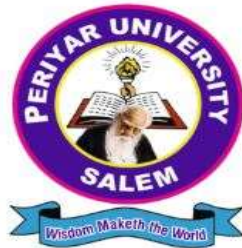


# **PERIYAR UNIVERSITY**

**(NAAC 'A++' Grade with CGPA 3.61 (Cycle - 3)  
State University - NIRF Rank 59 - NIRF Innovation Band of 11-50)  
SALEM - 636 011**

## **CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)**

### **MASTER OF COMMERCE SEMESTER - III**



### **ELECTIVE V A: STRATEGIC MANAGEMENT**

**(Candidates admitted from 2023- 2024 onwards)**

**PERIYAR UNIVERSITY**

**CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)**

**M.Com 2023 -2024 onwards**

**Elective V - A**

**Strategic Management**

Prepared by:

Centre for Distance and Online Education  
Periyar University  
Salem - 636011

Course Code	Title of the Course	Category	L	T	P	O	Credits	Inst. Hours	Marks		
									CIA	External	Total
23UPCO M3E09	<b>STRATEGIC MANAGEMENT</b>		5	-	-	-	3	5	25	75	100

Learning Objectives	
1.	To understand strategic management and its levels and phases
2.	To analyse the dynamics of competitive strategic management techniques
3.	To familiarize with the business and functional level strategies
4.	To gain knowledge on organisational and strategic leadership
5.	To apply latest concepts in strategy implementation and control

### Course Units

<b>UNIT I</b>	<b>(12 hrs)</b>
<b>Introduction to Strategic Management</b>	
Introduction to Strategic Management: Meaning and Nature of Strategic management, Framework of Strategic management, Strategic Levels in Organizations, Phases of strategic management, Benefits and challenges of strategic Management in global economy.	
<b>UNIT II(12 hrs)</b>	
<b>Techniques for Strategic Management</b>	
Dynamics of Competitive Strategy: Corporate governance- Role of Board of directors and top management in corporate governance; Agency and Stewardship theory, Situational Analysis-SWOT analysis, TOWS Matrix, Portfolio Analysis - BCG, GE, and ADL matrix - Strategic Management Process: Strategic Planning, Strategic Intent – Vision, Mission and Objectives, Strategy Formulation - Corporate Level Strategies: Concepts and Nature of Corporate Strategy, Strategic Alternatives at Corporate Level-Growth, Stability, Expansion, Business Combinations – Mergers and Acquisitions, Strategic Alliances, Turnaround, Retrenchment and Retreat, Corporate parenting.	
<b>UNIT III(12 hrs)</b>	

**Different Levels of Strategies**

Business Level Strategies: Competitive Strategies at Business Level, Michael Porter's Generic Strategies, Best-Cost Provider Strategy - Functional Level Strategies: Marketing Strategy, Financial Strategy, Operations Strategy, Human Resource Strategy, Research and Development.

**UNIT IV****(12 hrs)****Organisation and Strategic Leadership**

Organisation and Strategic Leadership: Organisation Structure, Strategic Business Unit, Strategic Leadership, Strategy Supportive Culture, Entrepreneurship and Intrapreneurship, Strategic Leadership across organizations.

**UNIT V(12 hrs)****Strategy Implementation and Control**

Strategy Implementation and Control: Strategy Implementation, Strategic Choice, Strategic Control, Strategy Audit, Business Process Reengineering, Benchmarking, Six Sigma and contemporary practices in strategic management.

**CourseOutcomes:** Students will be able to

CO No.	CO Statement	Knowledge level
CO 1	Summarise strategic management principles at different levels and phases	K2
CO 2	Explain the dynamics of competitive strategic management techniques	K2
CO 3	Examine business and functional level strategies	K4
CO 4	Identify strategic leadership and organisational skills	K3
CO5	Apply latest concepts in strategy implementation and control	K3

**Books for study:**

1. Prasad L. M., (2018), "Strategic Management", 7<sup>th</sup> Edition, Sultan Chand & Sons, New Delhi.
2. Cherunilam, Francis, (2021), "Strategic Management" 8<sup>th</sup> Edition, Himalaya Publishing House Pvt Ltd, Mumbai.
3. John A. Pearce, Richard B. Robinson and Amita Mital, (2018) "Strategic Management" 14<sup>th</sup> Edition, McGraw Hill Education, New Delhi.
4. Gupta C. B. (2022), "Strategic Management" Latest Edition, S.Chand and Company Ltd, Noida, Uttar Pradesh.

**Books for reference:**

1. Jeyarathanam M., (2021), “Strategic Management” 7<sup>th</sup> Edition, Himalaya Publishing House Pvt. Ltd, Mumbai
2. Ghosh P.K. (2014), “Strategic Management”, 14<sup>th</sup> Edition, Sultan Chand & Sons, New Delhi
3. Chandan J. S. and Nitish Sen Gupta (2022), “Strategic Management”, Vikas Publishing House Pvt. Ltd., New Delhi
4. Fred R. David, (2017), “Strategic Management Concepts and Cases” 13<sup>th</sup> Edition, Prentice Hall, Pearson Education, London, England

**Web references:**

1. <https://resource.cdn.icai.org/66691bos53810cp2.pdf>
2. <https://resource.cdn.icai.org/66693bos53810cp4.pdf>
3. <https://resource.cdn.icai.org/66694bos53810cp5.pdf>
4. <https://resource.cdn.icai.org/66695bos53810cp6.pdf>
5. <https://resource.cdn.icai.org/66697bos53810cp8.pdf>

Note: Latest edition of the books may be used

**Mapping of course outcomes with POs and PSOs**

	Pos						PSOs		
	1	2	3	4	5	6	1	2	3
CO1	3	3	2	3	2	2	2	1	2
CO2	3	3	2	3	2	2	2	1	2
CO3	3	3	3	3	3	3	3	2	3
CO4	3	3	3	3	3	3	3	1	3
CO5	3	3	2	3	3	2	3	1	2

High – 3

Medium – 2

Low – 1

### UNIT I: Strategic management

Introduction to strategic management: meaning and nature of strategic management, framework of strategic management, strategic levels in organizations, phases of strategic management, benefits and challenges of strategic management in global economy.

Section 1	Introduction to strategic management
1.1	Introduction to strategy
1.2	Meaning of strategy
1.3	Definition of strategy
1.4	Introduction to strategic management
1.5	Meaning of strategic management
1.6	Definition of strategic management:
1.7	Nature and features of strategic management
1.8	Framework of strategic management
1.9	Strategic levels in organizations
1.9.1	<u>Corporate level strategy</u>
1.9.2	<u>Business level strategy</u>
1.9.3	<u>Functional level strategy</u>
1.9.4	<u>Operational level strategy</u>
1.10	Phases of strategic management
1.10.1	Goal setting
1.10.2	Analysis
1.10.3	Strategy formation
1.10.4	Strategy implementation
1.10.5	Strategy monitoring:
1.11	The benefits of strategic management include
1.11.1	Financial and non-financial benefits of strategic management.

1.11.2	Financial benefits of strategic management
1.11.3	Non-financial benefits of strategic management
1.12	Challenges of strategic management in global economy
1.12.1	Technological advancements and strategic management
1.12.2	Product / service innovation and development and strategic management
1.12.3	Global issues and strategic management
1.12.4	Quality issues and strategic management
1.12.5	Economic boom strategic management
1.12.6	Social issues and strategic management:

### Unit II- Techniques for strategic management

Dynamics of competitive strategy: corporate governance- role of board of directors and top management in corporate governance; agency and stewardship theory, situational analysis-SWOT analysis, TOWS matrix, portfolio analysis - BCG, GE, and ADL matrix - strategic management process: strategic planning, strategic intent – vision, mission and objectives, strategy formulation - corporate level strategies: concepts and nature of corporate strategy, strategic alternatives at corporate level-growth, stability, expansion, business combinations – mergers and acquisitions, strategic alliances, turnaround, retrenchment and retreat, corporate parenting.

<b>Section 2</b>	<b>Techniques for strategic management</b>
2.1	Corporate governance
2.2	Role of board of directors and top management in corporate governance
2.2.1	Leading board meetings
2.2.2	Facilitating communication among board members

2.2.3	Representing the board to outside stakeholders
2.2.4	Working closely with the CEO
2.2.5	Ensuring that the board is fulfilling its responsibilities
2.2.6	Promoting good governance practices
2.3	Agency and stewardship theory
2.3.1	Agency theory
2.3.2	Stewardship theory
2.4	Situational analysis
2.4	Situational analysis
2.5.1	Swot analysis framework
2.5.2	Advantages of swot analysis
2.5.3	Swot analysis helps in strategic planning in following manner
2.5.4	Limitations of swot analysis
2.5.5	Internal limitations may include
2.6	Tows matrix
2.7	Portfolio analysis
2.8	BCG matrix (BOSTON CONSULTANCY GROUP)
2.9	GE matrix
2.9.1	Structure of the GE matrix
2.9.2	Strategic options
2.10	ADL matrix
2.10.1	Life cycle stages
2.10.2	Competitive positions
2.10.3	Strategic options
2.11.	Strategic management process
2.11.1	Goal setting
2.11.2	Environmental scanning

2.11.3	Strategy formulation
2.11.4	Strategy implementation
2.11.5	Strategy evaluation
2.12	Strategic planning
2.13	Strategic intent
2.13.1	Features of strategic intent
2.14	Strategy formulation
2.14.1	Levels of strategy formulation
2.15	Corporate level strategy
2.16	Concepts and nature of corporate strategy
2.16.1	Concepts
2.16.2	Nature
2.16.3	Mergers and acquisitions
2.16.3.1	Types of mergers and acquisitions
2.16.4	Strategic alliances
2.17	Corporate parenting
2.17.1	Parenting advantage
2.17.2	Parenting fit matrix

### Unit – III Different levels of strategies

Different levels of strategies:

Business level strategies: competitive strategies at business level, michael porter's generic strategies, best-cost provider strategy - functional level strategies: marketing strategy, financial strategy, operations strategy, human resource

strategy, research and development.	
Section 3	Different levels of strategies
3.1	Introduction
3.2	Porter's five forces model-competitive analysis
3.2.1	Threat of new entrants
	Common barriers to entry
	Capital requirements
	Economies of scale
	Product differentiation
	Switching costs
	Brand identity
	Access to distribution channels
	Possibility of aggressive retaliation by existing players
	Capital requirements
	Economies of scale
3.2.2	Bargaining power of buyers
3.2.3	Bargaining power of suppliers
3.2.4	The nature of rivalry in the industry
	Industry leader
	Number of competitors
	Fixed costs
	Exit barriers
	Product differentiation
	Slow growth
3.2.5	Threat of substitutes
3.3	Business level strategies
3.4	Michael porter's generic strategies

3.4.1	Cost leadership strategy
3.4.2	Differentiation strategy
3.4.3	Focus strategies
3.4.4	Focused cost leadership
3.4.5	Focused differentiation
3.5	Best-cost provider strategy
	Features of the generic competitive strategies
	Summary
3.6	Functional level strategies
3.6.1	Introduction
3.6.2	Marketing strategy
3.6.2.1	Marketing
3.6.2.2	Marketing mix
3.6.2.3	Prerequisite for formulation of marketing strategy
3.6.2.4	Strategic marketing techniques
3.6.3	Financial strategy
3.6.4	Production/operations strategy
3.6.4.1	Understanding the production system
3.6.4.2	Production/operations planning and control
3.6.4.3	Logistics management
3.6.4.4	Supply chain management
3.6.5	Research and development strategy
	Strategic decisions in research and development
	R & d approaches to implement strategic decisions
3.6.6	Human resource strategy
	Role of human resources in strategic management
	Major strategic decisions/concerns related to human resource

	management
	Role of human resource management in achieving competitive advantage
	Strategic human resource management (SHRM)
	Strategic role of human resource manager
	Summary

<b>Unit – IV Organisation and Strategic Leadership</b>	
<b>Organisation and strategic leadership:</b> organisation structure, strategic business unit, strategic leadership, strategy supportive culture, entrepreneurship and intrapreneurship, strategic leadership across organizations.	
Section 4	Organisation and strategic leadership
4	What is organizational leadership
4.1	What is an organizational structure
4.2	Types of organizational structures
4.2.1	Functional structure
4.2.2	Divisional structure
4.2.3	Matrix structure
4.2.4	Team structure
4.2.5	Network structure
4.2.6	Hierarchical structure
4.2.7	Flat organization structure
4.3	Strategic business unit
4.3.1	Characteristics of strategic business units
4.3.2	Practices for successfully establishing and managing SBUS:

<b>4.3.3</b>	<b>Types of strategic business unit (SBU)</b>
4.3.4	Difference between strategic business unit & division
4.4	Structure of strategic business unit (SBU)
<b>4.5</b>	<b>Strategic leadership</b>
4.5.1	Introduction
4.5.2	Defining strategic leadership
4.5.3	Factor affecting “strategic leadership”
4.5.4	Scope of strategic leadership
4.5.5	Properties of strategic leadership
4.5.6	Focus of strategic management
4.5.7	Process of strategic leadership
4.5.8	Roles of strategic leaders
4.5.9	Principles of strategic leadership
4.5.10	Strategic leadership as sustainable competitive advantage
4.5.11	Leadership styles might include
	Summary
<b>4.6</b>	<b>Five strategies to establish a supportive company culture</b>
4.6.1	Prioritize trust and psychological safety
4.6.2	Encourage and respect time off
4.6.3	Have the hard conversations
4.6.4	Offer tangible resources
4.6.5	Put strategies into action
4.7	Differences between entrepreneurship and Intrepreneurship

## UNIT -V Strategy Implementation and Control

<b>Strategy implementation and control:</b> strategy implementation, strategic choice, strategic control, strategy audit, business process reengineering, benchmarking, six sigma and contemporary practices in strategic management.	
Section 5	Strategy implementation and control
5.1	Introduction
5.2	Relationship with strategy formulation
5.2.1	Strategy formulation vs. Strategy implementation
5.2.2	Forward linkages
5.2.3	Backward linkages
5.3	Issues in strategy implementation
5.4	Strategic change
5.5	Strategic choice
5.5.1	Learning outcome
5.5.2	Introduction
5.5.3	Process of strategic choice
5.5.4	Approaches to strategic choice
5.5.5	Subjective factors in strategic choice
5.6	Strategic control
5.6.1	Operational control
5.6.2	management control
5.6.3	Strategic control
5.7	Strategy audit
5.7.1	Need of strategy audit
5.7.2	Occurred since the formulation of strategies
5.7.3	Richard Rumelt's criteria for strategy audit
5.7.4	Strategy evaluation following trends
5.8	Business process reengineering

