions to ask to narrow down your best choices:

- What are the key traits you're looking for in a partner?
- What value do you expect from the potential partner? (The more you can quantify this, the better.)

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- How much risk do you see coming from the potential partner?
- Do you share the same values, vision, and goals? Are your corporate/management structures compatible with each other?
- Does the partner have previous experience in partnerships? If so, have you reviewed their track record and performance?
- Have you thoroughly researched the potential partner's reputation, profitability, and expertise? (You can do this through referrals, your own research, and advice from experts in the industry.)
- How long do you see the engagement lasting?
- Can the partner connect you to other potentially beneficial organizations in their network?

Step 3: Initial meeting with the potential strategic partner

Once you've done the groundwork and have a solid understanding of your partner's business and how you can work together, it's time to connect.

Send your proposition across to the key stakeholders and set up a time to discuss it in detail. Remember, strategic alliances are supposed to be win-win relationships. So your proposal should include what value they will get in forming a partnership with you.

In general, an kickoff meeting should cover:

- Your market assessment, validation process, and the results and insights
- A detailed roadmap and implementation model, based on your market validation
- Revenue/profit objectives, and specific strategies and resources needed to achieve them
- The strengths you bring to the partnership
- What will be expected from each partner throughout the relationship

After your presentation, leave the floor open for any feedback or suggestions from your potential partner. Be open to discussing other potential opportunities they may have in mind.

Based on the meeting, both businesses can assess if there's an opportunity to go forward and close the deal. Sometimes, this requires a little back-and-forth to iron out all the details based on feedback from both businesses.

Step 4: Formalize the strategic alliance

Once both parties are aligned and agree to move forward, it's time to formalize your strategic alliance. Draw up an agreement to should cover the following:

- A detailed roadmap and duration of the partnership
- Key points of contact from each party
- Expectations and resources required from either party (include any proprietary information, confidentiality clauses, or non-disclosure agreements)
- Metrics and accountability measures
- Management protocol and structure of the relationship

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- Key milestones and meeting schedules
- Any cases in which the partnership can be ended
- Other rules of engagement (see below)

It's best to have all documents reviewed by your legal team and key stakeholders.

Examples of strategic alliances

As we've seen, strategic alliances are formed to drive growth and profit for both companies. But the way these results are achieved depend on what each strategic partner brings to the table. Let's take a look at some high-level examples:

Example: Company A, a health and wellness business, enters into a strategic alliance with company B, a research laboratory to create a new commercially viable product. Through this partnership, Company A gains access to innovation, while Company B gains access to funding and a new market.

4.7 PORTFOLIO ANALYSIS

Portfolio analysis in strategic management involves analyzing every aspect of product mix to identify and evaluate all products or service groups offered by the company on the market, to prepare the detailed strategies for each part of the product mix to improve the growth rate.

It can also be used to make a strategic decision about strategic business units. Portfolio analysis in strategic management has, as its major objective, the optimal gathering of the resources among the business activities comprising a diversified business portfolio.

Portfolio analysis is a process of examining all the aspects related to the organization to improve the organization's profits.

Portfolio analysis aims to identify the components that need to be enhanced to remove barriers from making the working process recognize better methods to allocate resources to improve the return on investment (ROI).

Reasons For Portfolio Analysis

A different purpose for conducting a business portfolio analysis in strategic management. The three main reasons why management focuses on business portfolio analysis in strategic management, which are:

1. **Analysis:** The organization's first reason to conduct a portfolio analysis in strategic management is to determine every product mix's current position and determine which SBUs (strategic business unit) need more or less investment. Management needs to create the organization's entire portfolio to analyze the present opportunities and threats to the market and the product.
2. **Formulate Growth Strategy:** Another aspect that management wants to formulate from the portfolio analysis in strategic management is the growth strategy. According to other products and markets, they develop a different strategy according to their potential threats and opportunities. Portfolio analysis in strategic management helps in laying down the strategy of expansion as well.

3. **To Take Decisions Regarding Product Retention:** Another reason for corporate portfolio analysis in strategic management is to determine the life of the product i.e., to determine which product should be retained longer and which product should be removed from the product line.

These are the three primary and basic reasons for the portfolio analysis in strategic management.

Business Portfolio Analysis

Business Portfolio Analysis in strategic management gives importance to the development of strategies equal to the handling of investment portfolios. It is based on the theory of organisational strategy build-up techniques.

Business Portfolio analysis in strategic management shows systematic ways to interpret product and service that form a part of business portfolio analysis. The way in which the financial investments of the firms are treated likewise the appropriate organisational activities should be followed and the inappropriate ones should be disregarded.

Basically, business portfolio analysis forms a part of portfolio analysis in which the company emphasizes that the corporate strategies form a significant part of the decision making for the future accomplishment of the goals.

Process For Portfolio Analysis

Portfolio analysis in strategic management process in an organization is as follows:

Step 1: Identify Lines of Business: The first step of business portfolio analysis in strategic management is to identify all the current business lines and strategic business units.

Step 2: Group Lines of Business: An organization has three levels of business operation, which are:

- Broad membership – directly support the objectives in the strategic plan
- Support functions – deliver the core business benefits to members
- Money-makers – the source of revenues which support core businesses

Step 3: Compare Core Businesses With Mission: After separating the activities, the next step in portfolio analysis in strategic management is to compare the core starts with vision and mission and defined goals and objectives. The business should directly support the statements. If the comparison differs, then companies should discontinue allocating the resources in that sector.

Step 4: Define Products In Each Line of Business: The next step of portfolio analysis in strategic management is to categorize each relevant product line I;e, subdivide, and define each product relevant product line.

Step 5: Apply The Program Evaluation Matrix: The Program Evaluation Matrix helps in determining the fundamental question of portfolio analysis in strategic management, which are:

- Good fit with our other programs?
- Easy to implement?
- Low alternative coverage in the marketplace?
- Is competitive position strong?

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Step 6: Determine The Alternatives: At this stage, identification of alternatives is made i.e., the competitors. Identification of similar products and their coverage area in the market. And the coverage is classified into:

- Low coverage – few comparable programs offered elsewhere.
- High coverage –many similar programs are offered elsewhere.

Step 7: Determine Program Fit: Ideally, the association will be segregated into two types of programs:

- Well-fitting, accessible programs where the association has a strong position and competes aggressively for a dominant position.
- Well-fitting, difficult programs with low coverage that the association has the unique, strong capability to provide to essential stakeholders.

This is the repeat process of portfolio analysis in strategic management which takes place in an organization.

Portfolio Management

Portfolio Management explains a process in which individuals' investments are managed in order to maximise their earnings given a definite time period. Also, it is kept in mind that the invested capital is not exposed to market risk after one limit.

This process of portfolio management depends entirely on the ability to fluctuate with sound decisions. In brief, portfolio management relates to allocating assets and diversifying the resources as per the risk in order to achieve a profitable investment mix.

Initially, portfolio management is a way out of SWOT (strength, weakness, opportunity, threat) analysis of various investment avenues in comparison to investors' risk appetite and goals. As a result, this helps the investors to earn and protect them from favourable risks.

Objectives of Portfolio Management

The objective of portfolio management is to select from different investment avenues that best suits the investor depending on various demographic factors like income, time period, age and risk.

- Risk optimisation
- Ensuring flexibility of portfolio
- Allocating resources optimally
- Maximising returns on investment
- Capital appreciation
- To improve the overall proficiency of the portfolio
- Protecting earnings against market risks

Types of Portfolio Management

Portfolio management can be broadly classified into 4 types which are as follows:

1. Active Portfolio Management
2. Passive Portfolio management

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3. Discretionary Portfolio Management
4. Non – Discretionary Portfolio Management

Active Portfolio Management

This kind of portfolio management is typically aimed at maximising returns. The portfolio manager puts a significant amount of resources into the exchange of securities. Simply the portfolio manager purchases the stocks when undervalued and sells them on the increment of their value.

Passive Portfolio Management

This type of portfolio management aims at fixed profile designs that are complementary to the current market trends. The portfolio manager here likes to invest in funds with a long run approach and low but steady returns.

Discretionary Portfolio Management

This portfolio management is typically based on the authority of the portfolio manager and is entrusted to invest on the investor's behalf. This should be kept in mind that the portfolio manager takes into consideration the risk appetite and goals of the investors and then makes the decision to choose the respective investment strategy whichever is suitable.

Non – Discretionary Portfolio Management

This type is totally opposite of what has been studied in just above portfolio management. Here the portfolio manager just does the advisory part of investment choices. In this situation is it the choice of the investor whether to take it or reject it. Portfolio management in this case is a suggestion from financial experts to take an opinion from portfolio managers before disregarding them.

Advantages of Portfolio Management

- It helps investors to assess the performance periodically and make changes to their Investment strategies if such analysis warrants.
- This helps in comparing not just portfolio against a benchmark for return perspective but also to understand the risk undertaken to earn such return which enables investors to derive the risk-adjusted return.
- It helps in realigning the investment strategies with the changing investment objective of the investor.
- It helps in separating underperformance and outperformance and accordingly, investments can be allocated.

4.8 CORPORATE PARENTING

The corporate parent refers to the levels of management above that of the business units, and therefore without direct interaction with buyers and competitors. There are basically three styles of corporate parenting as follows; financial control, strategic planning and strategic control.

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Corporate Parenting refers to the partnerships between the local authority departments, services and associated agencies who are collectively responsible for meeting the needs of looked after children, young people and care leavers. Local authorities should care about children in their care, not just for them. Through good practice they can offer the same standards of support as any reasonable parent. It is corporate strategy that should guide key decisions in the businesses and coordinate their business strategies. But, for most corporate enterprises, the corporate strategy is simply the sum of business strategies, with some broad objectives and statement of business mission.

There are basically three styles of corporate parenting as follows:

Financial control: Under this style the role of the corporate parent is to monitor and evaluate the financial performance of investment portfolio of the respective business units. The corporate managers act as agents on behalf of shareholders and financial markets to identify and acquire viable assets and businesses. The business unit managers are given the autonomy to carry out business activities and make decisions at their level. However the corporate parent sets performance standards for control purposes.

Strategic planning: Under this style the role of the corporate parent is to enhance synergies across the business units. This may be achieved through: envisioning to build a common purpose, facilitating cooperation across businesses and providing central services and resources.

Strategic control: Under this style the corporate parent leverages its resources and competences to build value for its businesses. For example a corporate could have a valuable brand or a specialist skill. The corporate parent uses its parenting capabilities to seize opportunities for growth.

But, more ambitious aspiration for the parent is its ability to gain parenting advantage – it should aim to be the best possible parent for its businesses. In aggregate, the businesses under its "patronage" should perform not only better than they would as standalone entities but also better than they would under "patronage" of any other parent. Corporate strategy should clarify how and where the enterprise can achieve parenting advantage. The link between parenting advantage and corporate strategy therefore parallels the link between competitive advantage and business strategy. Competitive advantage is in the heart of successful business strategies. It guides strategic analysis and provides a basis for assessing alternative action plans. The concept of parenting advantage plays a similar role at the corporate level. It should be the fundamental test for judging corporate strategies and the guiding principle in corporate-level decisions, guiding the decisions towards better market opportunities and higher corporate performance.

There are nine propositions for achieving parenting advantage and, consequently, for successful implementation of corporate parenting strategy.

1. **Justifying the Parent:** Many of the businesses in multi-business corporate enterprise could be viable as stand-alone entities. Since the corporate parent has no external customers for its product/services, it can justify itself if it influences businesses collectively to perform better than they would as independent entities. The challenge for the corporate parent to justify itself is important because it focuses attention on whether and how its activities do add value, which leads to the elimination of worthless and bureaucratic routines in the activities of enterprise.

2. **Parenting Advantage:** Corporate parents compete with each other for the ownership of businesses. Therefore, for keeping their stakeholders (especially businesses), the parents must add more value to the businesses in the portfolio than other rival parents would. This objective, which is referred to as achieving parenting advantage, should be one of the most important objectives of corporate strategy. Namely, parenting advantage should be the guiding criterion for corporate-level strategy, rather as competitive advantage is for business-level strategy.
3. **Value Destruction:** All multi-business enterprises have tendencies to destroy value. It is corporate hierarchy, especially senior management, that inevitably destroys some value. Value destruction drivers (so-called information filters) are related to the tendency of business managers to filter the information they provide to corporate management in order to present their businesses in the most favorable light. For avoiding value destruction, corporate parents must be more disciplined, which implies avoiding intervention in businesses unless they have specific reasons for believing that their influence will be positive, or avoiding extension of their portfolio into new businesses unless they are sure that they will be able to add value. So, good corporate strategy should recognize the tendencies of value destruction and be designed to minimize their influence as much as to maximize value creation.
4. **Lateral Synergies:** Since there is existence or potential for lateral linkages between the businesses in corporate enterprise, the main role of parent managers should be to create synergy. It primarily includes their pursuing of real synergy opportunities, and their positive interventions in the lateral relationships between businesses. The parent managers should also focus their efforts only on those synergies that need central intervention as well as encourage so-called market place relationships between business units. So, the importance of lateral synergies in creating value in corporate enterprise requires from corporate parents to pay relatively more attention to other sources of value creation, in particular their ability to improve performance in each individual business as an independent entity.
5. **Value Creation:** Value creation primarily occurs when the parent sees an opportunity for a business to improve performance and has the skills, resources and other characteristics for helping the business to seize the opportunity. This means that the parent enhances both the individual performance of the business and the value of linkages between the businesses, and creates value by altering the composition of the business portfolio performing its corporate development activities. The conditions for value creation are important because they force corporate parent to think about major opportunities for added value through the corporate strategy and also help corporate parent to focus its efforts on building special competences or skills that fit the particular opportunities targeted by the businesses.
6. **Corporate Office and Management Processes:** The importance of the size, staffing and design of the corporate office as well as managing corporate processes (such as planning, performance targeting and monitoring, etc.) are not in question, and managers devote considerable attention to them. But if corporate functions and processes are not developed as an integral part of the overall value adding corporate strategy, they may lead to little or no improvement in performance. For parent managers it is far more important to possess the skills that are suitable for the parenting opportunities targeted by the corporate-level strategy

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7. **Diversity:** It is a fact that highly diverse corporate enterprises are more difficult to manage than less diverse ones. So a vital managerial guidance for corporate parent is provided by creating valid measures of diversity. In that sense, diversity is best measured in terms of the differences in parenting needs and opportunities between businesses in portfolio. To avoid excessive diversity, corporate parent should build its portfolio around businesses with similarities in terms of parenting needs and opportunities.
8. **Stretch and Fit:** Corporate parent must realistically consider the speed with which it can build new skills and understand new types of businesses. It is supposed to search for new opportunities continuously and refine and extend parenting skills, which encourage innovative ideas and help eliminate many disasters of excessive corporate ambition. Therefore, enterprises that do push forward into new businesses will prosper more if they choose those businesses that are compatible with parenting skills that they can develop. It is better to choose a narrower range of businesses where greater fit can be created. Good corporate strategy should maintain a balance between the stretch for new opportunities and fit with the parent's existing skills.
9. **Business Unit Definition and Corporate Structure:** Business units (businesses) represent the basic "building blocks" in any multi-business corporate enterprise. Business unit definition and, consequently, corporate structure have a profound impact on both the value creation opportunities and the value destruction risks for the corporate parent. They impact the behavior and aims of business managers and the size and nature of parenting opportunities. Inappropriate business definitions lead to compromised business strategies and missed opportunities for parenting value creation. Therefore, decisions on unit definitions and corporate structure should be determined by careful analysis of their likely impact on value creation. Getting the unit definitions and corporate structure right is an important precondition for a successful corporate strategy.

Naturally, these propositions are not obligatory for corporate managers in their managerial activities. They are recommended as elements of successful corporate strategy and ways for achieving parenting advantage in multi-business corporate enterprises as the factor of their higher competitive advantage.

The process of transition results in a discontinuity of business activities, growth and development of enterprises, which requires flexible and adaptive forms of organizational structure and management system. This implies making complex corporate business arrangements. At the same time, there is the process of creating dynamic and unpredictable markets, immanent to developed market economy. These markets always change opportunities and capabilities for creating competitive and corporate advantage and business success of enterprise. Adjustment to market possibilities for performing efficient business activities changes the corporate "repertoire" of corporate strategy. The new corporate strategy focuses on corporate strategic processes of restructuring or "remapping" business portfolio as well as on co-evolving its elements, on the basis of simple rules for its application. These are a guarantee for performing business activities in a more efficient way.

Corporate Parenting Principles

- To act in the best interests, and promote the physical and mental health and well-being, of children and young people.

- To encourage those children and young people to express their views, wishes and feelings.
- To take into account the views, wishes and feelings of those children and young people.
- To help those children and young people gain access to, and make the best use of, services provided by the local authority and its relevant partners.
- To promote high aspirations, and seek to secure the best outcomes, for those children and young people.
- For those children and young people to be safe, and for stability in their home lives, relationships and education or work.
- To prepare those children and young people for adulthood and independent living.

4.9 FUNCTIONAL STRATEGY

The activities and processes—such as human resource management, research and development, finance, production, and marketing — constitute the strategic functions of an organisation. Strategies designed to enact these strategic functions are referred to as functional level strategies. A functional strategy is the short-term game plan for a key functional area within a company.

It deals with a relatively restricted plan that provides the objectives for a specific function, for the allocation of resources among different operations within the functional area. It facilitates coordination between them. Functional strategies contribute to the achievement of business and corporate-level objectives.

According to Thompson and Strickland, "The term functional strategy refers to the managerial game plan for a particular functional activity, business process, or key department within a business. A company's marketing strategy, for example, represents the managerial game plan for running the marketing part of the business. A company's new product development strategy represents the managerial game plan for keeping the company's product lineup fresh and in tune with what buyers are looking for."

Pearce and Robinson define "a functional strategy is the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future."

According to Thomas Wheelen and David Hunder, "Functional strategy is the approach a functional area takes 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 a company or business unit with a competitive advantage. Just as a multidivisional corporation has several business units, each with its own business strategy, each business unit has its own set of departments, each with its own functional strategy."

Thus, a functional strategy is a set of decisions and actions managers make and take to attain superior competency in business functions in accordance with the corporate and business-level strategies. Once corporate and business-level strategies are developed, management must turn its attention to formulating strategies for each business unit's functional areas.

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Functional Strategy – Concept

'A functional strategy is the short-term game plan for a key functional area within a company'. It is the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity.

It deals with a relatively restricted plan that provides the objectives for a specific function, for the allocation of resources among different operations within that functional area and for facilitating coordination between them for an optimal contribution to the achievement of the business and corporate-level objectives.

Functional strategies clarify corporate and business strategies by providing more specific details about how key functional areas to be managed in the near future.

Functional strategy is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations.

Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company to pursue the business strategy in daily activities. In a sense, functional strategies translate grand strategy into 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.

Functional strategies play an important role in implementing corporate and business strategy. But to increase the probability that these strategies will be successful, more specific guidelines are needed for the business's operating components. Thus, functional strategies clarify the business strategy, giving specific short-term guidance to operating managers.

Why Functional Strategies are Needed

The reasons why functional strategies are needed can be enumerated as follows:

(i) Aimed at making the strategies formulated at the top management level practically feasible at the functional level.

(ii) Provide flow of strategic decisions to the different parts of an organization.

(iii) The basis for controlling activities in the different functional areas.

(iv) The time spent by functional managers in decision-making is reduced as –

  a. Plans lay down clearly what is to be done, and

  b. Policies provide the discretionary framework within which decisions need to be taken.

(v) Help in bringing harmony and coordination as they remain an important part integral part of major strategies.

(vi) Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Functional strategies play two important roles:

(i) They provide support to the overall business strategy.

(ii) They spell out how functional managers will work so as to ensure better performance in their respective functional areas.

Functional Strategy – Importance

Today, every firm faces challenges in optimizing resources such as finance, production facilities, technology, and marketing opportunities in functional areas. Functional managers need strategies to make the best of opportunities and to identify avenues for growth. They need strategic focus on their decisions in their fields.

The importance of functional strategies is pointed out under the following headings:

1. **Help in Operation of Business Functions:** Functional strategies provide operational help in the conduct of various functional activities. For example, a finance manager has to necessarily take decisions on funding opportunities, deploying projects, reducing capital costs, or acquiring another firm. In addition, he has to decide on strategic options to manage working capital, which may be used to decide the various aspects of receivables management, factoring, payables management, inventory strategy, and treasury management.

   Similarly, to manage human resource function, a number of strategic initiatives can be deployed by a firm. Managers need strategic focus on various functions. The production and operations management function also involves a number of strategic issues.

2. **Managerial Road Map:** Thompson and Strickland write, "A company needs a functional strategy for every major business activity and organisational unit. Functional strategy, while narrower in scope than business strategy, adds relevant detail to the overall business game plan. It aims at establishing or strengthening specific competencies calculated to enhance the company's market position. Like business strategy, functional strategy must support the company's overall business strategy and competitive approach. A related role is to create a managerial road map for achieving the functional area's objectives and mission."

3. **Help in Implementation of Grand Strategy:** Pearce and Robinson state that "functional strategies must be developed in the key areas of marketing, finance, production, R&D, and personnel. Functional strategies help in implementation of grand strategy by organising and activating specific subunits of the company to pursue the business strategy in daily activities."

4. **Decisional Guides to Action:** Functional strategies guide and translate thought into action designed to accomplish specific annual objectives. Thus, functional strategies may be regarded as decisional guides to action that make the strategies work. They clarify many conflicting issues and problems, giving specific short-term guidance to operating managers and employees.

5. **Improves Effectiveness and Efficiency and Creates Super Profitability:** It should be noted that functional strategies aim at improving the effectiveness of a company's operations and thus its ability to attain superior efficiency, quality, innovation, and customer responsiveness. It is important to keep in mind the relationships of functional strategies, distinctive competencies, differentiation, low cost, value creation, and profitability.

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We can note that functional-level strategies can build resources and capabilities of a firm that enhance superior efficiency, quality, innovation. These in turn, create low cost, value and superior profitability.

6. **Builds Competitive Advantage:** Functional strategies can improve the efficiency, reliability (quality), and consumer responsiveness of its service. Thus, they can be used to build a sustainable competitive advantage. Functional strategies can increase efficiency of activities and thereby lower their cost structure. In fact, functional strategy is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

Other Benefits of Functional Strategies:

- They give operating personnel a better understanding of their role in the firm's mission.
- The process of developing them becomes a forum for raising and resolving conflicts between strategic intent and operational reality.
- They provide a basis for developing budgets, schedules, trigger points, and other sources of strategic control.
- They can be powerful motivators, especially when connected to the reward system.

Types of Functional Strategy

1. *Marketing Strategy*

The definition of marketing strategy can be given, as – "A marketing strategy is a practice that allows an organization to focus on the available resources and turn the opportunities into productivity to increase sales and achieve justifiable competitive lead." Marketing strategies provide detailed information to the necessary plans to be taken, to carry out the marketing program.

By using an effective marketing plan an organization may go for capturing a large share of existing market, develop a new market for its current products, or develop new products for its existing market or even go for total diversification strategy that mean developing a new product for an entirely new market.

The marketing strategy based on building an organization that revolves around customer satisfaction helps the organization in achieving fast growth rate. It describes how the organization is going to engage customers, identify the prospects, and the competition in the market.

It derives from the broader corporate strategies and corporate goals. A strategy consists of range of refined thoughts and organized series of tactics. It is not possible to implement a marketing plan, if it is not based upon sound strategy formulation.

Marketing strategy includes the successful understanding of internal and external environment. Internal environment factors include the analysis of marketing mix, whereas external factors include the analysis of political, legal, economic, social, technological, cultural, environment, and evaluation of customer, competitors, and target market. Various analyses can be performed to understand the strategic constraints and focus such as – SWOT analysis, GE/McKinney matrix or COPE analysis.

As every unique business has unique features, the marketing strategies of different businesses, also differ in accordance with those.

However, one can categorize the strategies in four major schemes given below:

(i) Market dominance based strategies – It depends upon the basis of the market share, the firm holds in the market or the dominance of an industry is required to make the basis for this categorization. There may be three types of market dominance strategies such as – Leader, Challenger, and follower.

(ii) Porter generic strategies – It focuses to the scope of market penetration and firm's sustainable competitive advantage. It can be further divided into three broad categories such as – cost leadership, product differentiation, and market segmentation.

(iii) Innovation strategies – It focuses on the rate a firm develops new products and innovative business models. There are three types such as – pioneers, close followers, and late followers.

(iv) Growth strategies – It deals with the questions what should be the measures, which may help the organization in proper growth. The most common ways may be horizontal integration, vertical integration, diversification, and intensification.

A good marketing strategy consist the following points:

(a) Flexible – Having an overall control is needed while implementing any plan but there must be some space for changes also, as the needs and situations may keep altering and if there is no possibility for flexibility in the plan, adaption and implementation of change may become difficult.

(b) Comprehensive – Having a complete overview is very important before going for implementation of the plan, as the plan may lead to failure if any necessary details have been missed.

(c) Consistence – Having consistency, is very much needed in any good marketing strategy as there is no use of the plan if it couldn't correlate with the other functional strategies and fail in achieving the overall corporate and business level objectives. Maintaining consistency also ensures that employees are in accordance with what has been mentioned in the functional strategy.

(d) Rational – Maintaining rationality is very necessary; as the plan must flow in the logical manner, otherwise it would not come up with corporate level objective.

Marketing strategy relates to the formulation and implementation of marketing mix that is product, price, place, and promotion.

2. *Financial Strategy*

The financial strategy deals with the availability or sources, usages, and management of funds. It focuses on the alignment of financial management with the corporate and business objectives of an organization to gain strategic advantage. It emphasizes on the aspects such as – how much fund is required. When the fund is required? How the funds should be raised? In addition, by what are the means to use and manage the funds?

The financial plans and policies should focus on some major points:

(i) Determining the financial resources, which are necessary to meet the operating program of the organization?

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(ii) Developing plans for obtaining the obligatory external funds.

(iii) Governing the allocation and use of funds by founding and upholding the financial control system.

(iv) Formulating programs, which max help in providing the most effective profit-volume-cost relationship.

(v) Analyzing the operation's financial results.

(vi) Reporting the data to the top management and planning the future operations of the firm.

A sound financial plan, apart from cost, solvency, and liquidity and profitability, has few more prominent characteristics such as – it is based on clear cut objectives, it's simple in nature, shows less dependency on outside sources, and is flexible in nature.

The financial plans and policies deal with three major issues such as:

- Sources,
- Usages, and
- Management of funds

The Sources of Funds: It refers to the owner's capital, borrowing from public through shares and debentures, and loans from financial institutions. Financial plans and polices are related with the requirements of capital, desired capital structure, reserves and surplus, and relationship with lenders. It is often the hardest part as raising the funds is the first and the most important requirement for setting up any business.

Raising funds need careful planning and ask the answers of few questions such as how much finance is required? When is the finance needed? For how long is it needed? What security can be provided for availing the finance? Can some ownership be given at the startup of the business, in return for investment?

There may be some external sources and some internal sources, which may facilitate the startup finance. The internal sources that are from within the organization may be personal sources such as – the savings and inheritance of the entrepreneur, borrowings from friend and family and credit cards, retained profits, and share capital that is invested by the founder. The external sources are the outside providers ot fund. It includes, loan capital, share capital, and venture capital.

For instance, the financial plan of an organization is to raise 50% funds by borrowing from public and rest 50% by owned funds. An organization generally does not use the reserves as funds because they are used for investment and contingency purposes.

Usage of Funds: It implies that the funds can be used for making investments, giving loans and advances, and offering dividends to shareholders. In short, it asks the answer of 'how the entrepreneur is planning to spend the fund or money?' The funds should be utilized in an efficient and effective manner.

Financial plans and policies allocate funds to carry out various strategies related to expansion of business and giving dividends to shareholders. A plan can be an expansion plan, such as – merger and acquisition with another organization; whereas a policy can be giving minimum 20% of dividend to shareholders.

The Management of Funds: Help in the optimum utilization of funds. The plans and policies at this level relate to areas, such as cash and credit management, tax planning and accounting, and budgeting. Thus, the plans and policies at the financial level are very important since they determine the sources, usage, and management of funds that help in the implementation of projects.

3. *Operations Strategy*

According to Slack and Lewis, operations strategy can be defined as – "the total pattern of decisions which shape the long term capabilities of any type of operations and their contribution to the overall strategy, through the reconciliation of market requirements with operations resources." One must not be confused between two terms that are "operations" and "operational".

However, the words are similar but have different meaning. 'Operations' refers to those parts of business which deals with producing goods and services. 'Operational' means short term and limited plans. For example, a marketing strategy defines the procedures and approaches to be used by an organization to position its business in the market.

While on the other hand, operational side of marketing refers to the day-to-day activities or tactics to manage things such as – pricing, promotion of product or service, and its distribution.

The procedure, which is used to formulate the operations strategy, is known as the process of operations strategy, which defines the way 'how to go for operations strategy'?

We can broadly describe two approaches for devising an operations strategy:

Top-Down Approach: It determines the flow of directions or decisions from the top level to the lower level in the organizational hierarchy. The top-level management takes the decisions and set the organizational objectives and policies, and then those decisions and policies are implemented by the different functional areas of the organization such as marketing, finance, HR. etc.

Bottom up Approach: It originates from the practical experiences of the past. It is not always feasible to formulate the strategy without knowing the actual condition of the internal and external environment. Bottom up approach suggests forming the ideas from their earlier experience of dealing with customers, suppliers, distributers, and their own processes and then invent the strategies based upon these experiences.

In any organization corporate and business level strategies set the base for standing in market with competitors that in turn affect the business, the target market, and the manner, which defines how to serve the market.

Thus, operations strategy formulates a long-range game plan for the production of goods and services of any organization and provides a road map for the production function to achieve the business level and corporate level strategies simultaneously.

4. *Human Resource Management Strategy*

Human resource management (HRM) strategy assists in implementing the specific function of human resource management to any organization. Human resource management strategy provides a practical framework of managing human resource in line with the organization's corporate objectives.

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It involves a four-way approach:

(i) Developing a strategic framework.
(ii) Generating HR mission statement.
(iii) Applying SWOT analysis.
(iv) Making HR planning decisions.

Human resource management strategy focuses on organization, culture, people, and systems. It focuses on the implementation of the specific functions of HR, which includes policies on recruitment and selection, disciplinary policies, reward policies, training and development policies and payroll processes etc.

Thus, HRM strategy is an overall plan, which concentrates on implementation of specific HR functions, which are generally administrative in nature and help in correlating with the whole business strategy. Human resource management comprises of various practices:

- Human resource planning
- Recruitment and selection
- Induction
- Training and development
- Skill management
- Remuneration
- Performance appraisal
- Personal administration
- Time management
- Payroll
- Employee benefit and ethical issues
- Personal cost planning
- Labor relations.

Development of Functional Strategies

The development of functional strategies aims at formulating the strategies at the top management level that is practically feasible at the functional level. Strategies need to be segregated into viable and unviable functional strategies. Viable functional strategies are those that are compatible with each other, thereby augmenting the horizontal fit.

In this way, the functional managers can implement the strategies. The process of development of functional strategies may range from the formal to the informal. Larger and more complex organizations may have several strategies related to every major function. Comparatively smaller organization may operate with fewer policies, most of which could be informal and understood.

Vertical Fit: The concept of vertical fit defines functional strategies in terms of their capability to contribute to the creation of a strategic advantage for the organization.

Viewed in this way we can have the following types of functional strategies:

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- Strategic marketing functional strategies focus on the alignment of marketing management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic financial functional strategies focus on the alignment of financial management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic operations functional strategies focus on the alignment of operations management within an organization with its corporate and business strategies to gain a strategic advantage
- Strategic human resource functional strategies focus on the alignment of human resource management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic information management functional strategies focus on the alignment of information management within an organization with its corporate and business strategies to gain a strategic advantage.

Horizontal Fit: The concept of horizontal fit means that there has to be an integration of the operational activities undertaken to provide a product of service to a customer. These have to take place in the course of operational implementation.

Operational implementation is the approach an organization adopts to achieve operational effectiveness. When an organization performs value-creating activities optimally and in a way that is better than its competitors, it results in operational effectiveness.

Managerial Aspects of Managing Functional Strategy

Each business enterprise has its own set of departments. Each department has its own functional strategy. Within the general framework created by the corporate and business strategies, each business function needs to identify and undertake activities unique to the function. The functional strategies delineate the activities to be undertaken in each part of the business and usually include them as a core part of their action plan.

A few managerial aspects of managing functional strategy can be noted:

1. **Lead Responsibility:** The main responsibility for conceiving strategies for each of the various important business functions and processes is normally delegated to the respective functional department heads and process managers.

   Thompson and Strickland think that "In crafting strategy, the manager of a particular business function or process ideally works closely with key subordinates and touches base often with the managers of other functions/processes and the business head. If functional or process managers plot strategy independent of each other or the business head, they open the door for uncoordinated or conflicting strategies."
2. **Coordination and Consistency:** Thompson and Strickland further point out that compatible, collaborative, mutually reinforcing functional strategies are essential for the overall business strategy to have maximum impact.

   Plainly, a business's marketing strategy, production strategy, finance strategy, customer service strategy, new product development strategy, and human resources strategy should be in sync rather than serving their own narrower purposes. Coordination and

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consistency among the various functional and process strategies are best accomplished during the deliberation stage.

3. **Strategic Choice:** After the pros and cons of the potential strategic alternatives have been identified and evaluated, and must be selected for implementation. By now, it is likely that many feasible alternatives will have emerged. How is the best strategy determined?

   Perhaps two most important criteria are:

   i. The capability of the proposed strategy to deal with the specific strategic factors developed in the SWOT analysis.

   ii. The ability of each alternative to satisfy agreed-on objectives with the least resources and the fewest negative side-effects.

4. **Developing Policies:** The selection of the best strategic alternative is not the end of strategy formulation. The organisation must then engage in developing policies. Policies define the broad guidelines for implementation. Flowing from the selected strategy, policies provide guidance for decision making and actions throughout the organisation. Policies tend to be rather long lived and can even outlast the particular strategy that created them. Policies can make the implementation of specific functional strategies easier.

5. **Strategies to Avoid:** Certain functional strategies may prove very dangerous. Hence, they should be avoided. For example, 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.

4.10 BCG MODEL

Bruce Henderson (1970) of BCG has suggested first that the margins earned by a product, and the cash generated by it, are a function of market share. The higher the market share, relative to competitors, the greater the earnings potential; high margins and market share are correlated. A second premise is that sales and revenue growth requires investment. Sales of a product will only increase if there is appropriate expenditure on advertising, distribution and development; and the rate of market growth determines the required investment. Third, high market share must be earned or bought, which requires additional investment. Finally, no business can grow indefinitely. As a result, products will at times not be profitable because the amount of money being spent to develop them exceeds their earnings potential; at other times, and particularly where the company has a high relative market share, earnings exceed expenditure and products are profitable.

Profitability is therefore affected by market growth, market share, and the stage in the product life cycle. A company with a number of products might expect to have some that are profitable and some that are not. In general, mature products, where growth has slowed down and the required investment has decreased, are the most profitable, and the profits they earn should not be reinvested in them but used instead to finance growth products that offer future earnings potential.

BCG means Boston Consulting Group, Matrix is developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. It is also called as the "Growth Share Matrix".

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This is the most popular and simplest matrix to describe the corporation's portfolio of businesses or products.

According to this technique, business or products are classified as low or high performance depending upon their market growth rate and relative market share.

The BCG matrix helps to determine priorities in a portfolio in a product portfolio. Its basic purpose is to invest where there is growth from which the firm can benefit, & divest those businesses that have low market and low growth prospects.

- Enhances multi-divisional firm in formulating strategies
- Autonomous divisions = business portfolio
- Divisions may compete in different industries
- Focus on market-share position & industry growth rate

To understand the Boston Matrix you need to understand how market share and market growth interrelated. Each of the products or business units is plotted on a two dimensional matrix consisting of -

- Relative Market Share (RMS)
- Market Growth Rate (MGR)

1. **Market Share:** Market share is the percentage of the total market that is being serviced by your company measured either in the revenue terms or unit volume terms. It is ratio of the market share of the concerned product or business unit in the industry divided by the share of the market leader. The higher your market share, the higher proportion of the market you control.

$$\text{RMS} = \frac{\text{Business Unit Sales this year}}{\text{Leading rival sales this year}}$$

2. **Market Growth Rate:** Market Growth is used as a measure of a market's attractiveness. It is the percentage of market growth, by which sales of a particular product or business unit has increased. Markets experiencing high growth are ones where the total market share available is expanding & there is plenty of opportunity for everyone to make money.

$$\text{MGR} = \frac{\text{Individual Sales this year} - \text{Individual sales last year}}{\text{Individual Sales last year}}$$

Why BCG Matrix

To asses

- Profile of product / business
- Cash demands of products
- The development cycle of product
- Resource allocation & divestment decisions

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Main Steps of BCG Matrix

- Identifying & dividing a company into SBU
- Assessing & comparing the prospects of each SBU according to two criteria
  - (i) SBU's relative market share
  - (ii) Growth rate of SBU's industry
- Classifying the SBU's on the basis of BCG matrix
- Developing strategic objective for each SBU

Analysis of the BCG Matrix

The Boston Consulting Group growth-share matrix can be very useful for positioning products in relation to their stage in the product life cycle as long as one is both careful and honest in the use of data. It can provide insight into the likely cash needs and the potential for earnings generation. However, while a particular matrix position indicates potential needs and prospects, it should not be seen as prescriptive for future strategy. In certain respects, all competitive positions are unique, and it is very important to consider the actual industry involved and the nature and behaviour of competitors. Business unit and product managers are likely to be able to do this with greater insight than specialist planners as they are in a better position to appreciate the peculiarities of the market.

The product portfolio suggests the following strategies for products or business units falling into certain categorie's:

- Cash cow - milk and redeploy the cash flow
- Dog - liquidate or divest and redeploy the freed resources or proceeds
- Star - strengthen competitive position in growth industry
- Question - invest as appropriate to secure and improve competitive position.

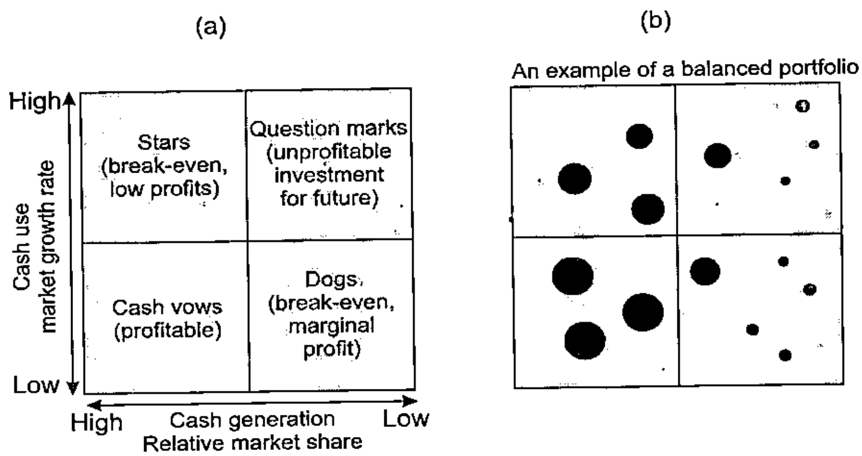

Figure 4.1 The Boston Consulting Group growth-share matrix

The matrix is illustrated in Figure 4.1. Chart (a) shows the composition of the axes and the names given to products or business units which fall in each of the four quadrants; chart

(b) features 15 products or business units in a hypothetical company portfolio. The sterling-volume size of each product or business is proportional to the areas of the circles, and the positioning of each one is determined by its market growth rate and relative market share.

The market growth rate on the vertical axis is the annual growth rate of the market in which the company competes, and really any range starting with zero could be used. The problem is where to draw the horizontal dividing line which separates high-growth from low-growth markets. The relative market share on the horizontal axis indicates market share in relation to the largest competitor in the market. A relative market share of 0.25 would indicate a market share one-quarter of that of the market leader; a figure of 2.5 would represent a market leader with a market share that is 2.5 times as big as that of the nearest rival. The vertical dividing line is normally 1.0, so that market leadership is found to the left-hand side of the divider. It is important to consider market segmentation when deciding upon the market share figure to use, rather than using the share of the total market. The growth- share matrix is thus divided into four cells or quadrants, each representing a particular type of business.