5.8.1	Concept and nature of BPR
5.8.2	The elements of BPR
	I. Reengineering begins with a fundamental rethinking.
	II. Reengineering involves radical redesigning of process.
	III. Reengineering aims at achieving dramatic improvement in performance.
5.8.3	Rationale of BPR
5.8.4	Implementing BPR in organizations
	Determining objectives
	Identify customers and determine their needs
	III. Study the existing processes
	IV. Formulate a redesign process plan
	V. Implement the redesigned process
5.8.5	Role of information technology in BPR
5.8.6	Central thrust of BPR
5.8.7	BPR and other processes
5.8.8	Problems in BPR
5.8.9	Principles of BPR
5.8.10	Steps to business process redesign:
5.9	Benchmarking
5.9.1	What is benchmarking?
5.9.2	Maintenance operations
	Assessment of total manufacturing costs
	Product development
	Product distribution

	Customer services
	Plant utilization levels
5.9.3	Steps in benchmarking process
5.10	Six sigma principles
	1. Customer focus
	2. Assess the value chain and find the problem
	3. Eliminate defects and outliers
	4. Involve stakeholders
	5. Flexible and responsive system
5.10.1	The six sigma methodology
5.10.2	The six sigma process of business Transformation
	Define
	Measure
	Analyze
	Improve
	Control
5.10.3	Six sigma techniques
	Brainstorming
	Root cause analysis/the 5 whys
	Voice of the customer
	The 5s system
	Kaizen (continuous improvement)
	Benchmarking
	Poka-yoke (mistake proofing)
	Value stream mapping
	Choose the correct answer

# UNIT - I

## STRATEGIC MANAGEMENT

### 1.1 INTRODUCTION TO STRATEGY:

The word Strategy comes from the Greek word 'Strategos' which means a general. In military science, Strategy literally means the art & science of directing military forces in a war or battle. Today, the term strategy is used in business to describe how an organization is going to achieve its overall objectives. Most organizations have several alternatives for achieving its objectives. Strategy is concerned with deciding which alternative is to be adopted to accomplish the overall objectives of the organization. Strategy is a Comprehensive long term plan. It tries to answer three main questions:

- What is the present position of the firm?
- What should be the future position of the firm?
- What should be done to attain the future position?

Definition "Strategy is a plan of action or policy designed to achieve a major overall aim"- Oxford Dictionary "Strategy is the determination of the basic long-term goals & objectives of an enterprise & the adoption of the course of action and the allocation of the resources necessary for carrying out these goals"- Alfred D

Chandler “Strategy includes the determination & evaluation of alternative paths to achieve an organization’s objectives & mission & eventually, a choice of the alternative that is to be adopted”- Lloyd L. Byars The term Strategy can be defined in a Simple words as follows: “Strategy is a broad long-term plan designed to achieve the overall objectives.

## 1.2 MEANING OF STRATEGY:

Strategy is an action that managers take to attain one or more of the organization’s goals. Strategy can also be defined as “*A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process*”.

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives.

While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others.

Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Generally, the company's concept of Strategy consists of the competitive moves and business approaches that managers employ to attract and please

customers, compete successfully, grow the business, conduct operations and achieve targeted objectives.

### **1.3 DEFINITION OF STRATEGY:**

A strategy is defined as "a unified, comprehensive and integrated plan that relates to the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

The determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals".

**-Alfred D.Chandler**

### **1.4 INTRODUCTION TO STRATEGIC MANAGEMENT:**

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization.

An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance.

The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions.

The managers should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats) in order to - make the best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats.

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

It is a way in which strategists set the objectives and proceed about attaining them.

It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

**Strategic management is a continuous process that:**

1. evaluates and controls the business and the industries in which an organization is involved;
2. evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then
3. re-evaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members.

It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives.

## **1.5 MEANING OF STRATEGIC MANAGEMENT:**

Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of strategic management.

In other words, Strategic Management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs.

In short, Strategic management can be used to determine mission, vision, values, goals, objectives, roles and responsibilities, timelines, etc.

## 1.6 DEFINITION OF STRATEGIC MANAGEMENT:

According to **Samuel C. Certo and J. Paul Peter** “*Strategic Management is a continuous, iterative, cross-functional process aimed at keeping an organization as a whole appropriately matched to its environment*”.

**Schellenberger and Bosenan** define the term Strategic management as “*the continuous process of effectively relating the organization’s objectives and resources to the opportunities in the environment*”.

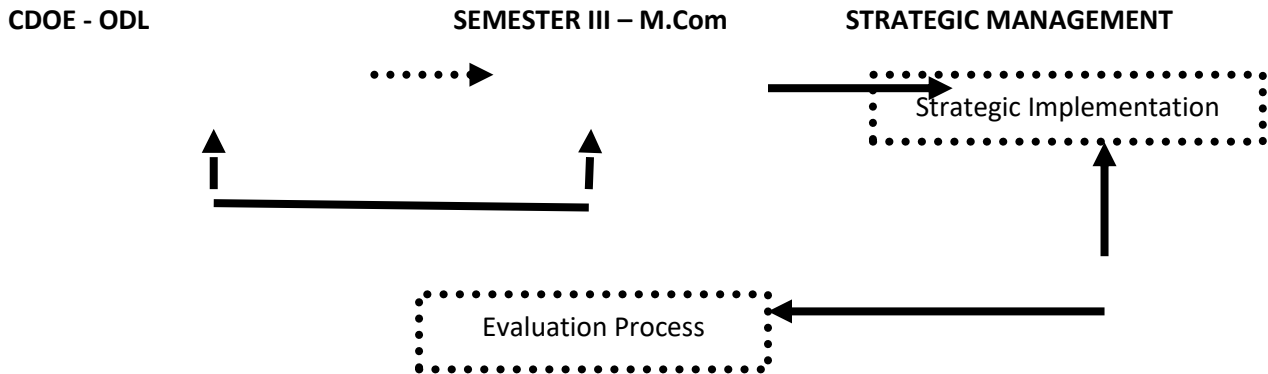
**Lloyd L. Byars** - *Strategic management is concern with making decisions about organizations future direction and implementing those decisions*”)

**According to Glueck** - “*Strategic management is a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives*”.

**Pearce and Robinson** - “*It is the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization*”

.....  
 : Strategic Analysis :  
 .....

.....  
 : Strategic Choice :  
 .....



## 1.7 NATURE AND FEATURES OF STRATEGIC MANAGEMENT:

### i) It involves a long-time perspective:

The directional decisions in SM can be expected to have effects on the organization for three to five years or no longer.

### ii) It is an intellectual Process:

In SM, key individuals perceive, analyze, and choose between alternatives, interrelating such elements as definitions of businesses, objectives and functional/programme strategies.

### iii) It involves wide ramifications:

SM activities are related to the total system. These activities may be a change in organizational goals, or managerial strategies that have implications throughout the organization or business unit.

### iv) It is a continuing dynamic social process:

SM is not just a course to be undertaken a few times each year when top management meets to decide critical issues. Rather, it continually implements and revises strategies in the human organization as changes occur in resources and in the environment.

**v) It uses critical resources towards perceived opportunities or threats in a changing environment:**

The most important human, financial and other resources are brought to bear in certain situations, which provide organization with an opportunity to manage elusive environment.

**vi) Influenced by Stakeholders:**

The strategic decisions of an organization are not only influenced by environmental forces and resource availability, but also by the values and expectations of the stakeholders of the organization.

**vii) Affect Operational Decisions:**

Strategic management affects operational decisions because it is at the operational level that real strategic advantage can be achieved. If the operational aspects of the organization are not in line with the strategy, then, no matter how well conceived the strategy is, it will not succeed.

## **1.8 FRAMEWORK OF STRATEGIC MANAGEMENT:**

### **1.Competitive Advantage:**

An organization may achieve either lower cost of production or product differentiation as an advantage against its rivals. It is important to look at the market positioning of the brand and company and also to pinpoint all the competitive advantages the company has over its competitors.

## 2. Corporate Strategy and Portfolio Theory:

The Modern Portfolio Theory provides a framework for allocating assets so that, for a given level of risk, the expected return is maximized. Portfolio Theory allows corporations to perform a cost-benefit analysis on the deployment of resources and view the merit of individual resource placement to the company in its totality.

The Growth-Share Matrix, developed by the Boston Consulting Group, helps corporations analyze the value of their individual business units by plotting the business on an axis. The two parameters of judgment are **market share** – a measure of a business unit's competitive position in regards to its peers – and **industry growth rate** – a measure of the prospects of the particular industry in which the unit operates.

## 3. Core Competence:

Businesses should seek to develop expertise in areas of relative excellence and eliminate or outsource the remainder of its business activities. By being able to do this, an organization can provide a unique and unparalleled product, service, or perspective to the market and consumers.

strategic alternatives, and allocation of resources based on the changing needs from time to time.

## 4. Experience Curve:

The experience curve expresses the proposition that whenever the output produced doubles, the value-added costs decline by a consistent percentage.

## 1.9 STRATEGIC LEVELS IN ORGANIZATIONS:

Strategists often refer to three levels of strategy: corporate level strategy, business level strategy, and functional level strategy. But they are missing a fundamental level that is key for successful strategy execution: operational level strategy.

We'll explain the differences and how to apply all four of them in your organization. We also have separate articles on all 4 levels if you're only interested in learning about a certain level.

- Corporate Level Strategy
- Business Level Strategy
- Functional Level Strategy
- Operational Level Strategy



### 1.9.1 Corporate-level strategy:

The corporate strategy defines the organization's overall direction and the high-level ideas of how to move towards it. These plans are usually created by leadership, such as the CEO and top management.

Generally, this is the group involved because they have a deep understanding of the company and the strategic business knowledge needed to steer the organization in the right direction.

A corporate strategy is generally broader than the other strategy levels. Strategies at this level are more conceptual and futuristic than the other level strategies. They usually span a 3-5 year period.

### **1.9.2 Business-level strategy:**

The business level strategy is the second tier in the strategy hierarchy. Sitting under the corporate strategy, the business strategy is a means to achieve the goals of the specific business units in the organization.

The initiatives and objectives within each business unit's strategy will be focused on gaining a competitive advantage in the particular market in which the business unit operates. There are different types of business level strategies organizations adopt depending on the competitive advantage they want to gain. Organizations face crucial decisions here, with options like adopting a

differentiation strategy or embracing a cost leadership approach.



### 1.9.3 Functional-level strategy:

This level of strategy designs the approach for the different functional areas or departments—we've *already given you a little spoiler with the previous image of the bank strategy levels example*. These functions can include the marketing department, finance, supply chain, manufacturing, human resources, and more.

The primary objective of functional strategy is to align the activities and efforts of these individual departments with the broader goals and objectives set at higher strategic levels, such as business and corporate strategy. Functional strategy deals with a fairly narrow focus. They are designed to address the unique challenges and opportunities within each functional area.

Your marketing strategy, finance, IT, and other departments all have goals and responsibilities to deliver. Having a visible functional level of strategy that aligns back to the overall corporate strategy will increase the chances of success.

These strategies involve **resource allocation**, measurable goals, and a focus on continuous improvement, all within the context of individual functions.

#### **1.9.4 Operational level strategy:**

Operational level strategy, situated at the lowest tier of the strategic hierarchy, focuses on the day-to-day actions and **tactics** needed to run the business, manage processes, and implement **change** effectively. It's the "boots-on-the-ground" aspect of strategy, ensuring that plans are translated into tangible actions and results.

In simple terms, this is the strategy that will inform the day-to-day work of employees and will ultimately keep your organization moving in the right direction.

It's primarily concerned with short-term objectives and the practical execution of plans, detailing the specific actions, procedures, and activities that need to be executed to meet organizational goals.

The operational level strategy involves roles like PMOs, team leaders, individual contributors, and team members, and plays a pivotal role in the successful implementation of broader strategies.

It's probably the most important level of strategy because, without it, your organization can quickly lose traction and "get stuck" while the competition moves forward.

## 1.10 PHASES OF STRATEGIC MANAGEMENT:



### 1.10.1 Goal Setting – Planning phase:

- ✓ Enables you to articulate your vision.
- ✓ Identify what are the needs to be accomplished.
- ✓ Define short-and long-term objective and relate them to the organization goal.

### 1.10.2. Analysis – improvement phase:

- ✓ Guides you to collect and consider information so that the situation is understood completely.
- ✓ Assess the external environment and internal situations in order to identify the strength and weakness of the organization and also to identify the opportunities that are faced to reach the goals.

### 1.10.3.Strategy Formulation:

- ✓ Strategy that reflects, prioritize, develop option to make decisions.

- ✓ Review the results of the analysis and identify the issues that is to be addressed while to determine a implementation.
- ✓ Use these results to design alternative strategies and plans that address the key strategy

#### **1.10.4. Strategy Implementation phase:**

- ✓ Assemble the necessary resources and apply them.
- ✓ Choose the plan to be practiced and marshal the resources and commitments for moving ahead
- ✓ Build new capacities or tap the capacities to reach the result.

#### **1.10.5. Strategy Monitoring phase:**

- ✓ Check the progress towards achieving the goals and assess whether any changes in the environment necessitates alteration to the strategy.
- ✓ Modify plans and actions to adjust to the changes in the operating environment.
- ✓ Monitoring will reflect in the feedback of analysis, strategy design and implementation in the immediate term and goal-setting over longer term.

## 1.11 THE BENEFITS OF STRATEGIC MANAGEMENT INCLUDE:

### BENEFITS OF STRATEGIC MANAGEMENT WITH EXAMPLES

Some of the advantages of implementing a strategic management system are discussed here.

**Profitability Management**

Strategic management enables senior executives to get feedback from department heads.

**Improved Revenue Generation**

Strategic management enables the senior management to make necessary changes in the existing operating processes.

**Solvency Planning**

Since strategic management deals with long-term goals, leaders analyze the existing assets.

**Liquidity Monitoring**

Strategic management allows companies to ensure that their cash flow aligns with their long-term goals.

**Prevents Legal Risks**

The companies can include employee-related policies, conflict of interest policies for board members and other partner stakeholders.

### 1.11.1 Financial and Non-Financial Benefits of Strategic Management:

Strategic management has now become an integral part of any business organisation. Formulation of a strategy and its implementation in the right way ensures a business to survive in the dynamic competitive environment. Here is the list of both financial and non-financial benefits of strategic management.

#### 1.11.2 Financial Benefits of Strategic Management:

Listed below are some of the financial benefits of strategic management. You can explore more ideas on impact of strategic planning on the growth of a business.