- Question marks are products or businesses which compete in high-growth markets but where market share is relatively low. A new product launched into a high-growth market and with an existing market leader would normally constitute a question mark. High expenditure is required to develop and launch the product, and consequently it is unlikely to be profitable and may instead require subsidy from more profitable products. Once the product is established, further investment will be required if the company attempts to claim market leadership.
- Successful question marks become stars, market leaders in growth markets. However, investment is still required to maintain the rate of growth and to defend the leadership position. Stars are marginally profitable only, but as they reach a more mature market position as growth slows down they will become increasingly profitable.
- Cash cows are therefore mature products which are well-established market leaders. As market growth slows down there is less need for high investment, and hence they are the most profitable products in the portfolio. This is boosted by any economies of scale resulting from the position of market leadership. Cash cows are used to fund the businesses in the other three quadrants.
- Dogs describe businesses that have low market shares in slower growth markets. They may well be previous cash cows, which still enjoy some loyal market support although they have been replaced as market leader by a newer rival. They should be marginally profitable, and should be withdrawn when they become loss makers, if not before. The opportunity cost of the resources that they tie up is an important issue in this decision.

Given that a dog represents a product or service in a relatively low- growth industry sector, and one which does not enjoy market segment leadership, it follows that many companies will have a number of dogs in their portfolios. Liquidation or divestment will not always be justified. Products which have a strong market position, even though they are not the market leader, and which have a distinctive competitive advantage can have a healthy cash flow and profitability. Such products are sometimes referred to as cash dogs. Divestment is most appropriate when the market position is weak and when there is no real opportunity to create sustainable competitive advantage, as long as a buyer can be found.

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According to Hamermesch (1986) many businesses that are classified as cash cows should be managed for innovation and growth, especially if the industry is dynamic or volatile, or can be made so. In other words, strategies that succeed in extending the product life cycle can move it from a state of maturity into further growth. One example quoted is coffee. This market experienced renewed growth when the success of automatic coffee makers increased demand for new varieties of fresh ground coffee. The success of Starbucks shows how a single organization which spots and seizes an opportunity can change an industry and provide an impetus for growth. When 'milking' products care also has to be taken not to reduce capacity if there is a chance that demand and growth opportunities might return as a result of scarcities or changes in taste. When restrictions on the import of Scotch whisky into Japan were eased in the late 1980s, the product enjoyed star status, even though it was seen as a cash cow in the UK.

Strategic decisions based on portfolio positions may also ignore crucial issues of interdependence and synergy. Business units may be treated as separate independent businesses for the purposes of planning, and this can increase the likelihood of the more qualitative contributions to other business units, and to the organization as a whole, being overlooked when decisions are made about possible liquidation or divestment.

Directional Policy Matrices

The best-known directional policy matrices were developed in the 1970s by Shell and General Electric and the management consultants McKinsey. They are broadly similar and aim to assist large complex multiactivity enterprises with decisions concerning investment and divestment priorities. A version of the Shell matrix is illustrated in Figure 4.2; a fuller explanation can be found in Robinson et al. (1978). In using such a matrix there is an assumption that resources are scarce, and that there never will be, or should be, enough financial and other resources for the implementation of all the project ideas and opportunities which can be conceived in a successful, creative and innovative organization. Choices will always have to be made about investment priorities. The development of an effective corporate strategy therefore involves an evaluation of the potential for existing businesses together with new possibilities in order to determine the priorities.

Table 4.1 Factors in the directional policy matrix

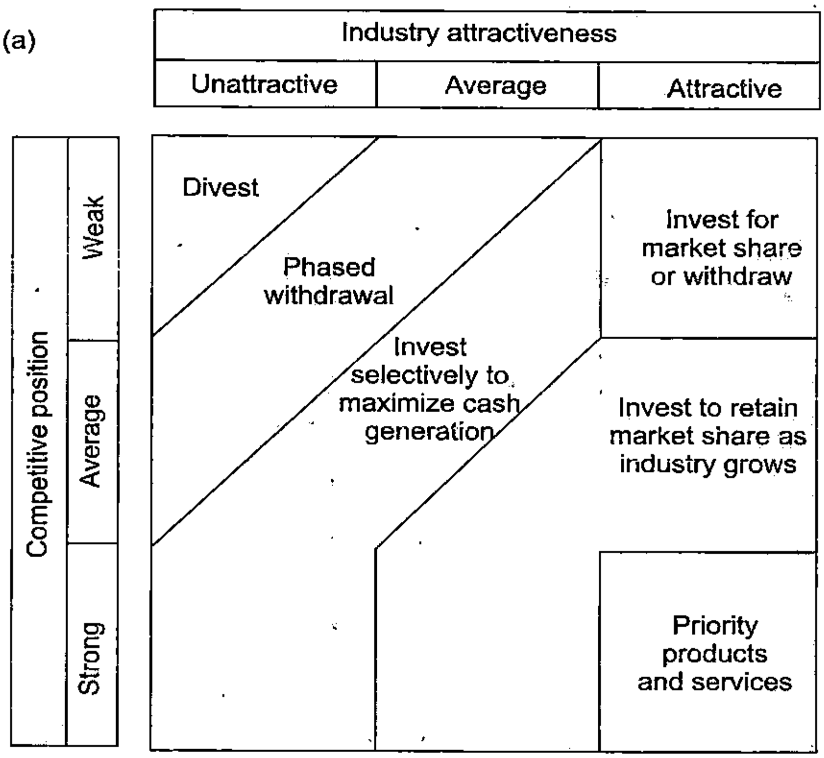
Industry attractiveness	Market growth Market quality, or the ability for new products to achieve higher or mare stable profitability than other sectors Supplier pressure Customer pressure Substitute products Government action Entry barriers Competitive pressure

Notes

Competitive position and relative strength	Competition Relative market shares Competitive postures and opportunities Production capability Research and development record and strengths Success rate to date measured in terms of market share and finandal success(earnings in excess of the cost of capital)

The matrix is constructed within two axes: the horizontal axis represents industry attractiveness, or the prospects for profitable operation in the sector concerned; the vertical axis indicates the company's existing competitive position in relation to other companies in the industry. New possibilities can be evaluated initially along the vertical axis by considering their likely prospects for establishing competitive advantage. It will be appreciated that Michael Porter's work links closely to this. Inplacing individual products in the matrix the factors shown in Table 4.1 are typical of those that might be used.

(a)



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(b)

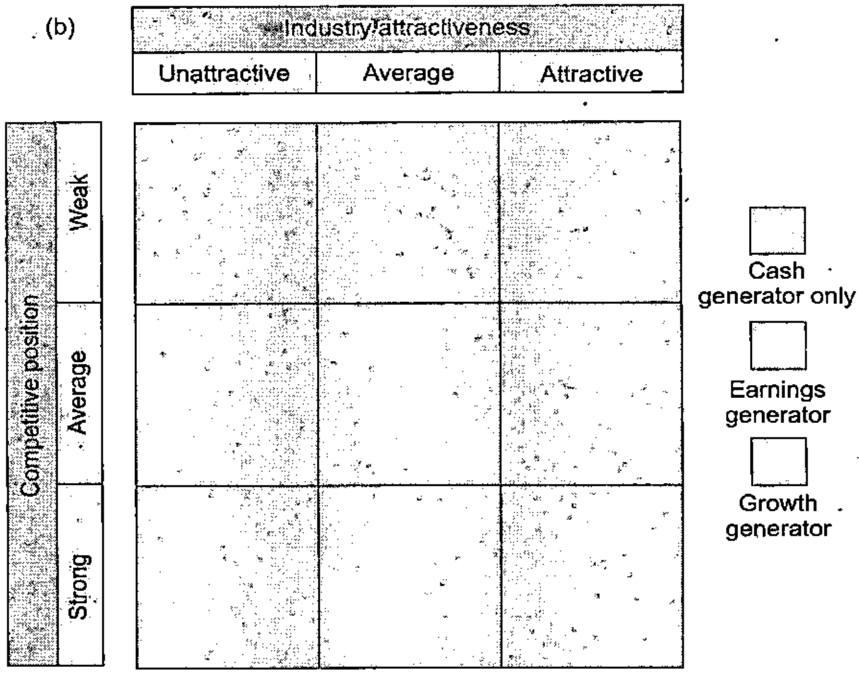

Figure 4.2 The directional policy matrix developed by Shell - two presentations

Benefits

- BCG matrix is simple, easy to perform & easy to understand
- It is quantifiable
- It draws attention to the cash flows
- It draws attention to the investment needs
- It helps to quickly & simply screen the opportunity open to you, & help you think about how you can make the most of them.
- It is used to identify how corporate cash resources can best be used to maximize company's future growth & profitability.
- Helps to understand the strategic positions of business portfolio.
- It's a good starting point for further more thorough analysis.

Limitation

- BCG matrix uses only two dimensions relative market share & market growth rate.
- It is too simplistic
- Problem of getting data on market share & market growth is not strong
- High market share does not mean profits all time.
- Business with market share can be profitable too.

- Business can only be classified to four quadrants;
- Does not include other external factors that may change the situation completely.
- It denies that synergies between different units exist.

4.11 GE 9 CELL MODEL

GE means General Electric nine cell matrix. This matrix was developed in 1970's by General Electric Company with the assistance of the consulting firm, Mckinsey & Co, USA. This is also called GE multifactor portfolio matrix or Directional policy matrix. The GE matrix has been developed to overcome the obvious limitations of BCG matrix.

It is a tool used in brand marketing and product management to decide what products to add to the portfolio. It identifies the optimum business portfolio as one that fits perfectly to the company's strengths & helps to explore the most attractive industry sectors or markets.

It identifies the optimum business portfolio as one that fits perfectly to the company's strengths and helps to explore the most attractive industry sectors or markets. The objective of the analysis is to position each SBU on the chart depending on the SBU's strength and the attractiveness of the industry sector or market on which it is focused.

This matrix consists of nine cells [3×3] matrix used to perform business portfolio analysis as a step in the strategic planning process and is based on 2 key variables:

- Business strength
- Industry attractiveness

Business Strength

It is a competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: "For how long it will be sustained?"

The following factors determine the competitive strength of a business unit:

- Total market share
- Market share growth compared to rivals
- Brand strength (use brand value for this)
- Profitability of the company
- Customer loyalty
- VRIO resources or capabilities (use VRIO framework to determine this)
- Your business unit strength in meeting industry's critical success factors (use Competitive Profile Matrix to determine this)

Notes

- Strength of a value chain (use Value Chain Analysis and Benchmarking to determine this)
- Level of product differentiation
- Production flexibility

Industry Attractiveness

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

It replaces market growth as the dimension of industry attractiveness and includes a boarder range of factor other than just the market growth rate.

Industry attractiveness consists of many factors that collectively determine the competition level in it. There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common:

- Long run growth rate
- Industry size
- Industry profitability: entry barriers, exit barriers, supplier power, buyer power, threat of substitutes and available complements (use Porter's Five Forces analysis to determine this)
- Industry structure (use Structure-Conduct-Performance framework to determine this)
- Product life cycle changes
- Changes in demand
- Trend of prices
- Macro environment factors (use PEST or PESTEL for this)
- Seasonality
- Availability of labor
- Market segmentation

Spotlight Strategy

The 9 cells of the GE matrix represent various degrees of industry attractiveness (high, medium and low) and business strength (strong, average and weak). After plotting each product line or business unit on the nine cell matrix, strategic choices are made depending on their position in the matrix.

GE matrix is also called "Spotlight" strategy matrix because the 3 zones are like Green, Yellow and red of Traffic lights.

Notes

Table 4.2 GE 9 Cell Matrix

Industry Attractiveness	Business Unit Strength		
	Strong	Average	Weak
HIGH	Grow	Grow	Hold
MEDIUM	Grow	Hold	Harvest
LOW	Hold	Harvest	Harvest

1. *Green – Grow:* It indicates invest / expand. If the product falls in green zone, the business strength is strong and industry is at least medium in attractiveness, the strategic decision should be to expand, to invest and to grow.
2. *Yellow – Hold:* It indicates select / earn. If the product falls in yellow zone, the business strength is low but industry attractiveness is high, it needs caution and managerial discretion for making the strategic choice.
3. *Red – Harvest:* It indicates divest / harvest. If the product falls in the red zone, the business strength is average or weak and attractiveness is also low or medium, the appropriate strategy should be divestment.

High	Medium	Low
LEADER	TRY HARDER	DOUBLE OR QUIT
GROWTH	PROCEED WITH CARE	PHASED WITHDRAWAL
CASH GENERATOR	PHASED WITHDRAWAL	DISINVESTMENT

BUSINESS STRENGTH

The horizontal axis represents business strength and the vertical axis represents industry attractiveness. Thus products or business units in the green zone are almost equivalent to stars or cash cows, yellow zone are like question marks and red zone are similar to dogs.

Advantages and Disadvantages of GE Nine-cell Model

Advantages

- It used 9 cells instead of 4 cells of BCG
- It considers many variables and does not lead to simplistic conclusions
- High/Medium/Low and Strong/ Average/ Low classification enables a finer distinction among business portfolio

Notes

- It uses multiple factors to assess industry attractiveness and business strength, which aloe users to select criteria appropriate to their situation.
- It allows intermediate ratings between high and low and between strong and weak
- It helps in channeling the corporate resources to business and achieving competitive advantage and superior performance.
- It helps in better strategic decision making and better understanding of business scope.

Disadvantages

- It can get quite complicated and cumbersome with the increase in businesses
- Though industry attractiveness and business strength appear to be objective, they are in reality subjective judgments that may vary from one person to another.
- It cannot effectively depict the position of new business units in developing industry
- It only provides broad strategic.prescriptions rather than specifies of business policy.
- It tends to obscure business that are become to winners because their industries are entering at exist stage
- Assessment of business in terms of two factors is not fair.

4.12 PORTER'S MODEL: FIVE FORCES AND PORTER'S DIAMOND MODEL

Porter's Five Forces

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

I. Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals.. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences. Economists measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure. The Bureau of Census periodically reports the CR for major Standard Industrial Classifications (SIC's). The CR indicates the percent of market share held by the four largest firms (CR's for the largest 8, 25, and 50 firms in an industry also are available). A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive .landscape is less competitive (closer to a monopoly).

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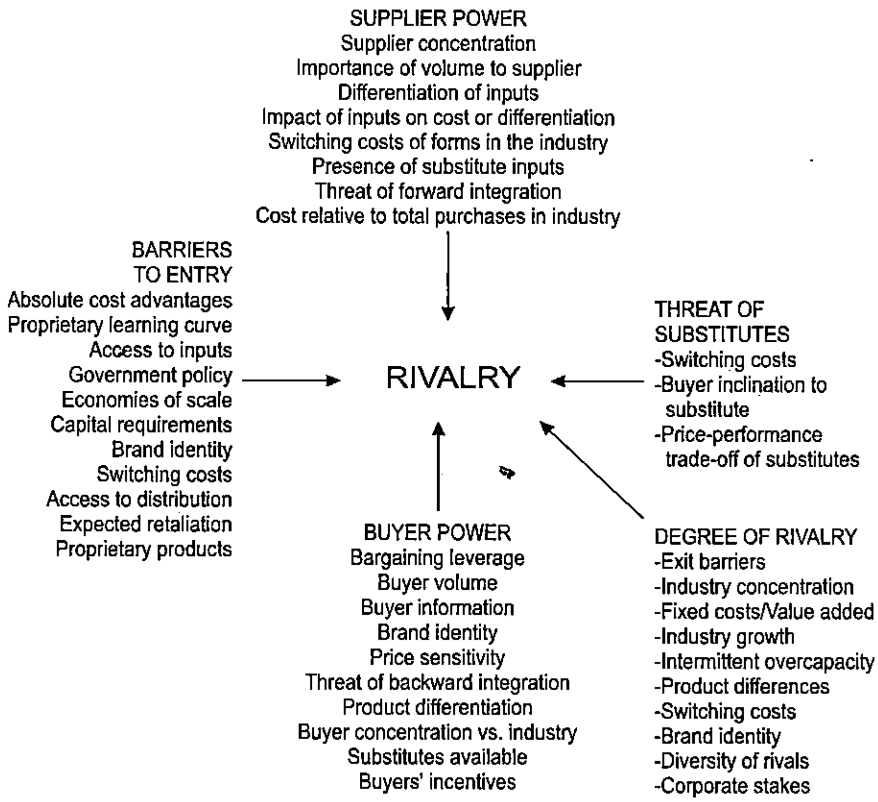

Figure 4.3 Diagram of Porter's 5 Forces

A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share. These fragmented markets are said to be competitive. The concentration ratio is not the only available measure; the trend is to define industries in terms that convey more information than distribution of market share. If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. Explicit collusion generally is illegal and not an option; in low-rivalry industries competitive moves must be constrained informally. However, a maverick firm seeking a competitive advantage can displace the otherwise disciplined market. When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage. Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.

Notes

- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry. For example, with high-end jewelry stores reluctant to carry its watches, Timex moved into drugstores and other non-traditional outlets and cornered the low to mid-price watch market.
- Exploiting relationships with suppliers - for example from the 1950's to the 1970's Sears, Roebuck and Co. dominated the retail household appliance market. Sears set high quality standards and required suppliers to meet its demands for product specifications and price.

The intensity of rivalry is influenced by the following industry characteristics:

1. A larger number of firms increases rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
2. Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
3. High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
4. High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
5. Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.
6. Low levels of product differentiation is associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
7. Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.
8. High exit barriers place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry. Litton Industries' acquisition of Ingalls Shipbuilding facilities illustrates this concept. Litton was successful in the 1960's with its contracts to build Navy ships. But when the Vietnam war ended, defense spending declined and Litton saw a sudden decline in its earnings. As the firm restructured, divesting from the shipbuilding plant was not feasible since such a large and highly specialized investment could not be sold easily, and Litton was forced to stay in a declining shipbuilding market.
9. A diversity of rivals with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense. The hospital industry, for example, is populated by hospitals that historically are community or charitable institutions, by hospitals that are associated with religious organizations or universities, and by hospitals that are for-profit enterprises. This mix of philosophies about mission has lead occasionally to fierce local struggles by hospitals over who will get expensive diagnostic and therapeutic services.

At other times, local hospitals are highly cooperative with one another on issues such as community disaster planning.

10. Industry Shakeout. A growing market and the potential for high profits induces new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout ensues, with intense competition, price wars, and company failures.

BCG founder Bruce Henderson generalized this observation as the Rule of Three and Four: a stable market will not have more than three significant competitors, and the largest competitor will have no more than four times the market share of the smallest. If this rule is true, it implies that: If there is a larger number of competitors, a shakeout is inevitable Surviving rivals will have to grow faster than the market Eventual losers will have a negative cash flow if they attempt to grow All except the two largest rivals will be losers The definition of what constitutes the "market" is strategically important. Whatever the merits of this rule for stable markets, it is clear that market stability and changes in supply and demand affect rivalry. Cyclical demand tends to create cutthroat competition. This is true in the disposable diaper industry in which demand fluctuates with birth rates, and in the greeting card industry in which there are more predictable business cycles.

II. Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. To the manufacturer of automobile tires, tire retreads are a substitute. Today, new tires are not so expensive that car owners give much consideration to retreading old tires. But in the trucking industry new tires are expensive and tires must be replaced often. In the truck tire market, retreading remains a viable substitute industry. In the disposable diaper industry, cloth diapers are a substitute and their prices constrain the price of disposables.

While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. Consider the substitutability of different types of TV transmission: local station transmission to home TV antennas via the airways versus transmission via cable, satellite, and telephone lines. The new technologies available and the changing structure of the entertainment media are contributing to competition among these substitute means of connecting the home to entertainment. Except in remote areas it is unlikely that cable TV could compete with free TV from an aerial without the greater diversity of entertainment that it affords the customer.

Notes

III. Buyer Power

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

Table 4.3 Contrasting company objectives

Buyers are powerful if	Example
Buyers are concentrated - there are a few buyers with significant market share	DOD purchases from defense contractors
Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized	Circuit City and Sears' large retail market provides power over appliance manufacturers
Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival	Large auto manufacturers' purchases of tires

Buyers are weak if	Example
Producers threaten forward integration -producer can take over own distribution/ retailing	Movie-producing companies have integrated forward to acquire theaters
Significant buyer switching costs - products not standardized and buyer cannot easily switch to another product	IBM's 360 system strategy in the 1960's
Buyers are fragmented (many, different) - no buyer has any particular influence on product or price	Most consumer products
Producers supply critical portions of buyers' input - distribution of purchases	Intel's relationship with PC manufacturers

IV. Supplier Power

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

V. Barriers to Entry / Threat of Entry

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition.

Table 4.4 Contrasting company objectives

Suppliers are powerful if	Example
Credible forward integration threat by suppliers	Baxter International, manufacturer at hospital supplies, acquired American Hospital Supply, a distributor
Suppliers concentrated	Drug industry's relationship to hospitals
Significant cost to switch suppliers	Microsoft's relationship with PC manufacturers
Customers Powerful	Boycott of grocery stores selling non-union picked grapes

Suppliers are weak if	Example
Many competitive suppliers - product is standardized	Tire industry relationship to automobile manufacturers
Purchase commodity products	Grocery store brand label products
Credible backward integration threat by purchasers	Timber producers relationship to paper companies
Concentrated purchasers	Garment industry relationship to major department stores
Customers Weak	Travel agents' relationship to airlines

In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are barriers to entry.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example,when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring a market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-deterring pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. Barriers to entry arise from several sources:

1. **Government creates barriers.** Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries

Notes

such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market. To restrain utilities from exploiting this advantage, government permits a monopoly, but regulates the industry. Illustrative of this kind of barrier to entry is the local cable company. The franchise to a cable provider may be granted by competitive bidding, but once the franchise is awarded by a community a monopoly is created. Local governments were not effective in monitoring price gouging by cable operators, so the federal government has enacted legislation to review and restrict prices. The regulatory authority of the government in restricting competition is historically evident in the banking industry. Until the 1970's, the markets that banks could enter were limited by state governments. As a result, most banks were local commercial and retail banking facilities. Banks competed through strategies that emphasized simple marketing devices such as awarding toasters to new customers for opening a checking account. When banks were deregulated, banks were permitted to cross state boundaries and expand their markets. Deregulation of banks intensified rivalry and created uncertainty for banks as they attempted to maintain market share. In the late 1970's, the strategy of banks shifted from simple marketing tactics to mergers and geographic expansion as rivals attempted to expand markets.

2. **Patents and proprietary knowledge serve to restrict entry into an industry.** Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry. Edwin Land introduced the Polaroid camera in 1947 and held a monopoly in the instant photography industry. In 1975, Kodak attempted to enter the instant camera market and sold a comparable camera. Polaroid sued for patent infringement and won, keeping Kodak out of the instant camera industry.
3. **Asset specificity inhibits entry into an industry.** Asset specificity is the extent to which the firm's assets can be utilized to produce a different product. When an industry requires highly specialized technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialized assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when firms already hold specialized assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry. For example, Kodak had much capital invested in its photographic equipment business and aggressively resisted efforts by Fuji to intrude in its market. These assets are both large and industry specific. The second reason is that potential entrants are reluctant to make investments in highly specialized assets.
4. **Organizational (Internal) Economies of Scale.** The most cost efficient level of production is termed Minimum Efficient Scale (MES). This is the point at which unit costs for production are at minimum - i.e., the most cost efficient level of production. If MES for firms in an industry is known, then we can determine the amount of market share necessary for low cost entry or cost parity with rivals. For example, in long distance communications roughly 10% of the market is necessary for MES. If sales for a long distance operator fail to reach 10% of the market; the firm is not competitive.

The existence of such an economy of scale creates a barrier to entry. The greater the difference between industry MES and entry unit costs, the greater the barrier to entry. So industries with high MES deter entry of small, start-up businesses. To operate at less than

Notes

MES there must be a consideration that permits the firm to sell at a premium price - such as product differentiation or local monopoly.

Barriers to exit work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of an industry's entry and exit barriers can be summarized as follows:

Table 4.5 Contrasting company objectives

Easy to Enter if there is:	Difficult to Enter if there Is:
• Common technology	• Patented or proprietary know-how
• Little brand franchise	• Difficulty in brand switching
• Access to distribution channels	• Restricted distribution channels
• Low scale threshold	• High scale threshold

Easy to Exit if there are:	Difficult to Exit if there are:
• Salable assets	• Specialized assets
• Low exit costs	• High exit costs
• Independent businesses	• Interrelated businesses

Porter's Diamond Model

Michael E. Porter argued that a nation can create new advanced factor endowments such as skilled labor, a strong technology and knowledge base, government support, and culture. Porter used a diamond shaped diagram as the basis of a framework to illustrate the determinants of national advantage. This diamond represents the national playing field that countries establish for their industries.

Michael Porter's Diamond Model (also known as the Theory of National Competitive Advantage of Industries) is a diamond-shaped framework that focuses on explaining why certain industries within a particular nation are competitive internationally, whereas others might not. And why is it that certain companies in certain countries are capable of consistent innovation, whereas others might not? Porter argues that any company's ability to compete in the international arena is based mainly on an interrelated set of location advantages that certain industries in different nations posses, namely: Firm Strategy, Structure and Rivalry; Factor Conditions; Demand Conditions; and Related and Supporting Industries. If these conditions are favorable, it forces domestic companies to continiously innovate and upgrade. The competitiveness that will result from this, is helpful and even necessary when going internationally and battling the world's largest competitors. This article will explain the four main components and include two components that are often included in this model: the role of the Government and Chance. Together they form the national environment in which companies are born and learn how to compete.

The individual points on the diamond and the diamond as a whole affect four ingredients that lead to a national comparative advantage. These ingredients are:

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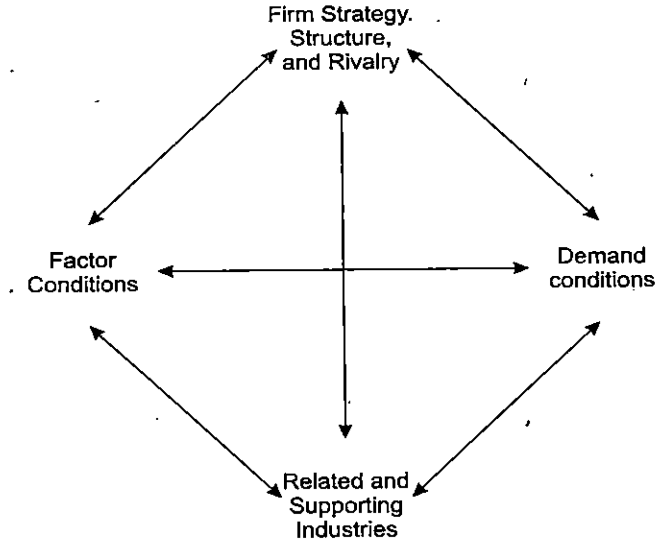

Figure 4.4 Porters Diamond of National Advantage

1. The availability of resources and skills,
2. Information that firms use to decide which opportunities to pursue with those resources and skills,
3. The goals of individuals in companies,
4. The pressure on companies to innovate and invest.

The points of the diamond are described as follows:

I. Factor Conditions

A country creates its own important factors such as skilled resources and technological base.

- The stock of factors at a given time is less important than the extent that they are upgraded and deployed.
- Local disadvantages in factors of production force innovation. Adverse conditions such as labor shortages or scarce raw materials force firms to develop new methods, and this innovation often leads to a national comparative advantage.

II. Demand Conditions

When the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product.

- A more demanding local market leads to national advantage.
- A strong, trend-setting local market helps local firms anticipate global trends.

III. Related and Supporting Industries

The presence of related and supporting industries provides the foundation on which the focal industry can excel.

Notes

- When local supporting industries are competitive, firms enjoy more cost effective and innovative inputs.
- This effect is strengthened when the suppliers themselves are strong global competitors.

IV. Firm Strategy, Structure, and Rivalry

The national context in which companies operate largely determines how companies are created, organized and managed: it affects their strategy and how they structure themselves. Moreover, domestic rivalry is instrumental to international competitiveness, since it forces companies to develop unique and sustainable strengths and capabilities.

- Local conditions affect firm strategy. For example, German companies tend to be hierarchical. Italian companies tend to be smaller and are run more like extended families. Such strategy and structure helps to determine in which types of industries a nation's firms will excel.
- In Porter's Five Forces model, low rivalry made an industry attractive. While at a single point in time a firm prefers less rivalry, over the long run more local rivalry is better since it puts pressure on firms to innovate and improve. In fact, high local rivalry results in less global rivalry.
- Local rivalry forces firms to move beyond basic advantages that the home country may enjoy, such as low factor costs.

The Diamond as a System

The effect of one point depends on the others. For example, factor disadvantages will not lead firms to innovate unless there is sufficient rivalry.

- The diamond also is a self-reinforcing system. For example, a high level of rivalry often leads to the formation of unique specialized factors.

Government's Role

The role of government in the model is to:

- Encourage companies to raise their performance, for example by enforcing strict product standards.
- Stimulate early demand for advanced products.
- Focus on specialized factor creation. Stimulate local rivalry by limiting direct cooperation and enforcing antitrust regulations.

Application to the Japanese Fax Machine Industry

The Japanese facsimile industry illustrates the diamond of national advantage. Japanese firms achieved dominance is this industry for the following reasons:

- Japanese factor conditions: Japan has a relatively high number of electrical engineers per capita.
- Japanese demand conditions: The Japanese market was very demanding because of the written language.

Notes

- Large number of related and supporting industries with good technology, for example, good miniaturized components since there is less space in Japan.
- Domestic rivalry in the Japanese fax machine industry pushed innovation and resulted in rapid cost reductions.
- Government support - NTT (the state-owned telecom company) changed its cumbersome approval requirements for each installation to a more general type approval.

4.13 STRATEGIC CHOICE

Strategic Choice involves a whole process through which a decision is taken to choose a particular option from various alternatives. There can be various methods through which the final choice can be selected upon. Managers and decision makers keep both the external and internal environment in mind before narrowing it down to one.

Strategic choice or strategic decision is the process of systematically comparing the impact of the possible strategies on product-market and the firm. Selection strategy is a careful conscious deliberate and creative activity. It involves trade offs between different courses of action. Professor Henry Mintzberg says "Strategy formulation is interplay among three basic forces –

- A dynamic environment that changes continuously but irregularly with frequent discontinuities and wide swings in the rate of change;
- The operating system of the organisation which seeks to stabilise its activities despite the characteristics of the environment it serves; and
- The role of leadership mediating between two forces so as to maintain stability of the organisation, operating system while at the same time adapting it to the environmental change.

Meaning of Strategic Choice

Strategic choice simply refers to the strategy chosen out of available alternatives for attaining organizational objectives. It is termed as the most appropriate one that is selected after analysis of various facts by experts. Strategic choice is the outcome of systematic examination of distinct alternatives where different experts make their own calculations and finally selects a strategy by bargain. A SWOT analysis is conducted by experts for better identification of firm strength and weakness that assist them in making appropriate choice regarding strategy selection. It defines the future strategies of business for deriving the desired results. Strategic choice is the path that is chosen by organization for carrying out its activities in future towards achievement of targets. Process of making strategic choice comprises of 4 steps: – Focusing on strategic alternative, analyzing strategic alternatives, evaluation of strategic alternatives and making a strategic choice.

Importance of Strategic Choices

Whether a business succeeds or fails depends in large measure on the strategic choices made by the owner. Spending large amounts of time and money introducing a product that turns out to have a very limited market is an example of a bad strategic choice. Anticipating a change in consumer tastes and introducing a service to take advantage of that change before competitors do is an example of a good strategic choice.

The development of business strategy takes into account that all companies must cope with limited resources to some extent. The most successful companies can allocate scarce resources to the projects that have the greatest positive impact on revenue growth or improvements in productivity and efficiency that can increase profit margins.

Factors Affecting Strategic Choice

- Environmental constraints.
- In House Forces and Managerial Power Relations
- Managerial Attitudes Towards Risk
- Influence of Past Strategy
- Time Dimension of Strategic Choice
- Reaction of Competitors
- Availability of Relevant Information

1. *Environmental Constraints*

The very survival and growth and hence, prosperity of a unit rest on its exposure to and interaction with its environment which is external. External environment is made up of its publics namely shareholders, suppliers, competitors, customers, lenders, government and the community. These elements are the external constraints. The flexibility in the choice of a strategy, is governed by the extent of the firm's dependence on the these elements and the extent to which these constraints cooperate. Comparatively, those organisations which are well settled, deep rooted and large in industries are much more powerful as against their counter part namely, the environment. They enjoy greater flexibility and lee way in strategic choice.

For example, a company which gets bulk supply of inputs raw-material and component parts in a highly sensitive market has greater degree of flexibility in strategic choice as compared to the company which depends for its inputs on a market which is monopolistic. The strategies of competitors in any area of business will have impact on choice of a strategy. What financial or production or marketing, or personnel strategies the firm is to follow will depend on what competitors are doing. A shareholder holding majority of shares, has say in strategy the company is to formulate because his preferences can not be ignored. Customers are the real decision makers whose likes and dislikes can not be thrown to winds. Changing governmental policies will have to be respected. Again, it is community in which company is working decides what company should do and should not do.

2. *In House Forces and Managerial Power Relations*

The in house forces play a significant role. Let us confine to only decision making process. In a highly controlled or centralised company, it is the top management which has the total power to configure the strategic choice. That is, the decision-strategic decision-made is by centralised management, is quick and not diluted.

Another very important variable is that of managerial power relations. It is normally found that the major decisions are influenced by the power play among interest groups that

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differ widely. Even the strategic choice is influenced by this variable. In case a influencing chief executive is in favour of a strategic choice which also benefits other top management members, it may be endorsed easily by other senior member. This happens when unity prevails. However, this can be opposed in case there is power politics or power game as we find in Indian Parliamentary Affairs.

3. *Managerial Attitudes Towards Risk*

Managerial attitudes towards risk is yet another significant factor that affects the choice of a strategy. The managerial decision is guided by the attitude of the decision- maker towards risk. Based on this "attitude towards risk" decision-makers can be of three types namely, Risk lover, Risk Averse and Risk neutral. Then one may distinguish between the following attitudes reflecting the order of risk preferences.

- Risk is necessary for success
- Risk is a fact of life and some risk is desirable and
- High risk destroys enterprises and needs to be minimised as given by Professor William F.Glueck.

By nature executives who are risk lovers go in for high returns, high growth, less stable markets as there is direct relationship between risk and the reward. These people prefer to be pioneers, innovators, early birds. On the other hand, the risk averse or people who want to take least risks are those who want to be followers than leaders and challengers, they prefer stable conditions, low returns and go in for safer options.

Age factor also plays decisive role. The old managers tend to take no extra risk unlike young people who are yet to make mark. Those who deal with risk and uncertainty easily are able to face successfully the complex problems than those who are risk averse. Risk prone decision makers limit the amount of information and make decisions quickly as if it is an impulsive task.

4. *Influence of Past Strategy*

Future has its roots in the past. To this, past strategy is no exception. That is, choice of the current and the future is influenced by the past strategy due to number of reasons. The foundation for formulation of new strategies is the past strategy. In the light of the past strategy, the strategist either might not have thought of altering it or it is also possible that the strategists might have taken the things lightly and might not have thought of alternatives with the seriousness that they deserve due to intertia. Personal involvement of the decision maker with the past strategy will continue to do so. Thus, the present and future strategies will be influenced by personal involvement.

5. *Time Dimension of Strategic Choice*

Yet another very important factor in the process of strategic decision making is the time dimension of strategic choice. This time dimensicn has four elements which one can not ignore, these are-time pressure, time frame, time horizon and timing of the decision.

- Time Pressure
- Time Frame

- Time Horizon
- Timing of Decision

6. *Reaction of Competitors*

The strategic choice of a strategy option is bound to reflex in the competitors' reaction. Therefore, a wise strategist places himself in the shoes of the competitor or competitors to know where exactly the shoe bites. Only after studying the reactions, he may be able to take correct decision than ignoring the impact of competitor reaction. Much depends on your market position. That is, whether you are leader, challenger, follower or nicher. Say, both your firm and your arch-rival firm are challengers. In this case, it is quite possible that your competitor may take your strategic option as very aggressive and makes the competitor to have counter strategy to over power you.

Say, you reduced the price of your branded product, then other company might reduce equally and give some addition incentive in kind. If you are a followers, then the strategy of follow the suit operates. We know the case of price war going on between arch rivals namely Hindustan Lever and Proctor and Gamble. If the first company has reduced the price of Surf Excel from 85 to 70 for a half kilo pack, Proctor and Gamble has done so in case of Arial. Later, Surf Excel has been introduced with new proposition." The followers say Nirma and others being followers, have no choice than to follow the suit without option. Thus, the competitors reaction has far reaching impact on the choice of a strategy.

7. *Availability of Relevant Information*

When it is a question of choice rather rational choice, the quality and quantity of information decide the strategy choice. The choice or strategic decision that is based on facts, the considered opinions other sources of information written as oral are more sound and acceptable that is, the degree of risk and uncertainty depends on the amount and quality of information made available to the decision makers.

There is inverse relationship between the available information and the degree of accuracy of strategic choice. That is, the greater the amount of high quality information, lesser the risk and uncertainty. The decision maker is a risk-prone or a risk averter or risk neutral. Risk prone and risk averters need the information to decide whether to take or not the calculated risks which are unavoidable in the world of business. Hence, the decision makers need a package of relevant information to analyse and interpret and act. The information is not easily available which costs in terms of treasure, time and talent.

Process of Strategic Choice

Focusing on Strategic Alternatives

This stage is concerned with narrowing down the options of numerous alternatives available to most feasible strategies. GAP analysis is used by managers for determining this manageable no. of feasible strategies.

They visualize the future state of business for identifying the suitable alternatives. Even one or more business dimensions are related to available alternatives for choosing most strategic ones.

Strategic alternatives at corporate level are Stability, Expansion, Combination and Retrenchment. Whereas at business level they are Cost leadership and Focused Business strategy.

Analyzing the Strategic Alternatives

Here the chosen alternatives are analyzed on the basis of certain factors termed as selection factors. These factors provide a criterion for doing evaluation of these alternatives. Such factors are:

- Objective factors which are based on analytical methods and are hard facts for facilitating a strategic choice.
- Subjective factors that are based on one's personal perception and descriptive factors.

Evaluation of Strategic Alternatives

Proper evaluation of each and every factor is done for identifying its capability that support organization in attaining its targets. Analysis performed earlier on basis on objective and subjective factors are brought together in this step. Proper evaluation from different aspects of distinct alternatives is performed to arrive at the most appropriate one.

Making a Strategic Choice

Finally, the strategic choice is made after doing an evaluation that gives a clear idea about which one is most appropriate under existing conditions. One or more strategies are selected and a blueprint describing conditions for operation of these strategies is created. In order to deal with unforeseen scenarios, contingency strategies are also formulated.

SUMMARY

- Strategic planning is a process in which an organization's leaders define their vision for the future and identify their organization's goals and objectives. The process includes establishing the sequence in which those goals should be realized so that the organization can reach its stated vision.
- The strategic planning process is the method that organizations use to develop plans to achieve overall, long-term goals. This process differs from the project planning process, which is used to scope and assign tasks for individual projects, or strategy mapping, which helps you determine your mission, vision, and goals.
- Strategic alliances are a great way for a business to spur growth and increase profit in a sustainable manner. While the mutual benefits are huge, it's critical to do the groundwork first.
- Mergers and acquisitions are complex transactions. The process often involves not only the acquiring and target companies but also a variety of other stakeholders, including competition law regulatory agencies.

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- As corporate development teams become more common, and tools are generated to help them with their strategies and deal management, it is easy to see more and more companies are relying on the creativity and skills of corporate development leaders to enhance and grow their businesses.
- The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.
- Acquisitions occur when one company buys another company and folds it into its operations. Sometimes the purchase is friendly and sometimes it is hostile, depending on whether the company being acquired believes it is better off as an operating unit of a larger venture.
- Portfolio analysis aims to identify the components that need to be enhanced to remove barriers from making the working process recognize better methods to allocate resources to improve the return on investment (ROI).

KEY WORDS

Business Portfolio Analysis: It shows systematic ways to interpret product and service that form a part of business portfolio analysis. The way in which the financial investments of the firms are treated likewise the appropriate organisational activities should be followed and the inappropriate ones should be disregarded.

Corporate Development: It also known as "corp dev," team or professional is typically responsible for developing and directing strategies to help a company restructure its business or establish strategic partnerships through mergers, acquisitions and divestitures.