##### 1. Financial Liquidity Monitoring:

Strategic management enables businesses to keep an eye on cash flow and make sure that the money they have available is aligned with long-term objectives. Also, it enables business leaders to raise money when necessary for ongoing operations.

## **2. Better Revenue Generation:**

Senior executives might modify their strategic vision to consider local reality by soliciting candid, diverse viewpoints from business-unit chiefs. This cooperative, back-and-forth method aids a business in understanding its clientele and ultimately increases sales, thus making revenue generation one of the biggest benefits of strategic management.

## **3. Increasing market share and profitability:**

This is one of the important benefits of strategic management. One can approach the proper target market with the aid of strategic management skills. All industries can investigate better consumer segments, products, and services, as well as comprehend the market circumstances of the sector in which they are engaged, if they have a highly concentrated plan and strategic thinking.

## **4. Prevents Legal Risks:**

One of the major benefits of strategic management is that it enables businesses to include employee policies. Additionally, it enables the organisation to develop internal procedures and checks to address board member and shareholder conflicts of interest.

### **1.11.3 Non-Financial Benefits of Strategic Management:**

Listed below are some of the non-financial benefits of strategic management:

#### **1. Discharges Board Responsibility:**

The primary justification given by most organisations for having a strategic management process is that it relieves the Board of Directors of responsibilities.

## **2. Forces An Objective Assessment:**

The discipline of strategic management gives the board and senior management the ability to truly stand back from day-to-day operations and consider the organization's future.

## **3. Make Better business decisions:**

One of the key benefits of strategic management is that it makes a framework Every member of the workforce within which they can make daily operational decisions from business perspective and know that they are all leading the company in the same direction.

## **4. Supports Understanding & Buy-In:**

The board and employees can better comprehend the direction, the rationale behind it, and the advantages it brings if they are allowed to participate in the strategic conversation. While some people only need to know, many people need to comprehend in order to have their complete support.

## **5. Enables Measurement of Progress:**

Enabling measurement of progress is one of the many benefits of strategic management. An organisation must create goals and success criteria as part of a strategic management process. In order to develop targets and keep these crucial metrics

in front of the board and senior management, the business must first identify the factors that are essential to its continued success.

### **6. Rejuvenate human resources:**

One of the benefits of strategic management is to make strategic decisions on developing a hiring strategy based on comprehensive feedback which attracts the most capable professionals to ensure the company.

### **7. Provides an Organizational Perspective:**

Handling operational challenges rarely takes into account the interdependence of the organization's many parts as a whole. In order to create a strategy that is best for the entire company, not just a single component, strategic management adopts an organisational viewpoint and examines all the components and their interactions.

### **8. Creating a better future:**

The effectiveness of your organisation is increased when strategic decisions are put into practise, which is one of their most outstanding advantages. Setting the tone for the entire organisation begins with the decisions you make today. A proactive strategy reduces potential dangers.

## **1.12 CHALLENGES OF STRATEGIC MANAGEMENT IN GLOBAL ECONOMY:**

Strategic Management faces different kinds of challenges. They are:

### **1.12.1 Technological advancements and Strategic Management:**

Advancements and innovations of one firm pose challenges for strategic-decision making of the competing firms. Further, the continuous technological

advancements led to the obsolescence of the existing technologies. It creates a challenge for the strategic management of those firms using obsolete technologies. The strategic managers should be fully aware of technological advances and innovations while formulating strategies.

### **1.12.2 Product / Service Innovation and Development and Strategic Management:**

Technological advancements and innovations together with changes in consumer tastes and preferences needs and convinces led to the continuous product / service development and innovation. The firms with new products /services are widely accepted by the customers enjoy distinctive strategic advantage whereas other forms in the same industry suffer from strategic disadvantage. This leads to further competition and creates new challenges for strategic management. The strategic managers are expected to be aware of these developments and innovations while formulating strategies.

### **1.12.3 Global Issues and Strategic Management:**

With the announcement of economic liberalization in India and consequently opening up of the economy to the rest of the world in 1991, business activities have tended to cross national boundaries more intensely and frequently. Due to the increase in sale and variety of operations are experiencing the impact of globalization on their markets and operations. Since this trend is expected to continue, almost all organizations, irrespective of size, nature of operations and markets will have to consider global issues in their strategic management process.

### **1.12.4 Quality Issues and Strategic Management:**

The quality movement, spearheaded by W.EdwardsDening has had a significant impact on the method of strategic management process of organizations in the 1990's. The concept of post-production quality control

changed into Total Quality Management (TQM). It further changed to feed forward and zero-defect of the product. Managers involved in the strategic management process at all levels are expected to understand the quality issues while formulating the policy.

#### **1.12.5 Economic Boom Strategic Management:**

Both economic booms as well as economic recession affect the strategic management process. Economic boom provides the opportunities for increase in the demand as well as business operations and economic recessions in general create threats. Companies should foresee the trends that result in recession and formulate strategies accordingly.

#### **1.12.6 Social Issues and Strategic Management:**

Since the organization is a part and parcel of the society, most of the organizations are of the view that, social responsibilities the managerial obligation to act, protect and promote both organizational interests and welfare of the society. Strategic management process of an organization will be affected by recognizing this obligation.

### **I. CHOOSE THE CORRECT ANSWER:**

1. Who is called the Father of Strategic Management?
  - a. Chandler
  - b. Igor Ansoff
  - c. Michael Porter
  - d. John Nash
2. What is the starting point of Strategic Intent?
  - a. Goal
  - b. Objective

- c. Vision
  - d. Mission
3. Hierarchy of Strategic Intent:
- i. Vision > Mission > Goals > Objectives > Plans
  - ii. Mission > Vision > Goals > Objectives > Plans
  - iii. Plans > Vision > Mission > Goals > Objectives
  - iv. Goals > Vision > Mission > Objectives > Plans
- a. i)
  - b. iii)
  - c. iv)
  - d. ii)
4. Competitive advantage can be best described as
- a. Increased efficiency
  - b. What sets an organisation apart
  - c. A strength and the organisations
  - d. Intangible resources
5. Which of the following is not a major element of the strategic management process?
- a. Formulation strategy
  - b. Implementing strategy
  - c. Evaluating strategy
  - d. Assigning administrative tasks

## **UNIT II (12 hrs)**

### **TECHNIQUES FOR STRATEGIC MANAGEMENT**

#### **2.1 CORPORATE GOVERNANCE:**

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves the relationships between various stakeholders, including shareholders, management, customers, suppliers, financiers, the government, and the community. The primary goal of corporate governance is to ensure that businesses operate ethically and in the best interests of those involved, while also protecting the interests of shareholders, customers, and the wider community.

#### **2.2 ROLE OF BOARD OF DIRECTORS AND TOP MANAGEMENT IN CORPORATE GOVERNANCE:**

The role of the chairperson of a board of directors is to provide leadership and guidance to the board in fulfilling its responsibilities. The chairperson is typically responsible for setting the agenda for board meetings, facilitating discussions, and representing the board to outside stakeholders. Some of the specific duties of the chairperson may include:

**2.2.1 Leading board meetings:** The chairperson presides over board meetings, sets the agenda, and ensures that all board members participate in discussions.

**2.2.2 Facilitating communication among board members:** The chairperson may be responsible for ensuring that board members are kept informed about important developments within the company and that they have the information they need to make informed decisions.

**2.2.3 Representing the board to outside stakeholders:** The chairperson may serve as the primary spokesperson for the board and may communicate with shareholders, customers, and other stakeholders on behalf of the board.

**2.2.4 Working closely with the CEO:** The chairperson typically works closely with the CEO to ensure that the company is being managed effectively and that the board is providing appropriate oversight.

**2.2.5 Ensuring that the board is fulfilling its responsibilities:** The chairperson is responsible for ensuring that the board is fulfilling its responsibilities, including setting the strategic direction of the company, overseeing management, and ensuring compliance with legal and ethical standards.

**2.2.6 Promoting good governance practices:** The chairperson may work to promote good governance practices within the organization and ensure that the board is adhering to best practices for corporate governance.

## **2.3 AGENCY AND STEWARDSHIP THEORY:**

### **2.3.1 Agency Theory**

Agency theory refers to the relationship between business principals and their agent. It is a management and economic theory. Basically, the principal is the stakeholders or the owners of the organization while the agent is the company executives hired on behalf of the principal. Principals delegate power to agents to make decisions. It is to reduce the complexity of work and to streamline the business operation. However, in case of a loss or risk, the principal has to bear it.

However, in certain cases, there can be problems and conflicts due to the decisions made by agents. It can be due to mismatch of ideas, and preferences or priorities between principals and agents. So, this is referred to as a principal-agent problem. Further, agency theory describes disputes that might occur due to two main areas: difference in objectives and difference in risk aversion.

For instance, company agents may look for new markets rather than improving the existing market. However, this will affect the short term profitability, causing a decline in the expected revenue growth. On the contrary, principals may seek short term growth and stability in the existing market.

### **2.3.2 Stewardship Theory:**

Stewardship theory is a theory that states employees are intrinsically motivated to work for others or for organizations to complete the tasks and responsibilities with which they have been assigned. It also states that people are employees are collective minded and work proactively toward the attainment of the organizational goals as gives them a sense of satisfaction.

According to stewardship theory, company executives protect the preferences of the shareholders or owners and make decisions on their behalf. Their main aim is to form and maintain a successful organization to achieve the shareholders' vision. As a result, organizations which follow the Stewardship principle selects the right personality to lead the organization; this requires to place the CEO and Chairman responsibilities under one Executive.

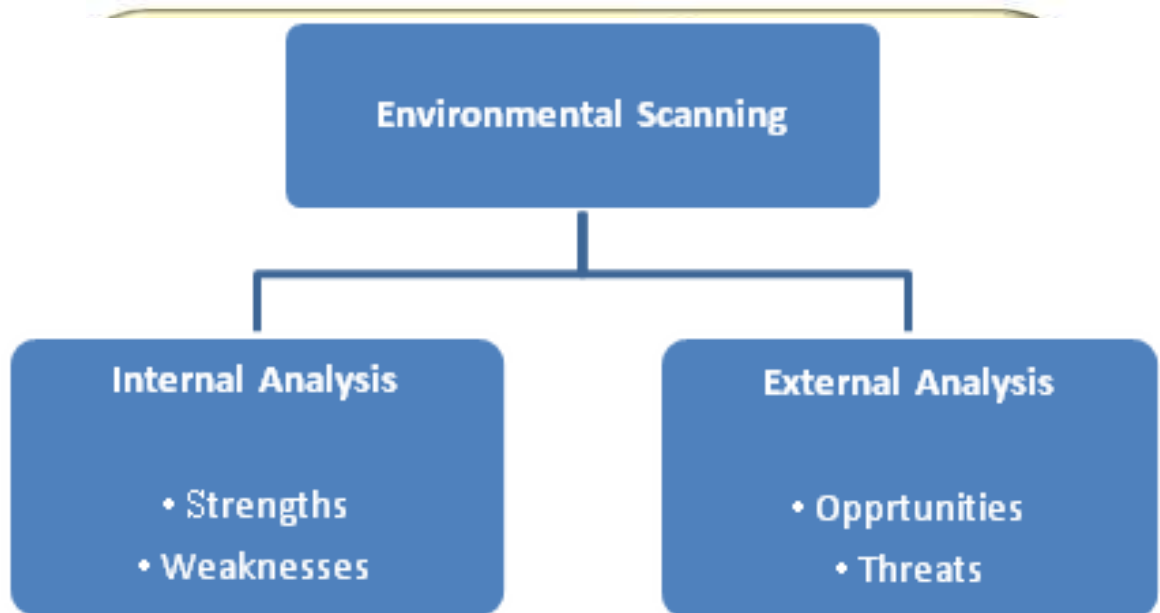
## 2.4 SITUATIONAL ANALYSIS:

Situational analysis is the process of collecting, evaluating, and organizing information regarding an organization's internal and external environments. It involves evaluating the business's strengths, weaknesses, opportunities, and threats (SWOT analysis). It may also include collecting and evaluating data about trends, consumers, competitors, and other external factors that may affect the organization.

## 2.5 SWOT ANALYSIS:

**SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats.** By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

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.



### 2.5.1 SWOT ANALYSIS FRAMEWORK:

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

#### **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.

## **2.5.2 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.

### **2.5.3 SWOT ANALYSIS HELPS IN STRATEGIC PLANNING IN FOLLOWING MANNER:**

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

### **2.5.4 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-

- a. Price increase;
- b. Inputs/raw materials;
- c. Government legislation;
- d. Economic environment;

- e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

### 2.5.5 INTERNAL LIMITATIONS MAY INCLUDE-

- a. Insufficient research and development facilities;
- b. Faulty products due to poor quality control;
- c. Poor industrial relations;
- d. Lack of skilled and efficient labour; etc

### 2.6 TOWS MATRIX:

The TOWS matrix is a strategic planning tool that combines a company's internal strengths and weaknesses with its external opportunities and threats to generate strategic options.

It was developed by Heinz Wehrich in the 1980s as an extension of the SWOT analysis framework. The TOWS matrix focuses on the external environment (opportunities and threats) first, unlike SWOT which starts with internal factors. This helps organizations be more proactive in their strategic planning.

The TOWS matrix generates four types of strategic options by matching internal strengths and weaknesses with external opportunities and threats:

	<b>Strengths</b>	<b>Weaknesses</b>
<b>Opportunities</b>	S-O strategies	W-O strategies
<b>Threats</b>	S-T strategies	W-T strategies

**1. Strengths-Opportunities (SO) strategies** - Use internal strengths to maximize external opportunities.

**2. Weaknesses-Opportunities (WO) strategies** - Overcome internal weaknesses by taking advantage of external opportunities.

**3. Strengths-Threats (ST) strategies** - Use strengths to minimize the impact of external threats.

**4. Weaknesses-Threats (WT) strategies** - Minimize internal weaknesses and avoid external threats (a defensive strategy).

The TOWS matrix is a more structured and comprehensive approach compared to a basic SWOT analysis, as it systematically examines the relationships between the internal and external factors.

Companies like Apple and Nestlé have used the TOWS matrix to develop effective business strategies and navigate challenges.

## **2.7 PORTFOLIO ANALYSIS:**

Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multiproduct and multi-business firms. They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multi-product multi-business firm is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage.