Corporate Parenting: It refers to the partnerships between the local authority departments, services and associated agencies who are collectively responsible for meeting the needs of looked after children, young people and care leavers.

Financial Restructuring: It take place due to a severe fall in the overall sales because of adverse economic conditions. The corporate entity may alter its equity pattern, debt servicing schedule, equity holdings, and cross-holding pattern.

Functional Strategy: It is a set of decisions and actions managers make and take to attain superior competency in business functions in accordance with the corporate and business level strategies.

Marketing Strategy: A marketing strategy is a practice that allows an organization to focus on the available resources and turn the opportunities into productivity to increase sales and achieve justifiable competitive lead.

Portfolio Management: It explains a process in which individuals' investments are managed in order to maximise their earnings given a definite time period. Also, it is kept in mind that the invested capital is not exposed to market risk after one limit.

Value Creation: Value creation primarily occurs when the parent sees an opportunity for a business to improve performance and has the skills, resources and other characteristics for helping the business to seize the opportunity.

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Review Questions

1. What is the strategic planning process? Explain various steps in process of strategic planning?
2. What are the stages of corporate development in strategic management? Explain the importance of corporate development.
3. What are the objectives of corporate restructuring? What is the main purpose of corporate restructuring?
4. What are the different types of corporate restructuring techniques? Explain.
5. Describe how can Porter's five forces be used to analysis the external environment.
6. What are the five elements in Porter's 5 forces? Explain.
7. What is the purpose of Porter's Five Forces analysis?
8. What are the 4 attributes discussed in Porter's Diamond Model?
9. What is strategic choice? What are the elements of strategic choice process?
10. Explain how is BCG matrix used in strategic planning?
11. Describe the use of BCG Matrix model?

FURTHER READINGS

1. *Strategic Management*; A.C. Mittal and B.S. Sharma, Vista International Pub., 2006.
2. *Strategic Management*; Garth Saloner, Andrea Shepard, Joel Podolny, Wiley.
3. *Strategic Management: Concepts and Cases*; Milind T. Phadtare,-PHI Learning.
4. *Strategic Management: Current Trends and Issues;* Edited by P. Mohana Rao and Trilok Kumar Jain, Deep and Deep.
5. *Business Policy and Strategic Management*; Kazmi Azar, Tata McGrow Hill, 2nd Edition.

UNIT 5

STRATEGY IMPLEMENTATION

Structure

5.0 LEARNING OBJECTIVES

After reading this chapter students will be able to:

- know about concept of strategy implementation
- describe strategy implementation through structure
- explain strategy implementation through human resource management
- know about Mc Kinsey's 75 Model
- describe organisational life cycle.
- explain management and control
- understand activity based costing
- know about strategic information system.

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5.1 INTRODUCTION

In this unit we will go through the implementation phase of the strategies, Implementation is the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals. In this unit we are going to discuss the strategy implementation and its various aspects. Strategy implementation is the transformation of chosen strategy into organizational action so as to achieve strategic goals and objectives.

The changing aspects of implementation are explained by considering strategic leadership and elements of strategy. In designing the structure and making it operational it is important to consider the key aspects of empowerment.

Let us now discuss the nature and barriers to strategy implementation, model of strategy implementation, project implementation, procedural implementation and resource allocation in the following sections.

5.2 CONCEPT OF STRATEGY IMPLEMENTATION

Strategy implementation is the act of implementing a strategy to reach a desired goal or set of goals. The brainstorming process helps formulate these ideas, but the implementation process puts those strategies or plans into action. Strategy implementation depends heavily on feedback and status reports to ensure the strategy is working and to rework any areas that may need improvement.

Strategy implementation is so important because it's action instead of words or brainstorming. It helps show the team that the strategies being discussed are viable and puts them into action. It's also a great tool for team development because everyone can participate. Strategy implementation depends on thorough communication and the right tools to facilitate the strategy.

Nature of Strategy Implementation

Once the strategy is formulated the next practical stage is its implementation. All the efforts of strategy formulation bear the fruits in this phase.

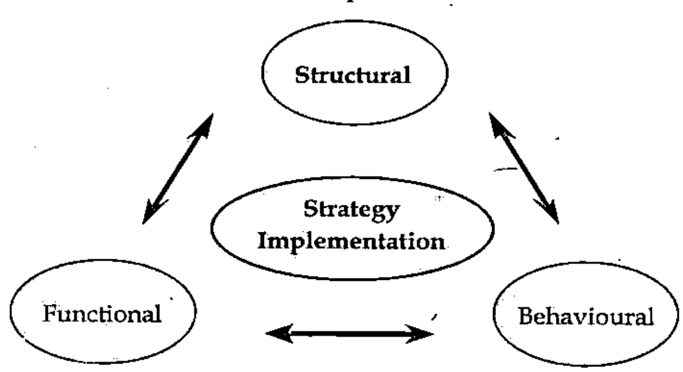

Figure 5.1 Strategy Implementation Setting

The real test of strategy is in its implementation. Only implementation can determine the success or failure of a strategy. A perfect strategy or plan may fail if it is not properly implemented. It is rightly said that imperfect plan implemented effectively may deliver better results. But there is close connection between strategy formulation and its implementation.

Table 5.1 Strategy formulation Vs. strategy implementation

Strategy formulation	Strategy implementation
Strategy formulation to strategy implementation is forward linkage	Whereas strategy implementation to strategy formulation is backward linkage.
It is an intellectual process	It requires more practical and field skills.
It involves organizing before action	It involves managing during the action
It emphasizes on effectiveness	It focuses on efficiency.

Strategy implementation depends on three sets of organizational factors, namely, the structure of the organization, various functional areas and operations and behavioural aspects. Strategic analysts distinguish three types of implementation; structural implementation, functional or operational implementation and behavioural implementation.

Strategy implementation is concerned with the managerial exercise of putting a freshly chosen strategy into place. The characteristics listed below highlights the nature of strategy implementation:

- *Action Orientation:* Strategy implementation is essentially an action oriented process. It involves putting the strategy into actual use. While implementing strategy manager uses their skills, intellectuals and knowledge and techniques of management process.
- *Comprehensive:* Implementation is wide in scope as it involves everything that is included in the discipline of management.
- *Demands skills:* As implementation involves a wide range of activities, a strategists has to have knowledge, skills, attitudes and abilities of different kinds.
- *Involvement:* Strategy formulation involves top management on the contrary strategy implementation requires the involvement of middle level managers. For effective implementation of strategy the plan must be properly communicated to and understood by the middle level managers.
- *Integrated Process:* Implementation is not a process in isolation. It requires a holistic approach. Each task and activity performed is related to another, which creates interconnected network.

Barriers to Strategy Implementation

Research studies found that it is much difficult to implement strategy than to formulate it. Majority of the time a good strategy fails. Why it fails? There are many reasons behind it which can be treated as barriers in effective strategy implementation.

A good strategy without proper implementation is like a poor strategy or no strategy at all, however having a good strategic plan is half the battle won, and the other half is won through effective strategy implementation. Effective implementation of strategies is important to the success of every entity. In many of the studies, it is stated that strategy implementation is much more difficult than strategy formulation.

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A study in the Indian context done with 145 mangers working in companies in and around Delhi attempted to uncover the reasons why strategy implementation in unsuccessful. This study listed 11 most frequently cited reasons of which the major ones are– inadequate management skills, poor comprehension of roles, inadequate leadership, ill defined tasks and lack of employee commitment. Hrebiniak's finding suggested that there are some general and overarching issues that impede strategy implementation. He stated that mangers are trained to plan and not to execute strategies, thus the top mangers are reluctant to interfere in the task of implementation. As formulation and implementation of strategies are interdependent they are being done by two other groups of people in an organization. This makes the, implementation phase takes a longer time than formulation thus putting more pressure on the mangers to show results. His findings pointed out the following major barriers:

- An inability to manage change
- Poor or vague strategy
- Not having proper guidelines
- Poor or inadequate information sharing
- Unclear responsibility and accountability
- Working against the organizational structure

Implementation and Change

Implementation incorporates a number of aspects, some of which can be changed directly and some of which can only be changed indirectly. The latter aspects are more difficult for the strategic leadership to control and change. The success of the strategic leader in managing both the direct and indirect aspects influences the effectiveness of:

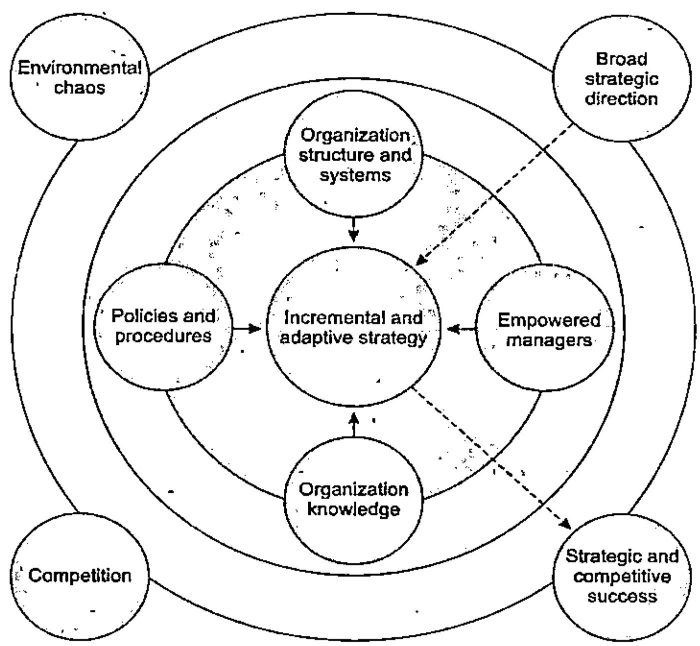

Figure 5.2 Emergent strategy

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- The implementation of strategies and strategic changes which are determined through the planning and visionary modes of strategy creation, and
- The ability of the organization, and its managers, to respond to changes in the environment and adapt in line with perceived opportunities and threats.

Aspects of implementation that can be changed directly

- The organization structure (the actual, defined structure, not necessarily the way in which people behave within the structure)
- Management systems
- Policies and procedures
- Action plans and short-term budgets
- Management information systems.

Aspects of implementation that are changed indirectly

Communication systems: While the management information system can affect formal information flows, the network of informal communications truly determines awareness. Such communications are affected by, and influence, the degree and spirit of co-operation between managers, functions and divisions.

Managing and developing quality and excellence: Attention to detail, production on time and to the appropriate quality, and the personal development of managers and other employees are all factors in this. As well as developing managers' skills and capabilities generally, it is important to consider the quality of management in particular areas and the cover for managers who leave or who are absent. The organization structure should provide opportunities for managers to grow and be promoted.

Manifested values and the organization culture: This involves the way in which things are done: standards and attitudes which are held and practised.

The fostering of innovation: The willingness of people to search for improvements and better ways of doing things. Their encouragement and reward is very much influenced by the strategic leader, with leadership by example often proving significant. Those aspects that can be changed directly generally imply physical changes in the way in which resources are allocated. Behavioural aspects, which imply changes in beliefs and attitudes, can only be modified indirectly.

Problems of Successful Implementation

Owen (1982) contends that in practice there are four problem areas associated with the successful implementation of strategies.

1. At any time strategy and structure need to be matched and supportive of each other. Products and services need to be managed independently, or in linked groups or business units, if they are to be matched closely and effectively with their environments. There may be good reasons for having a structure that does not separate the products, services and business units in this way. The strategic leader might prefer a centralized structure without delegated responsibilities, for example. The organization might possess certain key skills and enjoy a reputation for strength in a particular area, and this might be influential in the design of the structure. Equally, certain skills might be absent and

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have to be compensated for. Related to this might be the willingness or reluctance of managers to change jobs or location within the structure. Structures cannot be created and activated independently of the people involved; their individual skills may provide either opportunities or constraints. Changing attitudes and developing new skills is accomplished indirectly, as pointed out above, and takes time. It is also possible that related products may be produced in various plants nationally or internationally, when a geography-orientated structure, which keeps the plants separate, is favoured for other sound reasons. In addition, it may not prove feasible to change the structure markedly every time there is a change in corporate strategy and, instead, acceptable modifications to the existing structure are preferred to more significant changes.

2. The information and communications systems are inadequate for reporting back and evaluating the adaptive changes that are taking place, and hence the strategic leader is not fully aware of what is happening. Hence the performance of the existing structure is not monitored properly, and as a result control mechanisms may be ineffective.
3. Implementing strategy involves change, which in turn involves uncertainty and risk. New skills may have to be developed, for example. While managers may agree in meetings to make changes, they may be more reluctant in practice to implement them. Motivating managers to make changes is therefore a key determinant.
4. Management systems, such as compensation schemes, management development and communications systems, which operate within the structural framework will have been developed to meet the needs of past strategies. They may not be ideal for the changes that are taking place currently, and again it is difficult to modify them continually.

Alexander (1985) argues that additional factors are also significant, especially:

- The failure to predict the time and problems that implementation will involve, such as the time required for a new business or venture to take off, which is invariably underestimated. This may not seem critical, but it can be. In the early months of a new business, more cash is typically spent than revenue is earned. The accumulating debt is a so-called 'valley of death' that the business must come through and out of before it can start earning real money and (eventually and hopefully) enter the land of plenty.
- Other activities and commitments that distract attention and possibly cause resources to be diverted. Paradoxically, one way of coping with the likelihood of disruptive and distracting events is to ensure that the organization has spare resources in readiness for such emergencies; but slack of this sort can appear to imply inefficiency and underutilized resources, and it can be expensive.
- The bases on which the strategy was formulated changed, or were forecast poorly, and insufficient flexibility to deal with the change pressures has been built in. All of these problems presuppose that the formulated strategic change is sound and logical. A poorly thought-out strategy will create its own implementation problems.

Successful Implementation

To counter these problems Owen (1982) suggests the following:

- Clear responsibility for the successful outcome of planned strategic change should be allocated.

- The number of strategies and changes being pursued at any time should be limited. The ability of the necessary resources to cope with the changes should be seen as a key determinant of strategy and should not be overlooked.
- Necessary actions to implement strategies should be identified and planned, and again responsibility should be allocated.
- Milestones, or progress measurement points, should be established.
- Measures of performance should be established, as well as appropriate monitoring and control mechanisms.

These, Owen argues, can all be achieved without necessarily changing the structural framework but rather by changing the way in which people operate within it. In addition, Alexander contends that the involvement and support of people who will be affected by the changes in strategy must be considered, and that the implications of the new strategies and changes should be communicated widely, awareness created and commitment and involvement sought. Incentives and reward systems underpin this. In the same way that no single evaluation technique can select a best strategy, there is no best way of implementing strategic change. There are no right answers, as such. A number of lessons, considerations and arguments, however, can be incorporated into the thinking and planning. Three final points need to be mentioned to conclude this introduction. First, although there are no right answers to either strategy formulation or strategy implementation, the two must be consistent if the organization is to be effective. Arguably, how the organization does things, and manages both strategy and change, is more important than the actual strategy or change proposed.

Second, the style of strategic leadership will be very influential. We also argue that the preference of the strategic leader affects the desirability of particular strategic alternatives. The structure of the organization, the delegation of responsibilities, the freedom of managers to act, their willingness to exercise initiative, and the incentive and reward systems will all be determined and influenced by the strategic leader. These in turn determine the effectiveness of implementation. The strategic leader's choices and freedom to act, however, may be constrained by any resource limitations and certain environmental forces. Third, the timing of when to act and make changes will also be important. In this context, for example, Mitchell (1988) points out that timing is particularly crucial in the implementation decisions and actions that follow acquisitions. Employees anticipate changes in the organization, especially at senior management level, and inaction, say beyond three months, causes uncertainty and fear. As a result, there is greater hostility to change when it does occur. The dangers of hasty action, such as destroying strengths before appreciating that they are strengths, are offset. Mitchell concludes that it is more important to be decisive than to be right, and then learn and adapt incrementally.

5.3 STRATEGY IMPLEMENTATION THROUGH STRUCTURE

The structure of an organization is designed to break down the work to be carried out - the tasks – into discrete components, which might comprise individual businesses, divisions and functional departments. People work within these divisions and functions, and their actions take place within a defined framework of objectives, plans and policies which are designed

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to direct and control their efforts. In designing the structure and making it operational it is important to consider the key aspects of empowerment, employee motivation and reward. Information and communication systems within the organization should ensure that efforts are co-ordinated to the appropriate and desired extent and that the strategic leader and other senior managers are aware of progress and results.

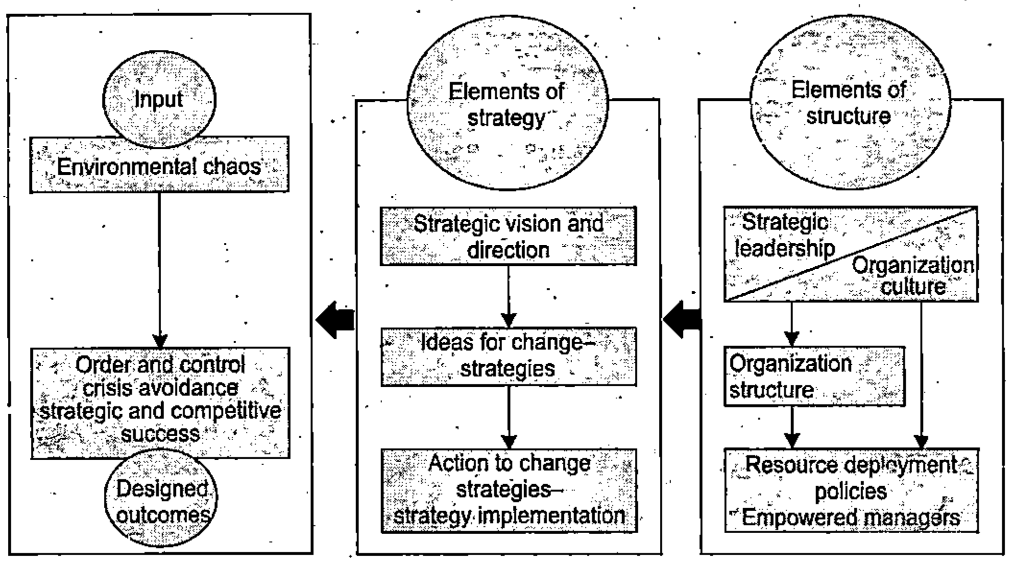

Figure 5.3 Strategy implementation

It has already been established that in a competitively chaotic environment one essential contribution of the strategic lader is to provide and share a clear vision, direction and purpose for the organization (see Figure 5.3). From this, and taking into account the various ways in which strategies might be created (incorporating the themes of vision, planning and emergence), actions and action plans need to be formalized - the middle column in the figure.

These strategies and proposals for change cannot be divorced from the implementation implications, which are shown in the right-hand column. Is the structure capable of implementing the ideas? Are resources deployed effectively? Are managers suitably empowered? Do organizational policies support the strategies? If the answers to these questions contain negatives, then either the strategic ideas themselves, the structure, organizational policies or aspects of resource management will need to be reviewed and rethought. The final decisions will either be determined or strongly influenced by the strategic leader, and affected by the culture of the organization.

If appropriate, feasible and desirable strategies that are capable of effective implementation are selected and pursued, the organization should be able to establish some order and control in the environmental chaos and avoid major crises - the left-hand column of Figure 5.3. This still requires that strategies, products and services are managed efficiently and effectively at the operational level. Responsibility for operations will normally be delegated, and consequently, to ensure that performance and outcomes are satisfactory, sound monitoring and control systems are essential.

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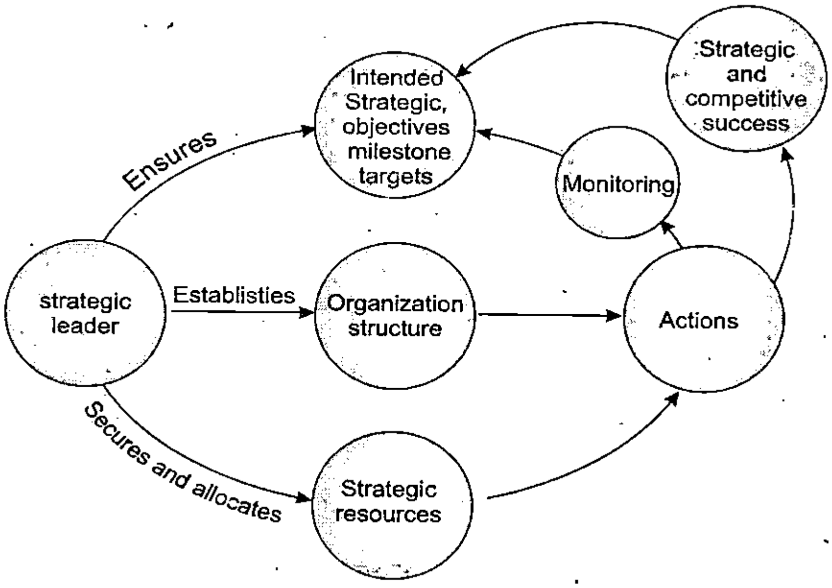
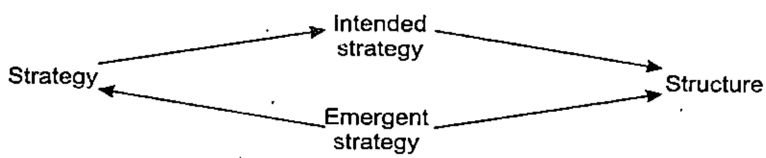


Figure 5.4 Intended strategy implementation

It is important to appreciate that while structures are designed initially - and probably changed later at various times - to ensure that determined or intended strategies can be implemented, it is the day-to-day decisions, actions and behaviours of people within the structure which lead to important emergent strategies. There is, therefore, a continual circular process in operation:



Consequently, while issues of structure and implementation are being considered at the end of this book, they should not be thought of as the end point in the strategy process. They may be the source of strategic change.

Figure 5.4 explains the implementation of intended strategies in more detail. The strategic leader is charged with ensuring that there are appropriate targets and milestones, establishing a suitable organization structure and securing and allocating the relevant strategic resources, such as people and money. People then use the other strategic resources, working within the structure, to carry out the tasks that they have been allocated, and their actions should be monitored and evaluated to check that the targets and objectives are being achieved.

Figure 5.4 summarizes the emergent strategy process which, clearly, is less prescriptive. This time the strategic leader provides a broad strategic direction. Empowered managers work within a decentralized structure, but they are constrained by any relevant rules, policies and procedures. The strategies that emerge are affected by the constraints, the extent to which

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managers accept empowerment and the accumulation, sharing and exploitation of organizational knowledge. The outcome of the strategies is related to the extent to which they deal with the competitive and environmental pressures with which the organization must deal.

To summarize the outcome, in terms of strategic management and organizational success, is dependent upon:

- The direction provided by the strategic leader
- The culture of the organization
- The extent to which managers throughout the organization understand, support and own the mission and corporate strategy, and appreciate the significance of their individual contribution
- The willingness and ability of suitably empowered managers to be innovative, add value and take measured risks to deal with environmental opportunities and competitive surprises
- The effectiveness of the information sharing, monitoring and control systems.

5.4 STRATEGY IMPLEMENTATION THROUGH HUMAN RESOURCE MANAGEMENT: VALUES AND ETHICS

Figure 5.5 recapitulates how the corporate mission and purpose provide the basis from which corporate and competitive strategies are derived. The corporate portfolio provides a number of ways for the organization to pursue its mission – but each business in the portfolio will require different levels of attention and resourcing. These decisions relate to priorities linked to the potential of, and desired outcomes from, each business.

The achievement of competitive advantage and success comes down, in the end, to individual contributions, and to guide and manage these, objectives, targets and milestones will be set.

Once intended strategies have been determined, either in broad outline or in greater detail, the organization must plan their implementation. This means, first, that the resources required for implementation – including capital equipment, people and finance – are available where and when they are needed. Resources need to be allocated to different managers, functions and businesses, and then co-ordinated to generate synergy. Second, the managers responsible for implementation must understand what is expected of them and be empowered and motivated to take the necessary decisions and actions. In addition, monitoring and control systems are required.

At the corporate strategy level, organizations might establish priorities for different divisions and businesses using portfolio analysis, and evaluate the strategic and financial implications of alternative investments. Decisions may be taken within the constraints of existing capital, financial and human resources; if they demand new resources, then these must be obtained in an appropriate timescale. Proposed acquisitions may require an organization to raise funding externally; organic development of new products may require new skills and competencies. Resources can be switched from one part of a business to another.

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At the functional level, policies and procedures can guide managers and other employees in the utilization of these corporate resources to add value, create competitive advantage and achieve the desired objectives. These policies can be tightly defined to maintain strong, central control, or very loose and flexible to enable people to use their initiative and be flexible. The ongoing management of the resources will then use action plans and budgets.

Action plans relate to the detailed strategies and plans for the various key functions, the activities which must be carried out if competitive and corporate strategies are to be implemented successfully; budgets add a crucial financial dimension to these plans. Together they attempt to integrate sales, supply potential, production activities and cash flow to ensure that resources are available to produce goods and services where and when they are required.

The organization would like to avoid a situation where it has requests that it would like to take, or worse, it has booked orders, but it does not have the resources to enable production or supply. The potential danger here is one of overtrading and overcommitment. Both its bank and its customers can easily end up disappointed. It would also wish to avoid situations where it has idle capacity and no orders, or instances where it is producing for stock rather than for customers. This dilemma is one faced all the time by many small businesses, and in it we can see an endeavour to balance the resource-based perspective of strategy with the opportunity- driven approach.

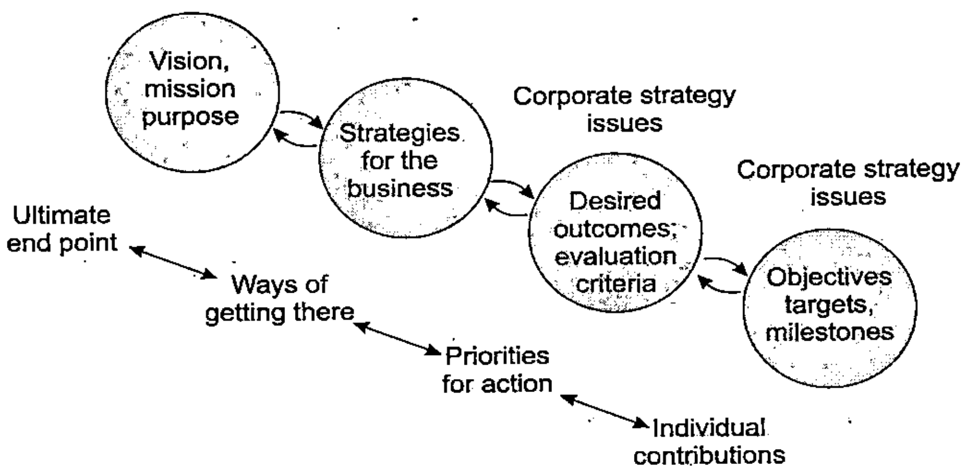

Figure 5.5 Strategy implementation and resource management

This planning process then provides a useful check that the corporate and competitive strategies that have been formulated are both appropriate and feasible in the sense that they can be implemented. At the same time, this planning and budgeting must not be so rigid that the organization is unable to be responsive. Forecasts and judgements will never be completely accurate; when intended strategies are implemented there will need to be incremental changes and revisions to plans. To respond to new environmental opportunities and competitor initiatives, the organization will need to be adaptive.

Emergent strategic change of this nature demands resource flexibility, at both the corporate and functional levels. The plans should incorporate clear milestones – target levels of achievement against a timescale. By constant monitoring the organization can check whether

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it is booking sufficient business, whether it is producing the necessary quality on time, whether it is underproducing or overproducing, whether its costs and prices are different from those that it forecast, and whether it is managing the movement of cash in and out of the business to the budgeted targets.

A review of progress can highlight potential deficiencies to either resource requirements or likely outcomes. If orders are exceeding expectations, then additional resources may be required if the organization is to properly satisfy the new level of demand. If these cannot be found, schedules will need to be changed and maybe future supplies rationed. If orders are below expectations, then either new business opportunities will need targeting at short notice, possibly implying very competitive prices and low margins, or end-of-year targets revised downwards. Vigilance and pragmatism here can help to ensure that the organization does not face unexpected crises. Effective communications and management information systems are essential for planning, monitoring and control.

The allocation of resources at a corporate level is closely tied in to the planning system through which priorities must be established. Portfolio analyses such as the directional policy matrix may well be used to help to determine which products and business units should receive priority for investment funding; and any new developments that are proposed will require resources. An acquisition, for example, will need to be financed, but the integration of the new business after the purchase may also involve the transfer of managers and other resources.

It is not easy to build a strong corporate culture in any organization. A strong culture is based on strong ethics and values. This is very important for the success of the organization in the long-run. It is very easy to adopt short-cut methods to reach the top but the downfall also comes at the same rate. Ethics and values ensure that the organization does not adopt short-cut methods to achieve success; instead it stresses on the concept of sustained success. Every organization has its own code of ethics and standards in a written form. The code of ethics normally contain the following points:

- Honesty
- Fairness in practices of the company—Disclosing the inside information;
- Acquiring and using outside information—Disclosure of outside activities by the employer to the employee;
- Using company assets; etc.

The value statements normally include

- Value of customers
- Commitment towards the business practices like quality etc.
- Duty towards shareholders, suppliers etc.
- Following the environmental protection norms etc.

These were the few areas which were covered. There can be more such points, which can be discussed under the head value statements and code of ethics. Each organization has its own set of value statements and code of ethics.

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5.5 MCKINSEY'S 7S MODEL

The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design." The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of seven key elements – Structure, Strategy, Skill, System, Shared Values, Style, and Staff.

The focus of the McKinsey 7s Model lies in the interconnectedness of the elements that are categorized by "Soft Ss" and "Hard Ss" – implying that a domino effect exists when changing one element in order to maintain an effective balance. Placing "Shared Values" as the "center" reflects the crucial nature of the impact of changes in founder values on all other elements.

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.

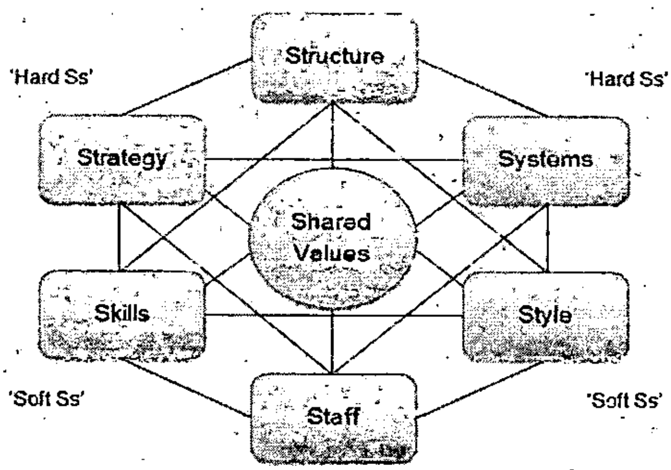

Figure 5.6 McKinsey 7s model

The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.

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- To identify how each area may change in a future.
- To facilitate the merger of organizations.

The 7S Framework

In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

Table 5.2 The 7S elements

Hard S	Soft S
Strategy	Style
Structure	Staff
Systems	Skills
	Shared Values

Strategy: It is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.

Structure: It represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems: These are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills: These are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff: It is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style: It represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

Shared Values: These are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

How to Use the Model

The 7-s framework of McKinney's is the value based management model that describes 7 factors to organize a company in a holistic and effective way. Together these factors determine the way in which the corporation operates. Large or small, the strategies are all interdependent, so if you fail to pay proper attention to one of them, this may affect all others as well.

- You can use the 7S model to help analyze the current situation (Point A), a proposed future situation (Point B) and to identify gaps and inconsistencies between them.
- It's then a question of adjusting and tuning the elements of the 7S model to ensure that your organization works effectively and well once you reach the desired endpoint.

We provide the following steps that should help you to apply this tool:

Step 1. Identify the areas that are not effectively aligned

During the first step, your aim is to look at the 7S elements and identify if they are effectively aligned with each other. Normally, you should already be aware of how 7 elements are aligned in your company, but if you don't you can use the checklist from WhittBlog to do that. After you've answered the questions outlined there you should look for the gaps, inconsistencies and weaknesses between the relationships of the elements.

For example, you designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2. Determine the optimal organization design

With the help from top management, your second step is to find out what effective organizational design you want to achieve. By knowing the desired alignment you can set your goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in your organization for a few reasons. First, you need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that you could use and you'll have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3. Decide where and what changes should be made

This is basically your action plan, which will detail the areas you want to realign and how would you like to do that. If you find that your firm's structure and management style are not aligned with company's values, you should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4. Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, you should find the people in your company or hire consultants that are the best suited to implement the changes.

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Step 5. Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

The Most Common Uses of the Framework are:

- To facilitate organizational framework
- Examine the likely effects of structure of future changes within a company
- To identify how each area may change in future
- To facilitate the merger of an organisation.
- Organizational Analysis Tool
- Monitor Changes in the Internal Situation of the Organization
- It's a management model that describes 7 factors to organize a company in an holistic and effective way.
- Together these factors determine the way in which a corporation operates.
- Managers should take into account all 7 of these factors, to be sure of successful implementation of a strategy.
- It is used b/w each of the S's one can identify strengths & weaknesses of an organisation.

Advantages of 7s Model

This model has been successfully applied by many known business entities to bring efficiency in their operations.

Let us now understand the various benefits of McKinsey 7s framework, which makes it a popular tool in the business world:

- When the essential components of the firm are aligned with its vision, the organization can achieve the desired objectives in a better way.
- It helps in bringing the various departments and processes in sync with each other, especially when mergers or acquisition takes place.
- It also facilitates the systematic application of the policies, regulations and strategies framed by the top management.
- The management can analyze the effects of changing corporate culture, policies, strategies, structure, technology over the organization.
- It is a broad approach since it inspects each of the seven elements and their correlation with each other.
- This model is not only theoretically developed but have been practically tested and applied for managing business organizations.

Disadvantages of 7s Model

The McKinsey 7s model is though helpful for the achievement of corporate goals; it consumes a lot of time and efforts of the managerial personnel, hampering the other activities.

There are certain other limitations of this approach, which are discussed below:

- The conclusion of the analysis sometimes does not have a proper factual backing.
- There are possibilities that the management may overlook some of the minute facts while framing or implementing the strategies.
- When it comes to the accomplishment of strategies, the analyst fails to explain such application clearly.
- It is a stagnant framework, especially in the short-term, since its result cannot be analyzed so soon.
- It is difficult to evaluate the degree of suitability of this model in a business organization.
- This framework emphasizes on the analysis of the organization's internal factors, neglecting the external factors which substantially affect the business operations.

Example of McKinsey 7S Model

INFOSYS

It Was Co-founded In 1981. It is an Indian Multinational Corporation that provides Business Consulting, information Technology, software Engineering and Outsourcing Services. It is the Third Largest India Based It Services Company By 2014 Revenues and The Fifth Largest Employer. The Market Capitalization Is $31.11 Billion Making It India's Fifth Largest Publicly Traded Company. The 7's elements are:-

(i) Strategy

- What is the strategy?
- How to intend to achieve the objectives?
- How to deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Strategy Followed By Infosys:

- Client focused strategy to achieve growth
- Increase business from existing and new clients
- Expand geographically
- Enhance solution set
- Develop deep industry knowledge
- Enhance brand visibility
- Pursue alliances and strategic acquisitions

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(ii) Organisation Structure

- How is the company/team divided?
- What is the hierarchy?
- How do various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized?

Organisation Structure at Infosys:

- Adopted a free organization devoid of hierarchies.
- Everyone is known as associates of his position in the company.
- Software development is undertaken through teams and the constitution of teams is based on the principle of flexibility.

(iii) Staff

"Staff" refers to the number and type of personnel within the organization and how companies develop employees and shape basic values.

- Vast human capital, 1,65,000 + employees.
- Emphasis on selecting the right candidate.
- Spends about 2.65% of its revenue on up gradation of employees skills.
- Build a fulfilling career in consulting, technology & outsourcing.

(iv) Systems

Defines the flow of activities involved in the daily operation of business, including its core processes and its support systems.

(v) Shared Values

Shared Values are the commonly held beliefs, mind-sets and assumptions that shape how an organisation behaves, also known as the "Corporate Culture".

(vi) Style

- Cultural style and behavior of organization.
- How participative is the management style?
- How effective is the leadership?
- Do employees tend to be cooperative or competitive?
- Are there real teams functioning within the organization or are they just nominal groups?

(vii) Skills

- Dominant attributes that exist in the organization.
- What are the strongest skills represented within the company?
- Are there any skills gaps?

- What is the company known for doing well?
- Do the current employees have the ability to do the job?

5.6 ORGANIZATIONAL LIFE CYCLE

Organizational life cycle, as the name suggests, is the life cycle of an organization from the point of its creation or onset to the point it is terminated. It has five distinct stages which are conception, expansion, stability, growth, and termination.

The organizational life cycle is referred to as a model that has linked business organizations with living organisms and proposed that it passes through predictable sequences of various development and growth stages.

It is believed that like human beings, organizations also are born, they grow and mature with time and there comes a stage when they start declining and like any other human being die. Some of the organizations have a long shelf life, whereas others are unable to cope with the demands and have a short life. Still, it is a fact that every life follows a pattern, and this seems predictable for every organization.

It is up to the management to realise and understand all the phases of the organizational life cycle so that they can understand the priorities of that stage and make decisions accordingly that will work best for that period.

Understanding Organizational Life Cycle

The organizational life cycle is described as social systems where a group of people are organised around a common goal or purpose. They indulge in numerous activities like business planning, strategic planning, marketing, product development and financial management. All the activities have both formal and informal goals and include taking steps to achieve these goals by making adjustments along the way if necessary.

The social system is focused on the entire organization that provides for individuals, teams products services etc. and goes through regular life cycles just as other living organisms do.

For the first time organizations were compared to living organisms by the economist Alfred Marshall in the 1890s and sixty years later it was proved by Kenneth Boulding that the organizations do pass through a life cycle that is very similar to that of living organisms.

Mason Haire was the researcher who came up with the idea that all the organizations adhere to a straight path in the course of their life cycle that can be explained by making similarities with those of living organisms.

More than one hundred and thirty years have passed since the first research was published and the concept of the organizational life cycle has gained prominence over time because of its usefulness in making changes that helps it to cope with the difficulties of every stage.

Importance of Organizational Life Cycle

It has become essential to understand the organizational life cycle so that the owner, along with his management, can do whatever to stay and thrive in the business. The leaders who have gained experience recognize the symptoms that link life cycle theories to their organization.

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With viable comparisons, it becomes easier to understand the phase their organization is going through and the types of problem they are facing and can face in that particular stage of the life cycle. It is this understanding that will provide them with the information to know about the various problems and issues that an organization can face during each cycle. The newly-gained perspective will help the management in making provisions for handling issues and responding to decisions in the workplace.

The understanding that the management gains after studying the theories of the organizational life cycle help them to prioritise the issues and sort them out. It also helps the systems to evolve and reach the next stage gracefully.

In case the management is unable to take viable steps it can lead to decline or stagnation in the organization, and this happens because of unclear roles, unclear priorities, conflicts, frustrations and people living the organization.

It is a fact that when you are trying to understand a particular stage of a system the age does not matter because what matters most is the nature of its current activities and how viable it is in the current situation. This will determine the stage it is going through so that appropriate measures can be taken to make that phase better, productive and worthwhile.

Stages of the Organizational Life Cycle

Organizations are typically changing into different phases, and it is up to an organization to understand the stage or the life cycle which their company is going through. All the organizational life cycle stages present challenges and priorities that should be met head-on to thrive in this world. The various stages of the organizational life cycle are as follows:

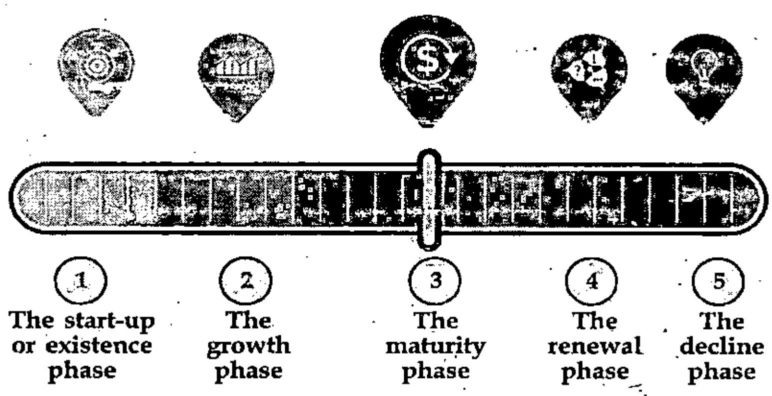

Figure 5.7 Stages of the organizational life cycle

1. The start-up or existence phase

This is the first stage of the organizational life cycle and is known by several names as– The birth stage, The existence stage, The start-up stage, and The entrepreneurial stage.