## **2.8 BCG MATRIX (BOSTON CONSULTANCY GROUP)**

The BCG Growth-Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. It is based on the observation that a company's business units can be classified into four categories based on combinations of market growth and market share relative to the largest competitor, hence the name "growth-share". Market growth serves as a proxy for industry

attractiveness, and relative market share serves as a proxy for competitive advantage. The growth-share matrix thus maps the business unit positions within these two important determinants of profitability.

This framework assumes that an increase in relative market share will result in an increase in the generation of cash. This assumption often is true because of the experience; increased relative market share implies that the firm is moving forward on the experience curve relative to its competitors, thus developing a cost advantage. A second assumption is that a growing market requires investment in assets to increase capacity and therefore results in the consumption of cash. Thus the position of a business on the growth-share matrix provides an indication of its cash generation and its cash consumption.

Henderson reasoned that the cash required by rapidly growing business units could be obtained from the firm's other business units that were at a more mature stage and generating significant cash. By investing to become the market share leader in a rapidly growing market, the business unit could move along the experience curve and develop a cost advantage. From this reasoning, the BCG Growth-Share Matrix was born.

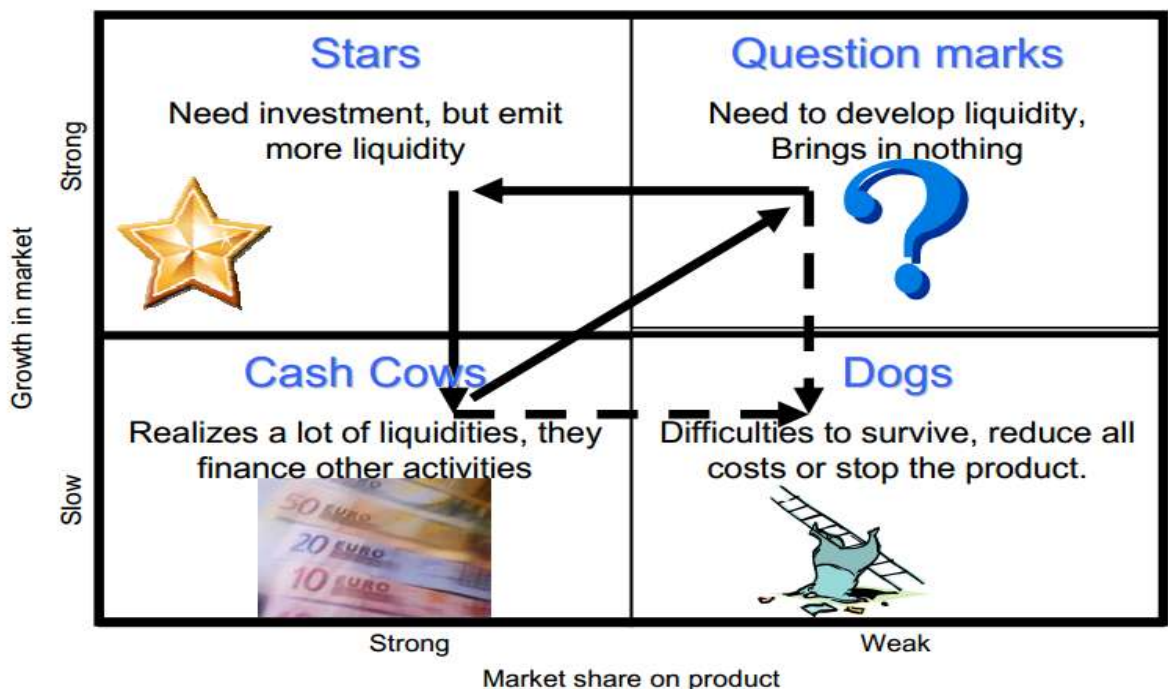
The four categories are:

<b>Categories</b>	
<b>Cash Cows</b>	<ul style="list-style-type: none"> <li>◆ These business units hold a large market share in a mature and slow growing industry.</li> <li>◆ These businesses have a strong business position and negligible investment requirements and hence the returns from these businesses are often more than their investment requirements</li> <li>◆ Organizations often tap their 'cash cows' in order to draw out resources required elsewhere in the organization</li> </ul>

<b>Stars</b>	<ul style="list-style-type: none"> <li>♣ These business units have a large market share in fast growing markets or industries</li> <li>♣ Firms need to invest in stars as the industry is still emerging and market share is also growing.</li> <li>♣ Investment requirements are high</li> <li>♣ Once the industry reaches the stage of maturity, the stars hardly need any investment and become major source of revenue for the firms</li> </ul>
<b>Question marks</b>	<ul style="list-style-type: none"> <li>♥ These business units have a small market share in high growth market.</li> <li>♥ They demand high investment because of their cash needs</li> <li>♥ It is a growing market</li> <li>♥ Acquiring market share is easier than in a mature market.</li> <li>♥ Uncertainty is high E.g. Technological changes, distribution channels, etc</li> <li>♥ Only few question marks are able to grow into stars</li> </ul>
<b>Dogs</b>	<ul style="list-style-type: none"> <li>♠ These business units have low market share in an intensely competitive mature industry</li> <li>♠ Characterized by low profits</li> <li>♠ Need less investment</li> <li>♠ Well managed dogs have narrow business focus, concentrate on high product quality, moderate prices, and strong control costs, and advertise only limited extent.</li> </ul>

Under the growth-share matrix model, as an industry matures and its growth rate declines, a business unit will become either a cash cow or a dog, determined solely by whether it had become the market leader during the period of high growth.

While originally developed as a model for resource allocation among the various business units in a corporation, the growth-share matrix also can be used for resource allocation among products within a single business unit. Its simplicity is its strength – the relative positions of the firm's entire business portfolio can be displayed in a single diagram. While, its importance has diminished, the BCG matrix still can serve as a simple tool for viewing a corporation's business portfolio at a glance, and may serve as a starting point for discussing resource allocation



among strategic business units.

## 2.9 GE MATRIX:

The GE Matrix, also known as the GE McKinsey Matrix, is a strategic planning tool used to evaluate a company's business portfolio and make resource allocation decisions. It was developed by McKinsey for General Electric in the 1970s as a portfolio management tool for multi-business corporations. The matrix

helps corporations systematically prioritize investments among different business units based on two criteria: industry attractiveness and business unit strength.

### 2.9.1 STRUCTURE OF THE GE MATRIX:

The GE Matrix is a 3x3 grid, with the following axes:

#### 1. Vertical Axis: Industry Attractiveness

This axis gauges the desirability of an industry based on factors like market size, growth potential, competitive intensity, profitability prospects, and macro-environmental factors (political, economic, socio-cultural, technological, etc.).

#### 2. Horizontal Axis: Business Strength

This axis assesses the competitive strength of the business in the industry. Factors considered include market share, brand reputation, product quality, management quality, financial performance, and technological capability.

### Applications of the GE Matrix

Organizations use the GE Matrix to inform decisions about resource allocation, investments, and divestitures. By plotting their business units or product lines on the matrix, they can identify growth opportunities, areas of investment, and businesses that may need to be divested or discontinued.

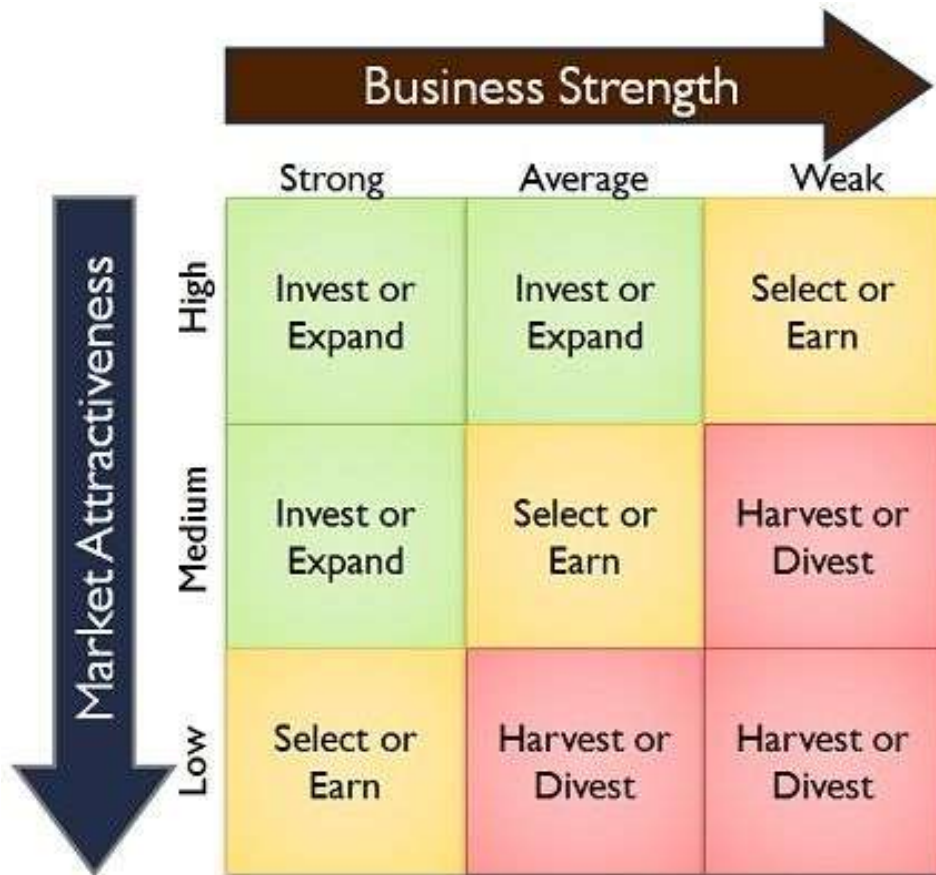
### 2.9.2 STRATEGIC OPTIONS:

The GE Matrix provides four strategic options based on the intersection of the industry attractiveness and business unit strength:

**1. Grow/Invest:** Activities placed in this area should be invested as you have a high strength in a highly attractive industry.

**2. Hold or Select/Earn:** Activities that land within this section are less appealing for investment than the Grow activities, but not necessarily at the point of exiting.

**3. Harvest/Divest:** If an activity is weak in strength and the industry is not attractive then it's likely one you should consider exiting or closing down.



## 2.10. ADL MATRIX:

The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle.

The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and

business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's lifecycle.

<b>Competitive Position</b>	<b>Embryonic</b>	<b>Growth</b>	<b>Mature</b>	<b>Aging</b>
<b>Dominant</b>	High growth, low competition	High growth, moderate competition	Stable market, high competition	Declining market, high competition
<b>Strong</b>	High growth, moderate competition	High growth, high competition	Stable market, high competition	Declining market, high competition
<b>Favourable</b>	High growth, high competition	High growth, high competition	Stable market, high competition	Declining market, high competition
<b>Tenable</b>	Low growth, high competition	Low growth, high competition	Stable market, high competition	Declining market, high competition

Competitive Position	Embryonic	Growth	Mature	Aging
<b>Weak</b>	Low growth, high competition	Low growth, high competition	Stable market, high competition	Declining market, high competition

### 2.10.1 LIFE CYCLE STAGES:

**1. Embryonic Stage:** The introduction of the product is characterized by rapid growth, little competition, and high sales prices.

**2. Growth Stage:** The market continues to strengthen, sales increase, and there are few (if any) competitors.

**3. Mature Stage:** The market and market shares are stable, there is an established customer base, and the price is lowered due to growing competition.

**4. Decline Stage:** The demand for the product decreases, and companies are abandoning the market. Companies stop consolidating or leave the market.

### 2.10.2 COMPETITIVE POSITIONS:

**1. Dominant:** The company has a clear market leadership or monopoly position.

**2. Strong:** The company has a strong market presence and loyal customers.

**3. Favourable:**The company enjoys competitive advantages in certain segments of the market, with many competitors.

**4. Tenable:**The company has a small market share based on a niche or product differentiation.

**5. Weak:**The company experiences continual loss of market share and its business line is too small to maintain profitability.

### 2.10.3 STRATEGIC OPTIONS:

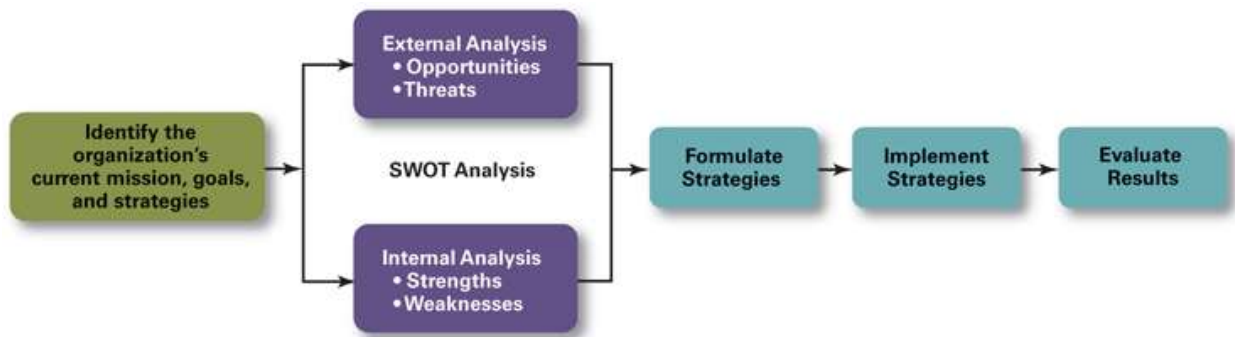
The ADL Matrix provides a framework for strategic planning by identifying the best strategies based on the intersection of the life cycle stage and competitive position. For example:

- **Dominant** in the **Growth Stage:** Aggressive market expansion and diversification.
- **Strong** in the **Mature Stage:** Focus on maintaining market share and improving efficiency.
- **Favourable** in the **Decline Stage:** Diversify into new markets or products to maintain profitability.

The ADL Matrix is a valuable tool for companies to assess their competitive position and industry maturity, helping them make informed strategic decisions and drive sustained growth.

### 2.11. STRATEGIC MANAGEMENT PROCESS:

The strategic management process is a comprehensive and ongoing approach that organizations use to achieve their long-term goals and gain a competitive advantage.



**2.11.1. Goal Setting:** The process begins with defining the organization's mission, vision, and specific objectives. This provides a clear direction and purpose for the strategic plan.

**2.11.2. Environmental Scanning:** The organization analyzes both its internal environment (strengths and weaknesses) and external environment (opportunities and threats) to understand the context in which it operates. This includes evaluating factors like market trends, competition, technology, and regulatory changes.

**2.11.3. Strategy Formulation:** Based on the insights from the environmental scan, the organization formulates its overall corporate strategy as well as strategies for each business unit or functional area. This may involve decisions around product development, market expansion, diversification, or cost leadership.