This is the stage when the companies have to accumulate capital, develop products and services and hire workers. Thus this phase is all about entrepreneurial thinking and includes writing and forming a business plan, formation of various teams, making investment plans to kick-start the business. In case a company does not require outside funds then gearing up for taking out the necessary funds from the personal account.

At this stage, the firms exhibit a simple structure with centralised power at the top of the hierarchy. The primary purpose of this point in time is to establish competencies and generate initial success in terms of products and market.

This is the stage where you will find lots of trial and errors as the companies have to change their products and services in a manner to suit the demands of its customers and establish distinct competencies. The pursuit of a niche strategy and frequent innovations are part of this phase. The product development and delivery stage during the first phase involve employees wearing several hats and leaders being engaged in strategic as well as tactical levels. The significant attributes in this environment are flexibility and lean management of assets and resources for the continued existence of the company. The success in this birth stage is in finding a niche product/market that will provide enough revenues to maintain and develop the organization and often involves growth via vision and creativity.

Understanding the business model will help in getting a close view of the bigger picture so that it becomes possible to know how to generate earnings and revenues and control expenses for future growth and development of the company.

2. *The growth or survival phase*

The second stage of the organizational life cycle is the growth stage that is also referred to as the survival stage. It is aptly named because at this point; the companies are looking to solidify their roots, establish a framework, pursue growth and develop their capabilities. The onus is on setting targets and generating revenues for expansion and growth plans. There are two possible scenarios in the growth stage; first, some companies enjoy success and growth and can enter the next step with aplomb whereas some organizations are unable to achieve the desired success and subsequently fail to survive.

The growth stage is crucial for an organization, and this is why it puts its onus on early product diversification and sales growth. Product lines are broadened; efforts are on tailoring products to suit new markets, managers try to identify subgroups of customers and make small modifications in product and services to serve them in a better way.

In this stage a functionally-based structure is established, procedures are formalised, some authority is delegated to the middle managers, customers influence decisions, and the goal encompasses fulfilling the wishes of the customer to a higher degree.

The roles now become differentiated, and there is an increase in sales and marketing to generate and fulfil demands. In other words, diversification of the customer base and product line results in the specialization. To maintain control, the organization introduces formal methods and cross-functional activities.

One issue that an organization can face in this stage is autonomy. Fewer onuses on innovation activities and limited decentralisation of power can make the company less responsive to market changes. The growth stage will start to end when the sales of an organization begin to slow down.

3. *The maturity phase*

The next stage in the organizational life cycle is the maturity stage where the company enters a hierarchal structure of management. In this phase, the companies pay fewer onuses on expansion and more on safeguarding their interests and maintaining the existing growth and

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development strategies and plans. It is the middle and top levels management that take up the mantle of specialising in tasks like routine work, planning, strategising etc.

By the time an organization reaches its maturity level one can see stabilisation in the sales. This happens because of market saturation and high levels of competitive activities.

Some organizations are highly profitable, and the goal then is to maintain smooth functioning to maximise their profits in case the company goes through a declining sales growth phase. The companies put their onus on internal efficiency, and for this, they start installing control mechanisms in place.

Firms remain centralised and functional, and departmental structures continue to exist as they are apt for product-market scope. The delegation of power is less compared to the growth stage because the operations are now more stable and straightforward and do not require the efforts of numerous people.

There is an emphasis on budgets, formal cost controls, performance measures and coordination so that various departments and units can work together effectively.

The maturity phase in an organizational life cycle shows a less proactive and less innovative decision-making stage. This is because the aim of the company at this point is apparent – to focus on efficiency instead of a novelty. It waits for the competition to make the first move and lead the way and then imitates the innovation if necessary.

The maturity stage of an organization can continue for a very long period because as long as the organization is showing good sales and revenues figure there is no need to change the status quo or rock the boat.

4. *The renewal phase*

The next stage in the organizational life cycle is known as the renewal stage. This is because, at this point, the companies will experience a renewal in their management structure that shifts from a hierarchical organizational structure to a matrix style of organizational structure. This change facilitates flexibility and creativity in the organization.

The renewal stage is also referred to as the revival stage because of its functions. It is an optional stage, and several organizations do not put the onus on it whereas other takes care of it diligently. The revival stage generally occurs between maturity and a decline stage of the organizational life cycle. This happens because an organization recognises the need for drastic changes and initiates plans to implement the set strategies that can alter their current path.

The revival stage is considered for expansion and diversification of product-market scope. Companies try to follow a policy of rapid growth through diversification, innovation and acquisition. This stage involves increased investment and high risks.

The firm forms project teams and task forces to analyse issues and find solution alternatives systematically. Information processing is expanded and becomes diverse because the requirement changes from performance reporting and financial controls to information about customer and market opportunities. This is for identifying the new trends and opportunities to revive the organizational structure.

Significant changes start taking place because of the implementation of various policies by the organization. The revival stage can either be successful, and then the organization can maintain and see high growth or not successful, and this can be identified by the lack of expected sales growth in the company.

5. The decline phase

The last stage of the organizational life cycle is the decline stage that signifies the death of an organization. This can be identified by minimizing sales figures and profitability in the organization. This happens because of market stagnation, reluctance for risk-taking, external challenges, and lack of innovation.

In this stage of the organizational life cycle, organizations start putting the onus on conserving resources. Their sales figures go plummeting downhill because of unappealing product lines and lack of new technologies in the products. The communication between departments and the levels is weak and well-developed mechanism is absent for information processing.

The declining stage is the worst in the organizational life cycle as individuals become preoccupied with personal objectives instead of organizational goals and objectives. This slowly and steadily destroys the feasibility and functionality of the entire company.

5.7 MANAGEMENT AND CONTROL

There are a number of key themes to a synergistic, successful and profitable portfolio of businesses:

- Related competencies and capabilities, which can be transferred between businesses and between each of these businesses and the corporate headquarters, or the overall strategic leader
- The ability to create and build value, both individually and collectively, by the businesses and the corporate headquarters
- The ability to implement strategies and strategic ideas to achieve their potential. This contribution is again individual (in, say, the form of profit streams because of a strong competitive position) and collective, through learning, sharing and the transfer of skills and resources.

In this unit, therefore, a number of key themes are brought together. First, the relatedness of the actual businesses in the portfolio. Where technologies or markets are similar or even the same, there must be relatedness. However, some diversified conglomerates have shown that they can relate unlike businesses to create value. This relates to issues of style and culture, rather than basic strategic logic.

Second, the management of the portfolio of activities to ensure that strategies are implemented effectively. As a result, the overall organization should be demonstrably better off from the existence of the businesses and strategies involved. Its is clearly possible for a problematical business to be a distraction which draws resources (people, money and time in particular) away from potentially more lucrative opportunities. Figure 5.8 shows how strategy and implementation must work together harmoniously for competitive, strategic and (where relevant) financial success. Where the strategy is stretched or particularly demanding for the resources possessed by the organization, there is still likely to be under achievement even

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where there is sound implementation. If the accompanying implementation is also weak, the organization is likely to seem fragmented and fragile. A basically sound strategy, poorly implemented, would typically suggest structural and stylistic flaws.

The basic dilemma for many organizations is understanding why, when something is wrong. If performance is below expectations, is it the strategy or the implementation which is mainly to blame? The reaction of many businesses to the very competitive and increasingly global business environment of the 1990s has been to work on both. Strategies have typically become more focused and structures less hierarchical. Richter and Owen (1997) show how there has been:

- Refocusing - organizations have reduced the number of industries in which they compete, and
- Simpler structures - characterized by smaller head offices and fewer layers of management.

In the end we are left to question whether there has been too much reaction and an over aggressive response, partly the result of pressure from institutional investors and the financial markets, which have tended to be intolerant of diversity. Yet one of the most valuable and respected business in the world, General Electric, remains a very diversified conglomerate. We have tended to assume that diversified conglomerates are strategically illogical, and yet it could be that many managers have simply been unable to manage them in the 1990s when a radically different approach was required from that which succeeded with diversified conglomerates in the 1980s.

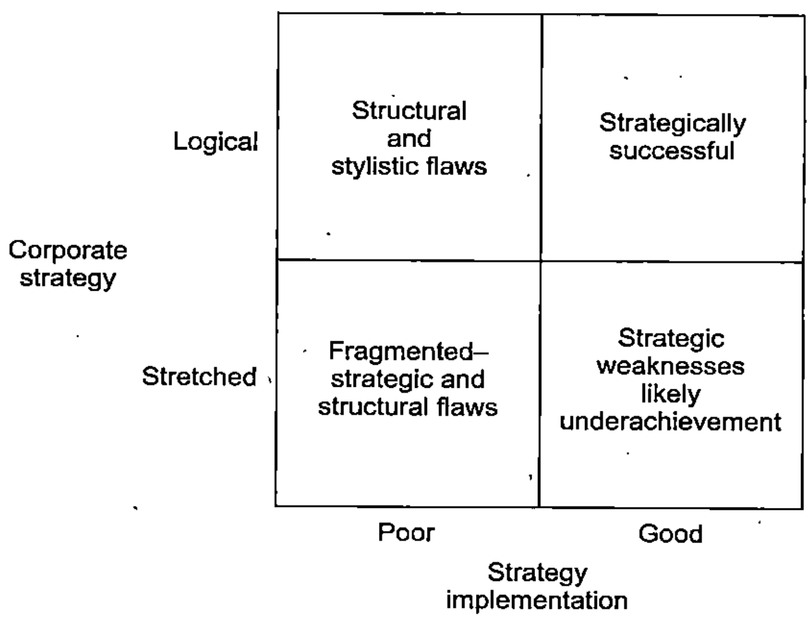

Figure 5.8 Strategy and implementation

Richter and Owen (at the London School of Economics and Public Science) used primary research and secondary data to track the strategic progress of large UK and German companies between 1986 and 1996. They found that over this decade 75 per cent of British companies became more focused compared with only 50 per cent in Germany. The figure for the US was even lower. Only 16 per cent of acquisitions (32 per cent for Germany) were in unrelated businesses. Germany experienced more vertical integration than the UK, where it was almost non-existent. At the same time large UK businesses experienced:

- Head-office personnel reductions, from an average of 175 to 100
- The number of business heads reporting to boards coming down from eight to six and
- The number of layers of management in the operating businesses being reduced from seven to five.

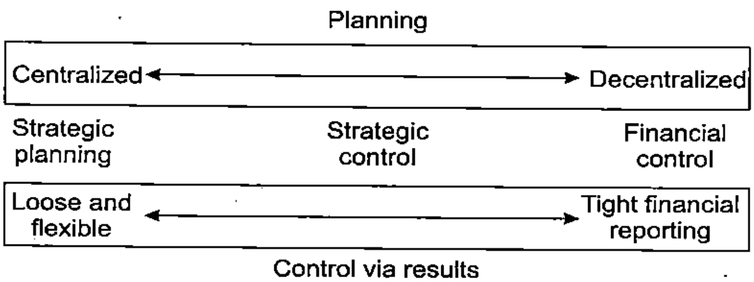

Figure 5.9 Corporate management style

5.8 ACTIVITY BASED COSTING

Activity-based costing (ABC) is a system you can use to find production costs. It breaks down overhead costs between production-related activities. The ABC system assigns costs to each activity that goes into production, such as workers testing a product.

Manufacturing businesses with high overhead costs use activity-based costing to get a clearer picture of where money is going. Because ABC gives specific production cost breakdowns, you can see which products are actually profitable.

By using activity-based costing, you can:

- Take into consideration both the direct and overhead costs of creating each product
- Recognize that different products require different indirect expenses
- More accurately set prices
- See which overhead costs you might be able to cut back on

The questions addressed in this section are the following. What is the appropriate role for corporate headquarters in divisionalized organizations? How much power should be centralized? How independent should the divisions and business units be? These relate to the difference between the divisional and the holding company structures and styles of management, and the themes of integration and behavioural processes within the structural framework are explored further.

In relation to these issues Goold and Campbell (1988) have contrasted the views of Sir Hector Laing, ex-chairman of United Biscuits, with those of Lord Hanson. Laing contended

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that it takes a number of years to build a business, and that during this period corporate headquarters should help the general managers of business units to develop their strategies. Hanson argued that it is more appropriate for head office to remain detached from operations, and instead of involvement to set strict financial targets. All Hanson businesses were reputedly for sale at any time. Both approaches have been shown to work, but with different levels of overall performance and strategic growth patterns. In essence it is all down to the quality of management! The Hanson approach typified that of many diversified conglomerates in the 1980s, but it lost favour with investors in the 1990s. This fact alone was cause enough for many of them to refocus or break up.

These two approaches represent two ends of a spectrum, and a third approach is a compromise between the two. This spectrum is illustrated in Figure 5.9. The determining variables are the extent of centralization and decentralization (which influences the nature and role of strategic planning in the organization) and the nature of key reporting systems (the extent to which they are loose and flexible or tight and financial). Goold and Campbell use three terms – financial control, strategic planning and strategic control – to categorize large UK companies against these criteria.

Financial Control Companies

Financial control is seen as an ideal approach for a holding company where the businesses are independent and unrelated. Hanson and BTR were excellent examples and advocates of this style, which for many years under the leadership of Lord (Arnold) Weinstock was also preferred by the more focused GEC.

- Strategy creation is heavily decentralized to business unit managers. Within their agreed financial targets they are free to develop and change their competitive and functional strategies.
- Budgets and targets – and their achievement – are critically important control mechanisms.
- The small head office monitors financial returns closely and regularly, intervening when targets are missed – head office is a 'controller'.
- Head office also acts as a corporate investment banker for investment capital.
- Achievement is rewarded, and units are encouraged to put forward and chase ambitious targets. Underperforming managers are likely to be removed.
- The head office adds value by acquiring and improving underperforming businesses; if additional value cannot be added it may well sell off businesses.
- There will, typically, be few interdependencies and links between the businesses.
- Growth is more likely to be by acquisition than organic investment, with many financial control companies taking a short-term view of each business and being reluctant to invest in speculative research and the development of longer-term strategies.

Owen Green, chief executive and architect of BTR, had the following philosophy:

1. Never pursue extra sales at the expense of profit margins.
2. Raise prices whenever there is an opportunity.
3. Investment should never exceed the amount written off in depreciation.

The result was high profit margins but a lack of capital investment; growth was mainly by acquisition rather than by investing in the existing businesses. Herein lay the ultimate limitations.

Strategic Planning Companies

Strategic planning tends to be adopted in organizations which focus on only a few, an preferably related, core businesses. Examples include Cadbury Schweppes, United Biscuits and BP. Historically it has been the favoured approach for most public-sector organizations.

- Strategic plans are developed jointly by head office and the business units, with head office retaining the final say. Strategic planning is centralized.
- Day-to-day operations only are wholly decentralized.
- Head office sets priorities and co-ordinates strategies throughout the organization, possibly initiating cross-business strategies, and thereby acts as an orchestrator.
- A long-term perspective is realistic, and the search for opportunities for linkages and sharing resources and best practice can be prioritized. This normally requires central control. Individually the businesses would tend to operate more independently; organization-wide synergies may involve sacrifices by individual businesses.
- Goold and Campbell conclude that there are co-ordination problems if this approach is used in truly diversified organizations.
- Budgets are again used for measuring performance.
- The tight central control can become bureaucratic and demotivate managers, who may not feel ownership of their strategies.

Other dangers are that thinking may become too focused at the centre, with the potential contributions of divisional managers underutilized; and that the organization may be slow to change in response to competitive pressures. Value can be added successfully if corporate managers stay aware and expert in the core businesses and if the competitive environment allows this style to work.

Strategic Control Companies

Financial control and strategic planning are appropriate for particular types of organization, but both styles, while having very positive advantages, also feature drawbacks. The strategic control style is an attempt to obtain the major benefits of the other two styles for organizations that are clearly diversified but with linkages and interdependencies. Value is added by balancing strategic and financial controls.

- Strategy creation involves decentralization to the business units, although head office still controls the overall corporate strategy.
- The role of head office is to review divisional and business plans, and approve strategic objectives and financial targets, accepting that they may need to be changed in a competitive environment. Performing a coaching role, head office encourages businesses to achieve their potential by active involvement and by fostering the spreading of learning and good practice through the organization.

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- Strategy creation and budgetary control can be separated, allowing for more creative performance measurement. Sometimes competitive pressures and misjudgements mean strategies have to be changed, and hoped-for financial targets may be missed. A strategic control style can recognize this and deal with the implications.
- Head office does, however, monitor and control financial performance and success against strategic milestones and objectives.

Although decentralization is a feature, head office still requires considerable detail about the various businesses if it is to ensure that the synergy potential is achieved and very short-term thinking is avoided. Political activity will be prevalent as individual businesses compete with each other for scarce corporate resources.

It was mentioned earlier that GEC, under Lord Weinstock – who was in charge for 32 years – adopted a financial control style. When he retired (in 1996) and was replaced by Lord George Simpson the style was quickly changed to strategic control.

Simpson inherited a GEC that was diversified and financially sound, but it was risk averse and experiencing relatively low growth. It was also in possession of a legendary cash mountain of £2.5 billion. Simpson created a new agenda for growth. With divestments and acquisitions the portfolio was changed. The style also changed. There was to be more focus on customers and people and less on cost control. There was greater decentralization, accompanied by robust reporting systems. It is not unusual to see changes of strategy, structure and style accompanying a change of leadership, especially if a company is in difficulty or the predecessor has been in place for a long time.

Two leading organizations that utilized the strategic control style – ICI and Courtaulds – both concluded that they were over diversified. This belief was strongly reinforced by institutional investor pressure. The attitude of the stock market and their shareholders meant that their share prices were underperforming against the index, the average of the UK's largest companies. There were numerous businesses in each organization, although some were clearly interlinked. At the same time these clusters had little in common and featured different strategic needs and cultures. Because of these differences, and the inevitable complexity, corporate headquarters could not add value with a single entity. Both companies split into two distinct parts to enable a stronger focus on core competencies and strategic capabilities. Courtaulds was split into Courtaulds Chemicals (subsequently acquired by Akzo Nobel of Germany) and Courtaulds Textiles (sold to Sara Lee of the US). ICI separated its chemicals and pharmaceuticals businesses. The former remain as ICI, but many of the activities have been divested and replaced by more consumer- focused businesses. ICI continues to struggle. The others were renamed Zeneca, which soon merged into Astra Zeneca.

Levels of Success

Goold and Campbell (1988) studied 16 large UK companies, including those given as examples above, and concluded that each style has both advantages and disadvantages and that no one style is outstandingly the most successful.

Strategic planning companies proved to be consistently profitable during the 1980s, mainly through organic growth. Head office corporate staff tended to be a quite large group and differences of opinion with general managers sometimes caused frustration within the divisions and business units. Financial control companies exhibited the best financial performance. In a number of cases, particularly BTR and Hanson, this resulted from acquisition and divestment rather than organic growth. Short-term financial targets were felt to reduce the willingness of general managers to take risks. There were few trade-offs whereby short-term financial targets were sacrificed for long-term growth. A general manager, for example, might consider a programme of variety reduction and product rationalization with a view to developing a more consistent and effective portfolio. In the short term this would result in reduced revenue and profits before new orders and products improved overall profitability. This temporary fall might be unacceptable in the face of short-term financial targets. Strategic control companies also performed satisfactorily but experienced difficulties in establishing the appropriate mix of strategic and financial targets for general managers. Financial targets, being the more specific and measurable ones, were generally given priority. Goold and Campbell concluded that while the style of management adopted within the structure determines the strategic changes that take place, the overall corporate strategy of the company very much influences the choice of style. Large diverse organizations, for example, will find it difficult to adopt a strategic planning approach. Equally, where the environment is turbulent and competitive, increasing the need for adaptive strategic change, the financial planning approach is less appropriate. Not unexpectedly, Hanson's main acquisitions were of companies in mature, slow-growth sectors.