**2.11.4. Strategy Implementation:** The organization puts the chosen strategies into action by allocating resources, designing the organizational structure and processes, and aligning the workforce. Effective implementation is critical to turning strategic plans into real results.

**2.11.5. Strategy Evaluation:** The organization continuously monitors and evaluates the performance of the implemented strategies. This allows for adjustments to be made if the original strategies are not producing the

desired outcomes. The evaluation phase feeds back into the goal setting and environmental scanning steps, making strategic management an iterative and adaptive process.

## **2.12 STRATEGIC PLANNING:**

Strategic planning is an organization's process of defining its strategy or direction and making decisions on allocating its resources to attain strategic goals. It involves setting strategic goals, determining actions to achieve the goals, setting a timeline, and mobilizing resources to execute the actions. Strategic planning is a long-term process that helps organizations achieve their vision and mission by aligning their resources and actions with their goals.

## **2.13 STRATEGIC INTENT:**

Strategic intent advocates use the term to describe “aspirational plans or an overarching purpose needed to achieve an organization’s vision.” Embedded within the “aspirational” part of that definition is a focus on winning. Winning customers, winning against competitors, and winning over the broader market. How does strategic intent inspire winning? By focusing a firm’s strategy on change initiatives that will lead to competitive advantages. To do that, the first step is to break down what competitive advantages look like in a given industry. For internet retailers, it might be efficiency in logistics and distribution.

For pharmaceutical companies, it might be product efficacy and pricing. Whatever the case, strategic intent turns strategy from a “fit” exercise to a “stretch” exercise. I.e., an internet retailer not thinking about how to match a competitor’s operations but to create even better operations.

### **2.13.1 FEATURES OF STRATEGIC INTENT:**

The specific features of strategic intent are best thought of as a hierarchy or pyramid of sorts. Let’s look at the levels from the ground up, starting with

**1. Vision:** The long-term goal or aspiration of the organization, providing a direction for the future. It outlines the desired future position of the organization and serves as a guiding star for all strategic planning.

**2. Mission:** The purpose or reason for the organization's existence, explaining how the vision will be achieved. It defines the organization's core business and the values that guide its actions.

**3. Business Definition:** The specific activities and operations that generate revenue and profits for the organization. It outlines the "x's and o's" of how the organization makes money.

**4. Business Model:** The purposeful and differentiating way the organization operates around its business definition. It defines how the organization creates value for its customers and how it differentiates itself from competitors.

**5. Goals and Objectives:** Specific, measurable, and achievable targets that align with the organization's vision and mission. These goals and objectives provide metrics for evaluating performance and hold the organization accountable for its strategy.

These features form a hierarchy, with the vision at the top and the goals and objectives at the bottom. Each level builds upon the last to create a comprehensive roadmap guiding the organization towards its ultimate objectives.

## **2.14 STRATEGY FORMULATION:**

Strategy formulation is the process of selecting the most appropriate course of action to achieve an organization's goals and objectives. It involves setting clear goals, identifying strengths and weaknesses, and developing strategies to address external opportunities and threats.

### **2.14.1 LEVELS OF STRATEGY FORMULATION:**

#### **1. Corporate-Level Strategy:**

This is the highest level of strategy formulation. It focuses on the overall scope and direction of the organization. Key aspects include:

- Deciding which businesses or industries the organization should compete in
- Allocating resources across the different business units
- Determining the organization's overall growth strategy (e.g. expansion, diversification, retrenchment)
- Setting the organization's mission, vision, and high-level objectives

The corporate-level strategy is set by the top management team and board of directors. It provides the overarching framework for the rest of the organization's strategies.

## **2. Business-Level Strategy:**

This level of strategy focuses on how the organization will compete in a specific market or industry. Key aspects include:

- Determining the organization's competitive positioning and differentiation
- Identifying the unique value proposition for customers
- Deciding on the products/services to offer and the target market
- Outlining the marketing, operations, and other functional strategies

Business-level strategies are developed by the heads of individual business units or strategic business units (SBUs). The goal is to gain a competitive advantage in the specific markets the organization operates in.

## **3. Functional-Level Strategy:**

This is the lowest level of strategy formulation. It focuses on how the different functions (e.g. marketing, finance, HR, R&D) within a business unit will support the overall business-level strategy. Key aspects include:

- Determining the specific actions, resources, and capabilities needed in each functional area
- Aligning functional activities and decisions with the business-level strategy

- Optimizing the performance of each function to support the broader strategic objectives

Functional-level strategies are developed by the heads of each functional department. The aim is to coordinate and integrate the various functions to effectively implement the business-level strategy.

The three levels of strategy formulation are interconnected, with the corporate-level strategy providing the overarching direction, the business-level strategy defining competitive positioning, and the functional-level strategy enabling effective execution. Aligning these different levels of strategy is crucial for an organization to achieve its strategic goals.

## **2.15 CORPORATE LEVEL STRATEGY:**

Corporate-level strategy refers to the overall plan and direction for a business as a whole. It is the highest level of strategic planning, set by senior executives and the board of directors.

## **2.16 CONCEPTS AND NATURE OF CORPORATE STRATEGY:**

### **2.16.1 CONCEPTS:**

Corporate-level strategy refers to the overall strategy of a diversified company, defining the business areas, industries, and markets in which the company will operate. It is concerned with the selection and management of businesses that compete in different product or service markets.

According to Gluek, there are four strategic alternatives:

- Stability strategies
- Expansion strategies
- Retrenchment

### Strategies

- Combination strategies

## 1. Stability Strategy:

A stability strategy involves maintaining the current scope and direction of the organization. It is a conservative approach that aims to preserve the existing business model and operations. There are three main types of stability strategies:

**A. No Change Strategy:** The organization continues its current operations without any major changes. This is often used when the company is performing well and the external environment is stable.

**B. Profit Strategy:** The organization focuses on improving profitability through cost-cutting, efficiency improvements, and optimizing existing operations. The goal is to maximize profits without significantly changing the business.

**c. Pause/Proceed-with-Cautious Strategy:** The organization temporarily pauses expansion or major changes to assess the environment and consolidate its position. This allows the company to wait for more favorable conditions before pursuing growth.

## 2. Expansion Strategy:

Expansion strategies are plans and actions taken by a company to grow its operations, increase market share, and achieve long-term goals. The main types of expansion strategies include:

### A. Concentration Strategy:

A concentration strategy is a business strategy that involves focusing a company's efforts on a specific target, such as a customer group, product, or geographic market. This approach allows a company to develop expertise and efficiencies by specializing in a particular area, rather than trying to compete in multiple markets or offer a wide range of products.

**a. Market Penetration:** This involves selling more of the company's existing products or services to its current customer base or expanding its reach within the current market. The goal is to increase sales and market share in the company's existing markets.

**b. Market Development:** This strategy involves entering new markets or expanding into new geographical locations. This may require adapting the company's products or services to fit the needs of a new market or introducing them to an entirely new customer base.

**c. Product Development:** This strategy involves creating new products or services to meet or attract new customers' needs. This can help the company stay ahead of the competition and provide new revenue streams.

## **B. Integration Strategy:**

An integration strategy is a corporate strategy that expands a company into related business units or supply chains by merging and acquiring other businesses or developing new ones. This strategy aims to achieve competitive advantage by controlling various processes, such as competitors, suppliers, or distributors.

**a. Horizontal Integration:**Horizontal integration refers to a company acquiring or merging with another company operating at the same level of the supply chain, typically a competitor. The goal is to increase market share, reduce competition, and achieve economies of scale. Examples include Kroger acquiring Albertsons, or Disney acquiring 21st Century Fox.

**b. Vertical Integration:**Vertical integration refers to a company expanding its operations to different stages of the production process, either upstream (backward integration) or downstream (forward integration). This allows the company to have greater control over its supply chain and distribution. Examples include Amazon acquiring Whole Foods, or Netflix building its own content studio.

**1. Forward Integration:** Forward Integration is a type of vertical integration where a company expands downstream by acquiring or controlling distribution channels

closer to the end consumer. This allows the company to have more control over the sales and distribution of its products.

**2. Backward Integration:** Backward Integration is a type of vertical integration where a company expands upstream by acquiring or controlling its suppliers. This allows the company to have more control over its inputs and production process.

**3. Taper Integration:** Taper Integration is a hybrid approach where a company combines both vertical and horizontal integration strategies. For example, a manufacturer may integrate both forward (into distribution) and horizontally (into related product lines).

**4. Quasi Integration:** Quasi Integration refers to collaborative arrangements short of full ownership, such as long-term contracts, joint ventures, or strategic alliances, that allow companies to gain some of the benefits of integration without full control.

## C. Diversification Strategy

Diversification strategy is a corporate strategy where a company expands into new products, services, or markets that are different from its current business. The goal is to reduce risk, create new revenue streams, and achieve growth.

### a. Concentric Diversification

Concentric diversification involves adding new products or services that are related to the company's existing products or services, either through technology or through the market. This allows the company to leverage its existing capabilities and customer base.

**1. Market Related Diversification:** Market related diversification involves adding new products or services that appeal to the company's existing customer base, even if the new offerings are technologically unrelated. The key is that the new products/services satisfy similar customer needs.

**2. Technology Related Diversification:** Technology related diversification involves adding new products or services that utilize similar technology or production processes as the company's existing offerings. This allows the company to leverage

its technical expertise and manufacturing capabilities.

**3. Market-Technology Related Diversification:** This is a combination of the above two approaches, where the new products/services are both technologically related and appeal to the company's existing customer base. This provides the greatest synergies and leveraging of the company's core competencies.

#### **b. Conglomerate Diversification**

Conglomerate diversification refers to a company expanding into new, unrelated products or services, often in different industries. This strategy involves entering markets that have no technological or commercial commonalities with the company's current business. The goal is to reduce risk through diversification, rather than to leverage existing capabilities.

Conglomerate diversification is generally considered the riskiest form of diversification, as the company has to build new capabilities and compete in unfamiliar markets. However, it can also provide opportunities for growth and profitability if executed successfully.

### **D. Internationalization**

Internationalization is the process of designing and developing a product or service in a way that makes it adaptable to different languages, cultures, and regions.

**a. Multi-national Strategy:** A multi-national strategy involves customizing products, services, and operations to local markets. The focus is on responsiveness to local needs and preferences, rather than achieving global efficiency. Companies using this strategy adapt their offerings to match the unique requirements of each country they operate in. Examples include Heinz offering a garlic-free ketchup in India, or Outback Steakhouse adjusting its menu to local tastes.

**b. International Strategy:** An international strategy involves selling standardized products or services in foreign markets, with minimal adaptation. The goal is to leverage the company's core competencies and achieve economies of scale.

Companies using this strategy focus on efficiently replicating their domestic business model in other countries. Examples include Microsoft offering the same software globally with language localization.

**c. Global Strategy:** A global strategy involves treating the world as a single market and offering standardized products or services globally. The focus is on maximizing efficiency and cost savings through centralized operations and global scale. Companies using this strategy sacrifice local responsiveness in order to achieve lower costs and better coordination across borders. Examples include Intel selling the same semiconductor chips worldwide.

**d. Transnational Strategy:** A transnational strategy seeks a middle ground between multi-national and global strategies. It involves balancing the need for local responsiveness with the desire for global efficiency. Companies using this strategy customize some aspects of their offerings to local markets, while also leveraging global scale and coordination. Examples include McDonald's and KFC adapting their menus to local tastes while maintaining core brand elements.

### **3. Retrenchment Strategy**

Retrenchment strategies involve reducing the scope of a company's operations to improve efficiency and profitability. This is often done in response to declining performance or major environmental changes. The main types of retrenchment strategies are:

**A. Turnaround Strategy:** Implementing cost-cutting measures, restructuring operations, and refocusing on core competencies to return the company to profitability.

**B. Divestment Strategy:** Selling off business units, product lines, or assets that are underperforming or no longer align with the company's core strategy.

**C. Liquidation Strategy:** Selling all of the company's assets and closing down the business, typically as a last resort.

## 4. Combination Strategy:

Combination strategies involve using a mix of the above strategies, either sequentially or simultaneously, to achieve the organization's goals. This allows companies to adapt to changing circumstances and leverage different approaches:

**A. Sequential Strategy:** The organization shifts between different corporate-level strategies over time as conditions change.

**B. Simultaneous Strategy:** The organization pursues multiple corporate-level strategies concurrently, such as expanding in some areas while retrenchment in others.

**C. Sequential and Simultaneous Strategy:** The organization uses a combination of sequential and simultaneous strategies, shifting between approaches as needed.

### 2.16.2 NATURE:

**1. Long-Term Orientation:** Corporate-level strategies are focused on the long-term direction and goals of the entire organization, rather than short-term operational concerns.

**2. Uncertainty:** Corporate strategies deal with complex, uncertain, and dynamic environments, as they involve decisions that impact the whole organization.

**3. Overarching Goals:** Corporate strategies are aimed at achieving the organization's high-level, overarching objectives, rather than functional or operational goals.

**4. Complexity:** Corporate strategies are inherently complex, as they involve coordinating multiple business units, functions, and resources across the organization.

**5. Dynamism:** Effective corporate strategies need to be flexible and adaptable to respond to changes in the external environment and internal capabilities.

**6. Far-Reaching Impact:** Corporate strategies have a broad, far-reaching

impact on the entire organization, from resource allocation to organizational structure.

**7. Top-Down Formulation:** Corporate strategies are typically formulated at the highest levels of the organization, by senior executives and the board of directors.

**8. Competitive Positioning:** Corporate strategies seek to establish the organization's overall competitive position and advantage in the market.

**9. Value Creation:** The primary purpose of corporate strategy is to create value for shareholders and other stakeholders by improving the organization's long-term performance and growth.

### **2.16.3 MERGERS AND ACQUISITIONS:**

Mergers and acquisitions (M&A) are business transactions where the ownership of companies, business organizations, or their operating units is transferred to or consolidated with another company or business organization. This can occur through direct absorption, a merger, a tender offer, or a hostile takeover. M&A transactions can be used to grow or downsize businesses, change their competitive position, or alter their nature.

**Merger:** A merger is the legal consolidation of two business entities into one, resulting in a new entity. This process typically involves a friendly collaboration between the parties involved and does not involve an exchange of cash but a dilution of power.

**Acquisition:** An acquisition, also known as a takeover, is the purchase of one business or company by another. This can be a friendly or hostile transaction, where the target company may or may not wish to be purchased.

#### **2.16.3.1 TYPES OF MERGERS AND ACQUISITIONS:**

- **Friendly Acquisition:** A friendly acquisition is a transaction where both parties agree to join forces, often with mutually beneficial terms.