While companies may appreciate that there is a mismatch between their corporate strategy and style, changing the style can be difficult. Moreover, many organizations will not be able to implement a new style as effectively as the one that they are used to. Goold et al. (1993) revisited the organizations and their research five years later, partly stimulated by the change in fortunes in some of the companies involved. This review reinforced the conclusion that financial control is ideally suited to a group of autonomous businesses in a conglomerate, but it is less suitable for a portfolio of core businesses or ones seeking to compete globally. In 1988 Goold and Campbell had argued that the adoption of a hands-off, financial control style by GEC and other electronics companies in the UK had hindered their development as globally competitive businesses. Global development demands synergy between a number of national businesses.

BTR and Hanson had already begun to focus more on selected core businesses, and their relative performance was deteriorating. Strategic planning continued to add value as long as corporate managers had close knowledge and experience of their core businesses. Where their portfolio was arguably too diverse – although not so diverse that they could be classified as diversified conglomerates – strategic control companies were experiencing difficulties. The researchers poured scorn on the idea that a decentralized structure, supported by a modern budgeting and planning system, would enable a competent management team to add value to almost any new business. Strategic control can only work with an effective mix of tight financial control and devolved authority to instigate emergent strategic changes; to achieve this successfully, head offices again need to appreciate the detail of competitive strategies in the subsidiaries.

Appreciating the specific problems and opportunities faced by subsidiary businesses is particularly important for establishing fair reward systems. Reward systems are likely to be based on specific performance targets, but these could relate to growth in revenue, absolute profits or profitability ratios. Stonich (1982) has suggested that business units might be categorized as having high, medium or low growth potential. Four factors could be used in evaluating their relative performances: return on assets; cash flow; strategic development

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programmes and increases in market share. The relative weighting attributed to each of these four factors would be changed to reflect their specific objectives and whether they were of high, medium or low-growth potential. Return on assets and cash flow would be critical for low growth business units, and market share and strategic development programmes most important for those with high growth potential. The factors would be weighted equally for medium growth. This approach would be particularly relevant where general managers were changed around to reflect their particular styles of management and the current requirements of the business unit.

One question left unanswered concerns the extent to which the conclusions of Goold and Campbell are a result of British management strengths, weaknesses and preferences. Certain Japanese companies appear to grow organically at impressive rates while maintaining strict financial controls and directing corporate strategic change from the centre. This tendency, however, is affected by legislation which restricts the ability of Japanese companies to grow by acquisition and merger. Without this control Japanese firms may have followed different strategies. The next section endeavours to pull together the lessons from this and other research and the cases quoted herein.

Activity-based costing vs. traditional costing

ABC provides an alternative to traditional costing. Traditional costing applies an average overhead rate to direct production costs based on a cost driver (e.g., hours or volume).

But, some production-related activities use more overhead expenses than others. As a result, traditional costing can give an inaccurate cost of making each product.

Traditional costing is simpler but less specific than activity-based costing. You might consider going with traditional costing if you only make a few products.

You may also use traditional costing for reporting externally (e.g., to investors) and activity-based costing for reporting internally (e.g., to managers).

Benefits and drawbacks of activity-based costing

Although an activity-based costing system gives you accurate production cost details, it can be difficult to implement. That's why you should consider the pros and cons before deciding if it's right for your business.

Benefits of activity-based costing

ABC costing can help with:

- Budgeting
- Overhead decisions
- Product pricing

Budgeting: When creating your budget for the year, you probably try to get as specific as possible when it comes to your incoming and outgoing money.

Activity-based costing can help you to set an accurate budget that breaks down exactly where your money is going—and which products are the most profitable.

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Overhead decisions: The ABC system shows you how you use overhead costs, which helps you determine whether certain activities are necessary for production.

Activity-based costing helps you identify where you're wasting money. If you find that some activities cost more than they should, you can find new methods to do something. Or, you can cut out steps (and even products) entirely.

Product pricing: Another benefit of ABC is accurate product pricing. Pricing products can be one of the most difficult decisions you make in business.

Failing to take all of your costs into consideration could result in setting your prices too low. As a result, you might not wind up with a healthy profit margin.

With an ABC system, you can assign costs to each activity in the production process. This shows you all the costs that go into producing a specific product. You can use this data to set a price that more accurately accounts for how much it costs you to create the product.

Drawbacks of an ABC system

Before implementing this type of costing method, consider the cons:

- Complex
- Not 100% accurate

Complex: Activity-based costing is more complicated than traditional costing. Instead of general overhead costs and production-related activities, you need to be specific.

How much time is Employee A spending on Activity XYZ? What about electricity—how should you split up utility costs by activity?

Getting into the weeds can make it difficult to track data without an elaborate (and tried and true) system. Not to mention, some businesses don't have the job positions and resources to manage an ABC system.

Not 100% accurate: Unfortunately, there isn't a costing method that gives you a completely accurate breakdown of your costs. So although an ABC system is more accurate and detailed than traditional costing, it isn't 100% accurate.

For example, the ABC system requires employees to track how much time they spend on each activity (e.g., research, production, etc.). Your employees might miscalculate or even exaggerate their time spent working on an activity.

Activity-based costing calculation

Interested in using the ABC system in your business? To use this costing system, you need to understand the process of assigning costs to activities.

Take a look at an activity-based costing formula you can use:

(Overhead for Cost Pool / Cost Drivers) X Amount of Activity Cost Driver

Now, let's take a step back and go over what exactly this means.

A cost pool is a group of individual costs associated with an activity. You can create cost pools by identifying the activities that go into creating a product. Once you've grouped your costs into a pool, find the total overhead. Keep in mind that there's no set number of groups you need to have.

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A cost driver is something that controls changes in the cost of an activity. Examples of cost drivers include units, labor or machine hours, and parts. Assign cost drivers (you can have more than one) to each cost pool.

When you divide the total overhead in a cost pool by your total cost drivers, you get a cost driver rate.

5.9 STRATEGIC INFORMATION SYSTEM

The concept of Strategic Information Systems or "SIS" was first introduced into the field of information systems in 1982-83 by Dr. Charles Wiseman, President of a newly formed consultancy called "Competitive Applications," (cf. NY State records for consultancies formed in 1982) who gave a series of public lectures on SIS in NYC sponsored by the Datamation Institute, a subsidiary of Datamation Magazine.

In 1984 Wiseman published an article on this subject (co-authored by Prof. Ian MacMillan) in the Journal of Business Strategy (Journal of Business Strategy, fall, 1984) In 1985 he published the first book on SIS called "Strategy and Computers: Information Systems as Competitive Weapons" (Dow-Jones Irwin, 1985; translated into French by Bertrand Kaulek and into Italian by Professor Fabio Corno of Bocconi University). In 1988 an expanded version of this book called "Strategic Information Systems" was published by Richard D. Irwin. This book was translated into Japanese by Professor Shinroki Tsuji and published by Diamond Publishing. Over 50,000 copies have been sold.

The following quotations from the Preface of the first book ("Strategy and Computers: Information Systems as Competitive Weapons") establishes the basic idea behind the notion of SIS:

"I began collecting instances of information systems used for strategic purposes five years ago, dubbing them "strategic information systems" (Internal Memo, American Can Company (Headquarters), Greenwich, CT, 1980). But from the start I was puzzled by their occurrence. At least theoretically I was unprepared to admit the existence of a new variety of computer application. The conventional view at the time recognized only management information systems, and management support systems, the former used to automate basic business processes and the latter to satisfy the information needs of decision makers. (Cf. articles by Richard Nolan, Jack Rockart, Michael Scott Morton, et al. at that time)...But as my file of cases grew, I realized that the conventional perspective on information systems was incomplete, unable to account for SIS. The examples belied the theory,and the theory in general blinded believers from seeing SIS. Indeed, some conventional information systems planning methodologies, which act like theories in guiding the systematic search for computer application opportunities, exclude certain SIS possibilities from what might be found. (ibid.)"

"This growing awareness of the inadequacy of the dominant dogma of the day led me to investigate the conceptual foundations, so to speak, of information systems. At first, I believed that the conventional gospel could be enlarged to accommodate SIS. But as my research progressed, I abandoned this position and concluded that to explain SIS and facilitate their discovery, one needed to view uses of computer (information) technology from a radically different perspective."

"I call this the strategic perspective on information systems (technology). The chapters to follow present my conception of it. Written for top executives and line managers, they show how computers (information technology) can be used to support or shape competitive strategy."

Most of the second book, Strategic Information Systems, was exposed from 1985 to 1988 to MBA students at the Columbia University Graduate School of Business and to a large number of practitioners seeking to apply SIS concepts to disparate industry settings. Since that time the concept has stimulated journals on the subject, dissertations, and extensive critical research. (References: search Google Scholar, Clusty, et al. using the terms: Strategic Information Systems, SIS, Charles Wiseman, et al.)

Strategic systems are information systems that are developed in response to corporate business initiative. They are intended to give competitive advantage to the organization. They may deliver a product or service that is at a lower cost, that is differentiated, that focuses on a particular market segment, or is innovative._Some of the key ideas of storefront writers are summarized. These include Michael Porter's Competitive Advantage and the Value Chain, Charles Wiseman's Strategic Perspective View and the Strategic Planning Process, F. Warren McFarlan's Competitive Strategy with examples of Information Service's Roles, and Gregory Parson's Information Technology Management at the industry level, at the firm level, and at the strategy level.

General Definition

Strategic information systems are those computer systems that implement business strategies; They are those systems where information services resources are applied to strategic business opportunities in such a way that the computer systems have an impact on the organization's products and business operations. Strategic information systems are always systems that are developed in response to corporate business initiative. The ideas in several well-known cases came from information Services people, but they were directed at specific corporate business thrusts. In other cases, the ideas came from business operational people, and Information Services supplied the technological capabilities to realize profitable results.

Most information systems are looked on as support activities to the business. They mechanize operations for better efficiency, control, and effectiveness, but they do not, in themselves, increase corporate profitability. They are simply used to provide management with sufficient dependable information to keep the business running smoothly, and they are used for analysis to plan new directions. Strategic information systems, on the other hand, become an integral and necessary part of the business, and directly influence market share, earnings, and all other aspects of marketplace profitability. They may even bring in new products, new markets, and new ways of doing business. They directly affect the competitive stance of the organization, giving it an advantage against the competitors. Most literature on strategic information systems emphasizes the dramatic breakthroughs in computer systems, such as American Airlines' Sabre System and American Hospital Supply's terminals in customer offices. These, and many other highly successful approaches are most attractive to think about, and it is always possible that an equivalent success may be attained in your organization.

There are many possibilities for strategic information systems, however, which may not be dramatic breakthroughs, but which will certainly become a part of corporate decision making and will, increase corporate profitability. The development of any strategic information

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systems always enhances the image of information Services in the organization, and leads to information management having a more participatory role in the operation of the organization.

The three general types of information systems that are developed and in general use are financial systems, operational systems, and strategic systems. These categories are not mutually exclusive and, in fact, they always overlap to some. Well-directed financial systems and operational systems may well become the strategic systems for a particular organization.

Financial systems are the basic computerization of the accounting, budgeting, and finance operations of an organization. These are similar and ubiquitous in all organizations because the computer has proven to be ideal for the mechanization and control or financial systems; these include the personnel systems because the headcount control and payroll of a company is of prime financial concern. Financial systems should be one of the bases of all other systems because they give a common, controlled measurement of all operations and projects, and can supply trusted numbers for indicating departmental or project success. Organizational planning must be tied to financial analysis. There is always a greater opportunity to develop strategic systems when the financial systems are in place, and required figures can be readily retrieved from them.

Operational systems, or services systems, help control the details of the business. Such systems will vary with each type of enterprise. They are the computer systems that operational managers need to help run the business on a routing basis. They may be useful but mundane systems that simply keep track of inventory, for example, and print out reorder points and cost allocations. On the other hand, they may have a strategic perspective built into them, and may handle inventory in a way that dramatically impacts profitability. A prime example of this is the American Hospital Supply inventory control system installed on customer premises. Where the great majority of inventory control systems simply smooth the operations and give adequate cost control, this well-know hospital system broke through with a new version of the use of an operational system for competitive advantage. The great majority of operational systems for which many large and small computer systems have been purchased, however, simply help to manage and automate the business. They are important and necessary, but can only be put into the "strategic" category it they have a pronounced impact on the profitability of the business.

All businesses should have both long-range and short-range planning of operational systems to ensure that the possibilities of computer usefulness will be seized in a reasonable time. Such planning will project analysis and costing, system development life cycle considerations, and specific technology planning, such as for computers, databases, and communications. There must be computer capacity planning, technology forecasting, and personnel performance planning. It is more likely that those in the organization with entrepreneurial vision will conceive of strategic plans when such basic operational capabilities are in place and are well managed.

Operational systems, then, are those that keep the organization operating under control and most cost effectively. Any of them may be changed to strategic systems if they are viewed with strategic vision. They are fertile grounds for new business opportunities.

Strategic systems are those that link business and computer strategies. They may be systems where a new business thrust has been envisioned and its advantages can be best realized through the use of information technology. They may be systems where new computer technology has been made available on the market, and planners with an entrepreneurial spirit perceive how the new capabilities can quickly gain competitive advantage. They may be systems where operational management people and Information Services people have brainstormed together over business problems, and have realized that a new competitive thrust is possible when computer methods are applied in a new way.

There is a tendency to think that strategic systems are only those that have been conceived at what popular, scientific writing sometimes calls the "achtpunckt." This is simply synthetic German for "the point where you say 'acht!' or 'that's it!'" The classical story of Archimedes discovering the principle of the density of matter by getting into a full bathtub, seeing it overflow, then shouting "Eureka!" or "I have found it!" is a perfect example of an achtpuncht. It is most pleasant and profitable if someone is brilliant enough, or lucky enough, to have such an experience. The great majority of people must be content, however, to work step-by-step at the process of trying to get strategic vision, trying to integrate information services thinking with corporate operational thinking, and trying to conceive of new directions to take in systems development. This is not an impossible task, but it is a slow task that requires a great deal of communication and cooperation. If the possibilities of strategic systems are clearly understood by all managers in an enterprise, and they approach the development of ideas and the planning systematically, the chances are good that strategic systems will be result. These may not be as dramatic as American Airline's Sabre, but they can certainly be highly profitable.

There is general agreement that strategic systems are those information systems that may be used gaining competitive advantage. How is competitive advantage gained?. At this point, different writers list different possibilities, but none of them claim that there may not be other openings to move through.

Some of the more common ways of thinking about gaining competitive advantage are:

Deliver a product or a service at a lower cost. This does not necessarily mean the lowest cost, but simply a cost related to the quality of the product or service that will be both attractive in the marketplace and will yield sufficient return on investment. The cost considered is not simply the data processing cost, but is the overall cost of all corporate activities for the delivery of that product or service. There are many operational computer systems that have given internal cost saving and other internal advantages, but they cannot be thought of as strategic until those savings can be translated to a better competitive position in the market.

Deliver a product or service that us differentiated. Differentiation means the addition of unique features to a product or service that are competitive attractive in the market. Generally such features will cost something to produce, and so they will be the setting point, rather than the cost itself. Seldom does a lowest cost product also have the best differentiation. A strategic system helps customers to perceive that they are getting some extras for witch they will willingly pat.

Focus on a specific market segment. The idea is to identify and create market niches that have not been adequately filled. Information technology is frequently able to provide the capabilities of defining, expanding, and filling a particular niche or segment. The application would be quite specific to the industry.

Innovation. Develop products or services through the use of computers that are new and appreciably from other available offerings. Examples of this are automatic credit

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card handing at service stations, and automatic teller machines at banks. Such innovative approaches not only give new opportunities to attract customers, but also open up entirely new fields of business so that their use has very elastic demand.

Almost any data processing system may be called "strategic" if it aligns the computer strategies with the business strategies of the organization, and there is close cooperation in its development between the information Services people and operational business managers. There should be an explicit connection between the organization's business plan and its systems plan to provide better support of the organization's goals and objectives, and closer management control of the critical information systems.

Many organizations that have done substantial work with computers since the 1950's have long used the term "strategic planning" for any computer developments that are going to directly affect the conduct of their business. Not included are budget, or annual planning and the planning of developing Information Services facilities and the many "housekeeping" tasks that are required in any corporation. Definitely included in strategic planning are any information systems that will be used by operational management to conduct the business more profitably. A simple test would be to ask whether the president of the corporation, or some senior vice presidents, would be interested in the immediate outcome of the systems development because they felt it would affect their profitability. If the answer is affirmative, then the system is strategic.

Strategic system, thus, attempt to match Information Services resources to strategic business opportunities where the computer systems will have an impact on the products and the business operations. Planning for strategic systems is not defined by calendar cycles or routine reporting. It is defined by the effort required to impact the competitive environment and the strategy of a firm at the point in time that management wants to move on the idea.

Effective strategic systems can only be accomplished, of course, if the capabilities are in place for the routine basic work of gathering data, evaluating possible equipment and software, and managing the routine reporting of project status. The calendarized planning and operational work is absolutely necessary as a base from which a strategic system can be planned and developed when a priority situation arises. When a new strategic need becomes apparent, Information Services should have laid the groundwork to be able to accept the task of meeting that need.

Strategic systems that are dramatic innovations will always be the ones that are written about in the literature. Consultants in strategic systems must have clearly innovative and successful examples to attract the attention of senior management. It should be clear, however, that most Information Services personnel will have to leverage the advertised successes to again funding for their own systems. These systems may not have an Olympic effect on an organization, but they will have a good chance of being clearly profitable. That will be sufficient for most operational management, and will draw out the necessary funding and support. It helps to talk about the possibilities of great breakthroughs, if it is always kept in mind that there are many strategic systems developed and installed that are successful enough to be highly praised within the organization and offer a competitive advantage, but will not be written up in the Harvard Business Review.

Another way of characterizing strategic information systems is to point out some of the key ideas of the foremost apostles of such systems.

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SUMMARY

- Implementation incorporates a number of aspects, some of which can be changed directly and some of which can only be changed indirectly. The latter aspects are more difficult for the strategic leadership to control and change.
- Ethics and values ensure that the organization does not adopt short-cut methods to achieve success; instead it stresses on the concept of sustained success.
- Financial control is seen as an ideal approach for a holding company where the businesses are independent and unrelated.
- Strategic planning tends to be adopted in organizations which focus on only a few, an preferably related, core businesses.
- The basic premise of portfolio management is that competition occurs at the business level and this is where competitive advantages are developed.
- The McKinsey 7s model has positioned the shared values at the centre of the framework and the rest of the six elements around it.
- This is because the 7s tool strongly believes that the organizational values hold significance in nurturing a business where all the other aspects are framed in alignment with this factor.
- Organizational life cycle, as the name suggests, is the life cycle of an organization from the point of its creation or onset to the point it is terminated. It has five distinct stages which are conception, expansion, stability, growth, and termination.
- Activity-based costing (ABC) is a methodology for more precisely allocating overhead costs by assigning them to activities. Once costs are assigned to activities, the costs can be assigned to the cost objects that use those activities. The system can be employed for the targeted reduction of overhead costs.
- The structure of an organization is designed to break down the work to be carried out – the tasks – into discrete components, which might comprise individual businesses, divisions and functional departments.

KEY WORDS

Activity based costing: It refers to the allocation of cost (charges and expenses) to different heads or activities or divisions according to their actual use or on account of some basis for allocation i.e., (cost driver rate which is calculated by total cost divided by total no. of activities) to arrive at a profit.

McKinsey 7S model: It is a framework for organizational effectiveness that postulates that there are seven internal factors of an organization that need to be aligned and reinforced in order for it to be successful.

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Organizational life cycle: The organizational life cycle is a theoretical model based on the changes organizations experience as they grow and mature.

Strategy implementation: It is the act of implementing a strategy to reach a desired goal or set of goals. The brainstorming process helps formulate these ideas, but the implementation process puts those strategies or plans into action.

Structure: It represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems: These are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Review Questions

1. What are different steps of Strategy Implementation? Expalin.
2. How an organizational structure can influence strategy implementation?
3. How important is structure in strategic planning?
4. What is strategic human resource management and why is it important?
5. Describe the 5 stages of organizational life cycle?
6. What is Activity Based Costing? Why is it needed?
7. Briefly explain the steps in Activity Based Costing?
8. What is McKinsey 7's change model? Explain the seven elements of the McKinsey 7S model?.
9. Briefly explain the importance of values and ethics in an organization.
10. What is strategic information system? What are the different advantages of SIS?

FURTHER READINGS

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