- **Hostile Acquisition:** A hostile acquisition is a takeover where the target company does not wish to be purchased and may resist the offer.
- **Consolidation:** A consolidation occurs when two companies combine to form a new entity, and neither of the previous companies remains independently owned.

#### 2.16.4 STRATEGIC ALLIANCES:

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives.

Mergers and acquisitions (M&A) are not the same as strategic alliances. While M&A involve the full integration or acquisition of one company by another, strategic alliances are collaborative agreements between two or more independent companies to work together towards common objectives.

- Strategic alliances do not involve the creation of a new legal entity, unlike joint ventures.
- In a strategic alliance, the companies remain independent and autonomous, while cooperating and sharing resources.
- The goal of a strategic alliance is to leverage the complementary strengths and assets of the partners to achieve mutually beneficial outcomes, rather than a full integration.

Some common types of strategic alliances include:

- a. **Non-equity alliances:** Contractual agreements to cooperate without equity exchange.
- b. **Equity alliances:** Where at least one partner takes an equity stake in the other.
- c. **Joint ventures:** Creation of a new, jointly owned legal entity by the partner companies.

## 2.17 CORPORATE PARENTING:

Corporate parenting refers to the role and responsibilities of a parent company or holding company in managing and supporting its subsidiaries or business units.

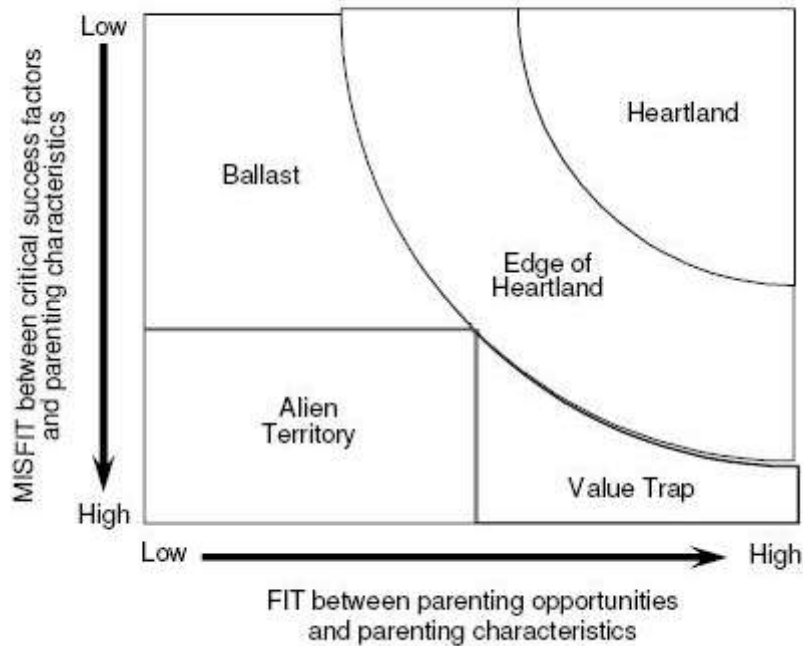
### 2.17.1 PARENTING ADVANTAGE:

The parent company should aim to add more value to the businesses than they could achieve on their own, or than they could under the ownership of a different parent company. This "parenting advantage" should be the guiding principle for the parent company's corporate-level strategy.

### 2.17.2 PARENTING FIT MATRIX:

This matrix summarizes the fit between the parent company's characteristics and the opportunities for improvement in its subsidiaries. It has two key dimensions:

- **Positive Contributions the Parent Can Make:** The extent to which the parent can positively influence and improve the performance of its subsidiaries.
- **Negative Effects the Parent Can Have:** The extent to which the parent's involvement could have a detrimental impact on the subsidiaries.



The Parenting Fit Matrix is a strategic tool used by businesses to evaluate the fit between the parent company and its various business units. The matrix is divided into five categories based on two dimensions: "Feel" and "Benefit." These categories help corporations determine which business units to prioritize, which to divest, and how to manage them effectively.

**1. Heartland Business:** Heartland Businesses are those that the parent company understands well and can continue to add value to. These businesses should be at the core of the corporation's future strategy. They have opportunities for improvement by the parent, and the parent understands their critical success factors well. Heartland Businesses should have priority for all corporate activities.

**2. Edge-of-Heartland Business:** Edge-of-Heartland Businesses have some parenting characteristics that fit the business, but others do not. The parent may not have all the characteristics needed by a unit, or the parent may not really understand all of the unit's strategic factors. These businesses require more attention from the

parent to understand them better and transform them into Heartland Businesses.

**3. Ballast Business:** Ballast Businesses fit very comfortable with the parent corporation but contain very few opportunities to be improved by the parent. They are stable and generate earnings but may not be a priority for the parent. Corporate decision makers should consider divesting these units as soon as they can get a price that exceeds the expected value of future cash flows.

**4. Alien Territory Business:** Alien Territory Businesses have little opportunity to be improved by the corporate parent, and there is a misfit between the parenting characteristics and the unit's strategic factors. These businesses are likely to destroy value if the parent continues to manage them. The corporation must divest these units while they still have value.

**5. Value Trap Business:** Value Trap Businesses fit well with parenting opportunities but are a misfit with the parent's understanding of the unit. This is where the corporate headquarters can make its biggest error. The parent may mistake what it sees as opportunities for ways to improve the business unit's profitability or competitive position, but these efforts may not be effective.

## I. CHOOSE THE CORRECT ANSWER:

1. SWOT analysis stands for:

- (a) Strength, Wealthy, Occasional, Treatment
- (b) Strength, Weaknesses, Opportunity, Threat
- (c) Strength, Weaknesses, Opportunity, Treat
- (d) Strength, Weaknesses, Optimistic, Threat

2. The process by which managers attempt to determine what to do to achieve goals and objectives:

- (a) Directing
- (b) Organizing

(c) Planning

(d) Controlling

3.Means by which managers will use people and resources together, create a structure to achieve organizational objectives is known as:

(a) Directing

(b) Controlling

(c) Organizing

(d) Planning

4.Leadership, where the leader takes his own decisions without consulting with subordinates is known as:

(a) Democratic leadership

(b) None of the above

(c) Free-reign leadership

(d) Autocratic leadership

5.A mayor falls into which level of management: \*

(a) Top Management

(b) Middle Management

(c) Supervisory Management

(d) Lower level Management

## UNIT III

# DIFFERENT LEVELS OF STRATEGIES

### 3.1 INTRODUCTION:

An organization's core competencies should be focused on satisfying customer needs or wants in order to achieve organisational objectives. This is achieved through businesses level strategies. Business level strategies are the course of action adopted by an organisation, for each of its businesses separately, to serve identified customer groups and provide value to those customers by satisfying their needs. In the process, the organisation uses its competencies to gain, sustain and enhance its strategic and competitive advantage.

### 3.2 PORTER'S FIVE FORCES MODEL-COMPETITIVE ANALYSIS:

Every business operates in a competitive environment. The competitive state of an industry has a strong influence on how firms develop their strategies. Michael Porter believed that the basic unit for analysis, is a group of competitors producing goods or services, that compete directly with each other. Competitive advantage is industry specific. An organisation attempts to adopt an approach to win over competitors in the same industry.

The character, mix, and intricacies of competitive forces differ from one industry to another. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each of those pressures, is the Porter's five-forces model of competition. (see figure) This model holds that, the state of competition in an industry is a composite of competitive pressures operating in five major areas of the market:

- ◆ Competitive pressures associated with market maneuvering and jockeying for buyer patronage that goes on among rival sellers in the industry.
- ◆ Competitive pressures associated with threat of new entrants in the market.
- ◆ Competitive pressures coming from attempts of companies in other industries to win buyers, by offering substitute products.
- ◆ Competitive pressures stemming from supplier bargaining power and supplier-seller collaborations.
- ◆ Competitive pressures stemming from buyer bargaining power and seller buyer collaborations.

Strategists can use the five-forces model to determine the competitive landscape of a given industry, by undertaking the following three steps:

**Step 1:** Identify the specific competitive pressures associated with each of the five forces.

**Step 2:** Evaluate the strength of pressure comprising each of the five forces (it could be fierce, strong, moderate to normal, or weak).

**Step 3:** Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.



### Figure: Michael Porter's Five Forces Model of Competition

Porter's five forces model is one of the most effective and enduring conceptual frameworks used to assess the nature of competitive environment and to understand an industry's structure. The interrelationship amongst these five forces, gives each industry, its own particular competitive environment. By applying Porter's five forces model of industry attractiveness to their own industry, management can gauge their firm's strengths, weaknesses, probable threats and future opportunities.

#### **3.2.1 THREAT OF NEW ENTRANTS:**

New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position. However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure.

The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players, which is known as Price War. For example, Reliance Jio offered cheap services when it entered the telecom industry in 2016, thus limiting the prices for existing players like Airtel, Vodafone, Idea, etc. A firm's profitability tends to be higher when new firms are blocked from entering the industry.

To discourage new entrants, existing firms can try to raise barriers to entry. "Barriers to entry" represent economic forces (or 'hurdles') that slow down or immediate entry of new firms.

#### **Common barriers to entry include:**

- (i) Capital requirements
- (ii) Economies of scale

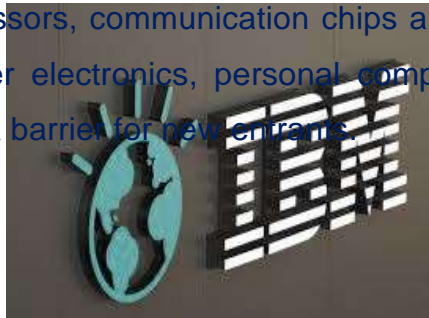
- (iii) Product differentiation
- (iv) Switching costs
- (v) Brand identity
- (vi) Access to distribution channels
- (vii) Possibility of aggressive retaliation by existing players

### **Capital Requirements:**

When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from that industry, thus, enhancing the profitability of existing firms. For example, huge investments are required to build production facilities and establish brand awareness amongst people for entry into the pharmaceutical industry. This makes entry of new companies into this sector very difficult.

### **Economies of Scale:**

Many industries are characterized by economic activities driven by economies of scale. Economies of scale refers to the decline in the per-unit cost of production (or other activity) as the volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower cost. This tends to discourage new entrants who are in expansion stage and have higher costs. For example, in the semiconductor industry, large companies, such as IBM, Intel, Samsung and Texas Instruments, enjoy substantial economies of scale in the production of advanced microprocessors, communication chips and integrated circuits that power most consumer electronics, personal computers (PCs) and cellular phones. This acts as a barrier for new entrants.



### **Product Differentiation:**

Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers. Firms in personal care and cosmetics industry actively engage in product differentiation to enhance their products' features. Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.

### **Switching Costs:**

To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, and train personnel to use the equipment, or modify facilities for product use. Buyers often incur substantial financial (and psychological) costs in switching between firms. When such switching costs are high, buyers are often reluctant to change. For example, high switching costs in moving away from Microsoft's Windows operating systems used in personal computers and corporate servers powered the company's stunning growth over the past decade in the software industry. In other words, Microsoft has market edits operating system in such a manner that it almost impossible for companies to sell a new operating system and break into the customer loyalty of Microsoft.



## Brand Identity:

The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period of time. The gestation period of customer loyalty is quite high, when customers identify themselves with existing brands. For example, during the 1970s, Japanese companies such as Toyota, Nissan, and Honda had to spend huge sums on new product development and promotional activities to over-come the American consumer's preference for domestic cars. It was a huge challenge for foreign car makers to break into the customer base of Maruti Suzuki in the affordable family car segment, because people identified Maruti Suzuki as India's own family car company.



**HONDA**

## Access to Distribution Channels:

The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many

firms may continue to rely on their control of physical distribution channels to create a barrier to entry for rivals. Often, existing firms have significant influence over the distribution channels and can retard or impede (can use restrict) their use by new firms. For example, because of control over distribution channels in India by HUL (Hindustan Uni-lever), P & G (Procter &Gamble) and Godrej etc., small entrepreneurs find it very difficult to sell their products through the existing channels. Similarly, with advent of Patanjali and its strong nation-wide distribution channel, new Ayurvedic FMCG companies are facing a challenge.

Possibility of Aggressive Retaliation: Sometimes the mere threat of aggressive retaliation by incumbents/existing firms can deter entry of new firms into an existing industry. For example, introduction of products by a new firm may lead incumbents' firms to reduce their product prices and increase their advertising budgets.

The same way Hindustan Unilever and Palmolive spent huge sums of money in advertisement to fight Patanjali's DantKanti Toothpaste.

### **3.2.2 BARGAINING POWER OF BUYERS:**

This is another force that influences the competitive condition of an industry. This force becomes heavier depending on the possibility of buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or even informally and exert pressure on the producer.

The bargaining power of the buyers influences not only the prices that the producer can charge but also influences costs and investments of the producer. This is because powerful buyers usually bargain for better services which involves more investment on the part of the producer. Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services.

**This leverage is particularly evident when;**

- (i) Buyers have full knowledge of the source(s) of products and their substitutes. Thus, challenging the price being charged by producers.
- (ii) They spend a lot of money on the industry's products i.e. they are big buyers. Thus, in a position to demand favorable terms of contract.
- (iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

**3.2.3 BARGAINING POWER OF SUPPLIERS:**

Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The more specialised the offering from the supplier, greater may be its clout. Further, when the suppliers are limited in number, they may openly exhibit their bargaining power.

The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, and therefore, an industry's attractiveness and profitability. Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when;

- (i) Their products are crucial to the buyer and substitutes are not available.
- (ii) They can erect/ensure high switching costs.
- (iii) They are more concentrated than their buyers. Less suppliers, more buyers.

**3.2.4 THE NATURE OF RIVALRY IN THE INDUSTRY:**

Rivalry between existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is more

evident at functional level, like in the prices being charged, more aggressive advertising, and building pressures on costs, product and so on.

The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability. "The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;

(i) An industry has no clear leader. Therefore, continuous war for leadership.

(ii) Competitors in the industry are numerous.

(iii) Competitors operate with high fixed costs.

Thus, aiming for better Return on Investment with more fierce tactics.

(iv) Competitors face high exit barriers, and therefore, continue to fight for market share.

(v) Competitors have little opportunity to differentiate their offerings.

(vi) The industry faces slow or diminished growth.

### **Industry Leader:**

A strong industry leader can discourage price wars by disciplining initiators of such activity. Because of its greater financial resources, a leader can generally outlast smaller rivals in a price war. Knowing this, smaller rivals often avoid initiating such a contest. For example, India's domestic air travel industry has no definite leader, and hence, we often see cut throat price wars.

### **Number of Competitors:**

Even when an industry leader exists, the leader's ability to exert pricing discipline diminishes with the increased number of rivals in the industry as communicating expectations to players becomes more difficult.

For example, majorly in unorganized sectors like handicrafts, due to huge number of producers, the internal rivalry is immense.

### **Fixed Costs:**

When organisations operate with high fixed costs, they are motivated to utilize their capacity and therefore, are inclined to drop prices when they have excess capacity. Price cutting causes profitability to fall for all firms in the industry, as the firms seek to produce more to cover costs that must be paid regardless of industry demand, i.e. the fixed costs. For this reason, profitability tends to be lower in industries (For example, airline, telecommunications) characterized by high fixed costs.

### **Exit Barriers:**

Rivalry amongst competitors declines, if a few competitors leave the industry. Profitability therefore tends to be higher in industries with few exit barriers. Exit barriers come in many forms. Assets of a firm considering exit may be highly specialized and therefore of little value to any other firm. Therefore, such firm may not be able to find a buyer for its assets. This discourages exit. When barriers to exit are powerful, competitors desiring exit may refrain from leaving. Their continued presence in an industry exerts downward pressure on the profitability of all competitors. The crux is, if an organisation cannot exit, it would fight for its survival, and thus, intensify competition.

### **Product Differentiation:**

Firms can sometimes insulate themselves from price wars by differentiating their products from those of its rivals. As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation. Profitability tends to be lower in industries involving undifferentiated commodities such as, memory chips, natural resources, pro-

cessed metals and railroads. For example, ONGC and Indian Oil, cannot offer major product differentiation in their products. Hence, the level of competition would always be high.

### **Slow Growth:**

Industries whose growth is declining tend to face more intense rivalry. It is so because, as an industry's growth declines, rivals would often fight harder to grow or sustain their existing market share. The resulting intensive rivalry tends to reduce profitability for all.

### **3.2.5 THREAT OF SUBSTITUTES:**

Substitute products are a latent/hidden but existing source of competition in an industry. In many cases they grow to become a major constituent of competition. Substitute products that offer a price advantage and/or performance improvement to the consumers, can drastically alter the competitive character of an industry. Surprisingly, they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever significant investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits of an industry.

As per Michael Porter, a final force that can influence an industry's profitability, is the availability of substitutes for that industry's products. To predict profit pressure from this source of competition, firms must search for products that can perform the same, or nearly the same, functionalities as their own products. For example, Real estate, insurance, bonds and bank deposits are clear substitutes for common stocks, because they represent alternate ways to invest funds.

The threat of substitutes is great in many high tech industries as well. For example, introduction of digital film-less cameras virtually replaces the

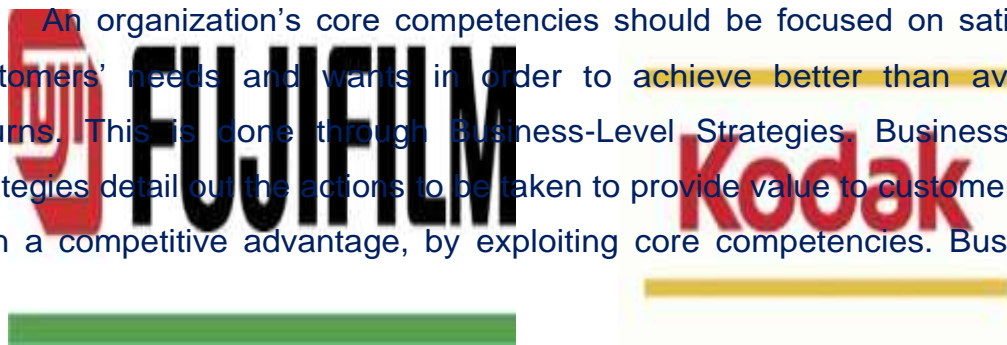
film cameras and threatened the existence of Eastman Kodak and Fuji Film. Further, the introduction of smart phones has replaced cameras to a great extent.

The rapidly changing education landscape, with the advent of online courses and degrees, is a perfect example of a substitute to the existing educational system, with better approachability and access.

The above discussed five forces together determine an industry's attractiveness/profitability. This is so because these forces influence the causes, that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. As mentioned in the beginning, the strength of these forces may vary from industry to industry.

### **3.3.BUSINESS LEVEL STRATEGIES:**

An organization's core competencies should be focused on satisfying customers' needs and wants in order to achieve better than average returns. This is done through Business-Level Strategies. Business level strategies detail out the actions to be taken to provide value to customers and gain a competitive advantage, by exploiting core competencies. Business-



level strategy is concerned with a firm's position in the industry, in relation to its competitors and to the five forces of competition discussed above.

"Customers are the foundation of an organization's business-level strategies". Who will be served, what needs are to be met, and how those needs will be satisfied, are determined by the senior management, while drafting Business Level Strategies?

### **Who are the customers?**

Knowing one's customers is of utmost importance in obtaining and sustaining a competitive advantage. Being able to successfully predict and satisfy future customer needs is equally important. Perhaps one of the Tata's mistakes in manufacturing Nano, was to not being able to understand the customer's actual need. They wanted a small, affordable city car, but durability was of more importance.

### **How to satisfy customer needs?**

Organizations must determine how to bundle its resources and capabilities, to form core competencies, and then use these core competencies to satisfy customer needs and create value for them.

Having selected a market, the organization must develop a plan to be successful in that market. Business strategy therefore looks at how the organization can compete successfully in the individual markets that it chooses to operate in.

Business level strategy is concerned with issues such as:

- Identifying and meeting the needs of key customers
- Achieving advantage over competitors
- Avoiding competitive disadvantage

## **3.4 MICHAEL PORTER'S GENERIC STRATEGIES:**

We discussed about the five forces of competition as per Michael Porter. Once we identify these forces and their corresponding strength, the task at hand for the management is to respond to these forces strategically. According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. These strategies have been termed generic, because they can be pursued by any type or size of business firm and even by not-for-profit organisations. Cost leadership emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive.

Differentiation is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.

Focus means producing products and services that fulfil the needs of small groups of consumers with very specific taste.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

Porter stresses the need for strategists to perform cost-benefit analysis to evaluate "sharing opportunities" among the firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

### 3.4.1 COST LEADERSHIP STRATEGY:

It is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Be-cause of its lower costs, the cost leader is able to charge a lower price for its prod-ucts than most of its competitors and still earn satisfactory profits. For example, McDonald’s fast-food restaurants have successfully followed low cost leadership strategy. Decathlon Group’s mega sports stores have been following low-cost leader-ship strategy to gain international recognition and also beat competition.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. Generally, cost leadership must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider while choosing among alternative generic strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs. This internal strategy of sharing resources to build a competitive advantage is called synergy benefit. Striving to be a low-cost producer in an industry can especially be effective,

- When the market is composed of many price-sensitive buyers and
- When there are few ways to achieve product differentiation.

Further, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant

bargaining power. The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overheads, limited perks, intolerance of waste, intensive screening of budget requests, wide span of controls, rewards linked to cost containment, and broad employee participation in cost control efforts.

### **Some risks of pursuing cost leadership are;**

- ◆ That competitors may imitate the strategy, therefore driving overall industry profits down;
  - ◆ That technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.
- Achieving Cost Leadership Strategy To achieve cost leadership,

### **following actions could be taken:**

1. Prompt forecasting of demand of a product or service.
2. Optimum utilization of the resources to achieve cost advantages.
3. Achieving economies of scale; thus, lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.  
(Example of McDonald's)
5. Invest in cost saving technologies and using advance technology for smart Efficient working.
6. Resistance to differentiation till it becomes essential.

### **Advantages of Cost Leadership Strategy:**

Earlier we have discussed Porter's Five Forces Model in detail. A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

- 1. Rivalry** - Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.
- 2. Buyers** - Powerful buyers/customers would not be able to exploit the costleader firm and will continue to buy its product.
- 3. Suppliers** - Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.
- 4. Entrants** - Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.
- 5. Substitutes** - Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

### **Disadvantages of Cost Leadership Strategy:**

1. Cost advantage may not last long as competitors may imitate cost reduction techniques.
2. Cost leadership can succeed only if the firm can achieve higher sales volume.
3. Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
4. Technological advancement is a great threat to cost leaders.

### **3.4.2 DIFFERENTIATION STRATEGY:**

This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. For example, Domino's

Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates it from its rivals.

Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick imitation by competitors is better. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the customers' desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk associated with pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy will easily defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms. For example, Amazon Prime offers delivery within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.

## Basis of Differentiation:

There are several bases of differentiation, major being: Product, Pricing and Organization.

◆ **Product:** Innovative products that meet customer needs can be an areawhere a company has an advantage over competitors. However, the pursuit of a new product offering can be costly - research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product. For example, Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.

◆ **Pricing:** It fluctuates based on its supply and demand, and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices. For example, Ap-ple iPhone dominates the smart phone segment by charging higher prices for its products.

◆ **Organisation:**Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition. For example, Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls"

## Achieving Differentiation Strategy:

To achieve differentiation, following strategies could be adopted by an organisation:

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

### **3.4.3 FOCUS STRATEGIES:**

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration (new product for existing customers) and market development (new product for new customers) offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive preferences or requirements, and when the rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility of numerous competitors recognizing the successful focus strategy and imitating it, or that consumer preferences may drift towards the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of

customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market. For example, Ferrari sports cars.

#### **3.4.4 FOCUSED COST LEADERSHIP:**

A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges

low prices relative to other firms that compete within the target market. Firms that compete based on price and target a narrow market follow a focused cost leader-ship strategy.

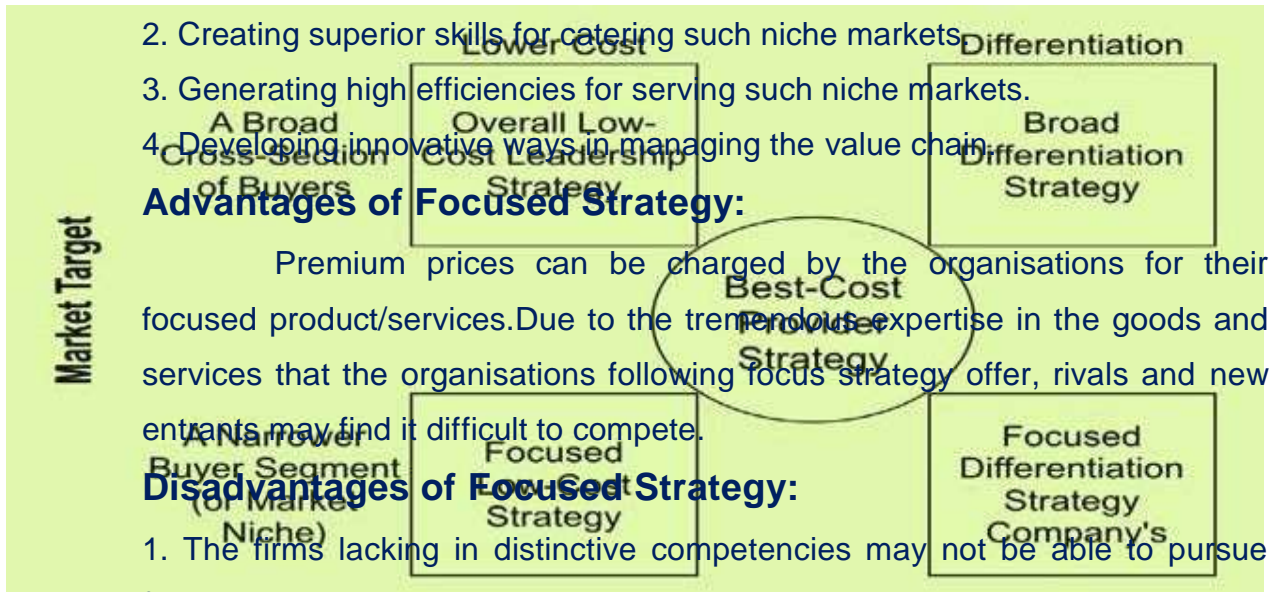
#### **3.4.5 FOCUSED DIFFERENTIATION:**

A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. For example, Rolls-Royce sells limited number of high-end, custom-built cars.

### **Achieving Focused Strategy:**

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.



2. Creating superior skills for catering such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.

2. Due to the limited demand of product/services, costs are high, which can cause problems.

3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

### 3.5 BEST-COST PROVIDER STRATEGY:

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing on both, low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of "comparable products".

### Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing on lower cost and better-quality differences. It can be done through:

(a) Offering products at lower price than what is being offered by rivals for products with comparable quality and features

**or**

(b) Charging similar price as by the rivals for products with much higher quality and better features. **For example**, android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.

**Features of the generic competitive strategies are given below:**

<b>Features</b>	<b>Low-Cost Provider</b>	<b>Broad Differentiation</b>	<b>Best-Cost Provider</b>	<b>Focused Low-Cost and Focused Differentiation</b>
<b>Strategic Target</b>	A broad cross-section of the market.	A broad cross section of the market.	Value-conscious buyer.	A narrow market niche where buyer needs and preferences are distinctively different from the rest of the market.
<b>Basis of competitive advantage.</b>	Lower costs than competitors.	An ability to offer buyers something different from competitors.	More value for the money.	Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation).
<b>Market Emphasis</b>	Try to make a virtue out of product features that lead to low cost.	Build in whatever features buyers are willing to pay for charge a premium price to cover the extra cost of differentiating features.	Either under price rival brands with comparable features or match the price of rivals and provide better features to build a reputation for	Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialised requirements.

<b>Sustaining the strategy</b>	Offer economical prices/good value Aim at contributing to a sustainable cost advantage-the key is	Communicate the points of difference in credible ways Stress constant improvement and use innovation to stay ahead of initiative competitors Concentrate on a few	Develop unique expertise in simultaneously managing costs down and upscaling features and attributes.	Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's image and efforts by entering other segments or adding other product categories to
<b>Product line</b>	A good basic product with few frills (acceptable Quality and limited selection).	Many product variations, wide selection, strong emphasis on differentiating features.	Good-to-excellent attributes, several-to-many upscale features.	Features and attributes that appeal to the tastes and/or special needs of the target segment.
<b>Product Emphasis</b>	A continuous search for cost reduction without sacrificing acceptable quality	Creation of value for buyer; strive for product superiority.	Incorporation of upscale features and attributes at low cost.	Tailor-made for the tastes and requirements of niche members.

## SUMMARY:

To gain a deeper understanding of competitive environment of a business organisation, we learnt, Michael Porter's five forces of competition model. The five forces being - threat of new entrants, bargaining power of customers, bargaining power of suppliers, rivalry among current players and threats from substitutes - they impact organizations in significant and different manner.

Business level strategies - detail out the actions to be taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Michael Porter has further given three generic strategies that are used to help organizations establish a competitive advantage over their industry rivals. Firms may choose to compete across a broad market or a focused market. These strategies are - cost leadership strategy, differentiation strategy, and focus strategy.

A combination of above - to provide better features at similar prices of the rivals, or similar features at lower prices from the rivals - an organisation can also opt for Best Cost Provider Strategy.

## 3.6 FUNCTIONAL LEVEL STRATEGIES:

### 3.6.1 INTRODUCTION:

Once higher level corporate and business strategies have been developed, management must formulate and implement strategy for each of the functional areas of business. Strategy of one functional area cannot be looked at in isolation. Different functional areas of the business are interwoven together and how a functional strategy is synergised with other functional strategies determines its effectiveness.

Functional strategies are designed to help in the implementation of corporate and business unit level strategies. For effective implementation, the strategists have to provide direction to the functional managers regarding the plans and policies to be adopted. Infact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented.

Functional strategies provide details to business strategy and govern as to how key activities of the business are to be managed.

Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. Strategies in functional areas including marketing, financial, production, R & D and human resource management are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub areas, content of functional strategies, important factors, and their importance in the process of strategy implementation are identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the framework of corporate level strategies and guidelines therein that are set at higher levels of the organization. Operational plans at the SBU level tell the functional managers what has to be done while policies state how the plans are to be implemented.

### **Need for Functional Strategies:**

The reasons why functional strategies are needed can be enumerated as follows:

- ◆ Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- ◆ They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- ◆ These strategies help the functional managers in handling similar situations occurring in different functional areas in a consistent manner. Thus, top level strategies need to be segregated into viable functional plans and policies that are compatible with each other. In this way, strategies can be implemented by the

functional managers. Environmental factors relevant to each functional and the corporate strategies influence the formulation of functional strategies.

### **3.6.2. MARKETING STRATEGY:**

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others. Philip Kotler and Gary Armstrong

Marketing is an activity performed by all business organizations. It is an activity that creates and sustains exchange relationships among those who are willing and able to buy and sell products, services, satisfaction and even ideas. In the present-day business, marketing encompasses all the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. In marketing it is more important to do what is strategically right than what is immediately profitable.

The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals. Marketing induces or helps in moving people closer to making a decision to purchase and facilitate a sale.

Marketing in recent decades has gained a lot of importance because of a number of factors. Rapid economic growth, globalization, technological up gradation, ever-increasing human needs and wants and increasing purchasing power of people are some of the factors which have made marketing as a central activity for every business.

A business organization faces countless marketing challenges that affect the success or failure of strategy implementation. Some examples of marketing

#### **Decisions that may require special attention are as follows:**

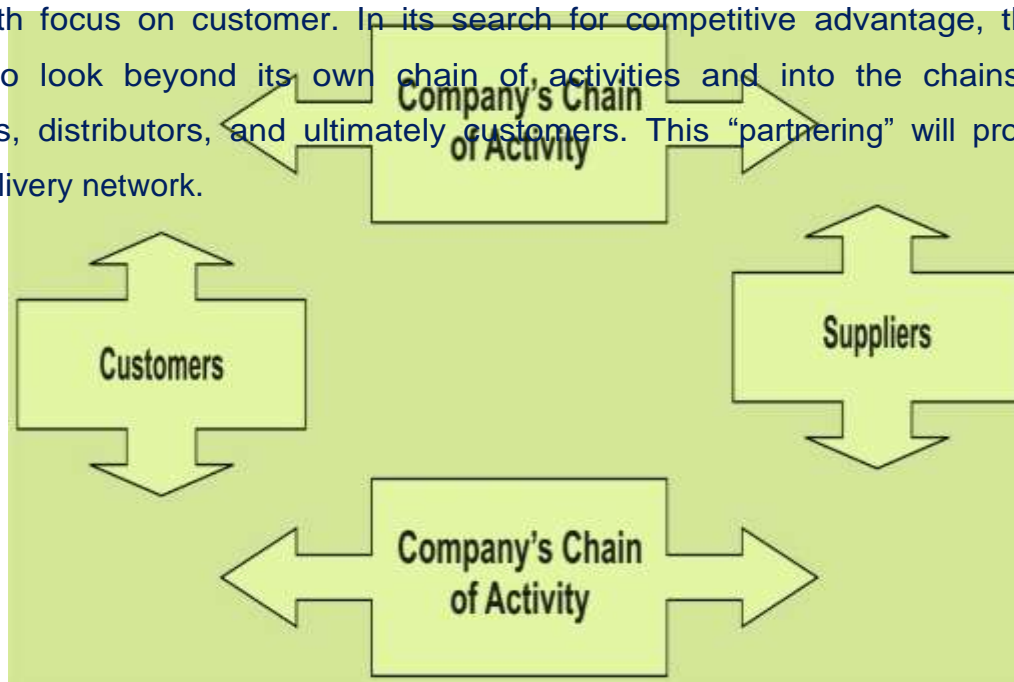
1. The amount and the extent of advertising to be done. Whether to use heavy or light advertising. What should be the amount of advertising in print media, television or internet?
2. Decisions regarding distribution network to be used. Whether to use exclusive dealerships or multiple channels of distribution.

3. Whether to be a price leader or a price follower?
4. Whether to offer a complete or limited warranty?
5. Whether to limit or enhance the share of business done with a single or a few customers? Whether to reward sales people based on straight salary, straight commission, or on a combination of salary and commission?

### 3.6.2.1 MARKETING:

The marketing process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. Target customers stand at the centre of the marketing process. Once the corporate strategy has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives by undertaking the following:

◆ **Delivering Value to Customers:** Marketing alone cannot produce superior value for the customers. It needs to work in coordination with other departments to accomplish this. Marketing acts as part of the organizational chain of activities. Marketers are challenged to find ways to get all the departments to think with focus on customer. In its search for competitive advantage, the firm needs to look beyond its own chain of activities and into the chains of its suppliers, distributors, and ultimately customers. This “partnering” will produce a value delivery network.



### Figure : Value Delivery Network

◆ **Connecting with customers:** To succeed in today's competitive marketplace, companies must be customer centric. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all customers in a given market, they must divide up the total market (market segmentation), choose the best segments (marketing target), and design strategies for profitably serving chosen segments better than the competitors (market positioning).

#### 3.6.2.2 MARKETING MIX:

To understand marketing strategy, we need to understand the underlying concepts. Marketing-mix being one of them. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to the consumers. The 4 Ps are from a marketer's angle. These four Ps correspond to 4 Cs when perceived from customers' perspective and are referred to as Product-customer solution, price-customer cost, place-convenience and promotion-communication.

##### (i) Product

It stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as

warranties. The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

There are products that have wide range of quality and workmanship and these also change over time since products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short life spans.

Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others. For example, Shampoos with different branding namely Head & Shoulders, Olay, Old Spice, Pantene are all produced by the same company P&G.

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

## **(ii) Price**

Stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

There are many types of pricing strategies available for a marketer choose for pricing the product depending on various factors. Therefore, in an industry there would be organizations with low-cost products and other

organizations with high costs. The low-cost organizations may adopt aggressive pricing strategy as they enjoy more freedom of action in respect of their prices. They may also afford selective decrease in price to push their sales. Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations while fixing the prices of their products. They reduce their cost in order to maintain their profitability.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- ◆ Have customer-centric approach while making a product.
- ◆ Produce sufficient returns through a reasonable margin over cost.
- ◆ Increasing market share.

For that matter, for a new product, there are two strategies available to an organization either choose to skim or penetrate the market. In skimming pricing policy, prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example, call rates of mobile telephones were set very high initially. Since the initial off take of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In penetration firm keeps a temptingly low price for a new product which in itself is a selling point. A very large number of the potential consumer may be able to afford and willing to try the product. The pricing kept by Reliance Jio is penetration.

### **(iii) Place**

Stands for company activities that make the product available to target consumers. One of the most basic marketing decisions is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced from they are purchased by the final customers.

Strategies applicable to the intermediaries such as wholesalers and retailers must be designed.

The distribution policies of a company are important determinants of the functions of marketing. The decision to utilize a particular marketing channel or channels sets the pattern of operations of sales force. For example, AMWAY, Oriflame and Tupperware rely on Direct Selling and Xiaomi, Oppo offer internet-only flash sales.

#### **(iv) Promotion**

stands for activities that help in communicating the necessary messages about a product through campaigns and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition, promotional strategies must be adjusted as a product move from an earlier stage from a later stage of its life, besides many other factors like, nature of product, type of target audience, resourcefulness, type of market, organisation's policy and so forth.

Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion gives an impetus to marketing and sales. It involves communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools - personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

**(i) Personal selling:** Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale.

It may initially focus on developing a relationship with the potential buyer but end up with a sale. Personal selling suffers from a very high costs as sales

personnel are expensive. They can physically attend only one customer at a time. Thus, it is not a cost-effective way of reaching a large number of people. However, as it is a highly effective method to persuade a potential customer into making a purchase, the personal selling is used in all kinds of industries for all products.

**(ii) Advertising:** Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertising includes pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, and illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure cannot be directly measured. A sale is a function of several variables out of which advertising is only one.

**(iii) Publicity:** Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their products without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus, it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

**(iv) Sales promotion:** Sales promotion includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, offers, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales for a short term. Sales promotion done periodically may help in getting a larger market share to an organization.

**Expanded Marketing Mix:** Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not

exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. With the growth of services sector, newer Ps specifically based on the characteristics of the services have been included.

- ◆ **People:** It includes all human actors who play a part in delivery of the product/service and thus influence the buyer's perception about the service delivered.
- ◆ **Process:** the actual procedures, mechanisms and flow of activities by which the product / service is delivered.
- ◆ **Physical evidence:** the environment/ambience in which the market offering is delivered and where the firm and customer interact.

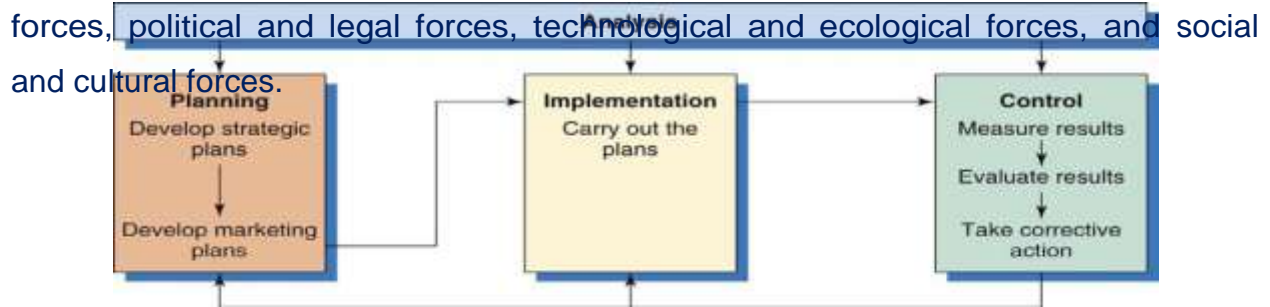
### 3.6.2.3 PREREQUISITE FOR FORMULATION OF MARKETING

#### STRATEGY:

Environmental analysis and diagnosis: Before making any strategy, it is imperative for a marketer to understand the environment in which the organisation is operating. He should undertake a complete analysis and diagnosis of both micro and macro environment. To interpret in a better way, he can do the SWOT analysis and comprehend where the organisation is positioned and where it wants to go and how will it go. It involves a complete analysis of the company's situation. A company performs analysis by identifying environmental opportunities and threats. It also analyses its strengths and weaknesses to determine which opportunities the company can best pursue. Marketing has three components as planning, implementation and control. Through these analyses, organizations gather information and other inputs that can be best utilised for its interest while framing a marketing strategy.

For that matter, a company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed in the environment normally include:

1. Forces close to the company known as micro environment such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
2. Broader forces (macro environment) such as demographic and economic



**Figure: Strategic marketing management process**

After completing the environmental analysis and diagnosis, the organisation can start strategic marketing planning that involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed plan is needed for each business, product, or brand. A product or brand plan may contain different sections: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategies, action programs, budgets, and controls.

◆ The executive summary is a short summary of the main goals and recommendations to be presented in the plan.

◆ The current marketing situation is the section of a marketing plan that describes the target market and the company's position in it. Important sections include:

- A market description.
- A product review.
- Analysis of the competition.
- A section on distribution.

◆ In the threats and opportunities section, managers give their assessment of

important developments that can have an impact, either positive or negative, on the firm.

◆ Having studied the product's threats and opportunities, the manager can set objectives and consider issues that will affect them. The objectives should be stated as goals that the company would like to attain during the plan's term.

◆ Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. Strategies should be formulated for all marketing mix components. Lastly, strategic control involves monitoring and measuring of results and their evaluation. This would lead to taking corrective actions in the marketing plan/strategy.

#### **3.6.2.4 STRATEGIC MARKETING TECHNIQUES:**

Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market.

◆ **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

◆ **Augmented Marketing:** This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

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

◆ **Relationship Marketing:** The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other

stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.

◆ **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible. This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

◆ **Person Marketing:** People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

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

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

◆ **Enlightened Marketing:** It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

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

◆ **Synchro-marketing:** When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of

demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

◆ **Concentrated Marketing:** It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.

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

### **3.6.3 FINANCIAL STRATEGY:**

The next important functional strategy relates to financial aspects of the business and are termed as financial strategies. The financial strategies of an organization are related to several areas of financial management considered central to strategy implementation. These include acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business. Strategists need to formulate strategies in these areas so that they are implemented. Some examples of

#### **Decisions that may require financial and accounting policies are:**

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.
2. To lease or buy fixed assets.
3. To determine an appropriate dividend payout ratio.
4. To extend the time of accounts receivables.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand.

#### **The major components of financial strategy are:**

##### **a. Strategising acquiring capital (sources of funds):**

Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment by applying debt to products and projects earning more than the cost of the debt. In low earning periods, too much debt in the capital structure of an organization can endanger stockholders' return and jeopardize company survival.

Many debt-ridden real estate companies find things very difficult at time of recession. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. Some special stock is issued to finance strategy implementation leading to ownership and control of the enterprise are diluted.

This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions. The major factors regarding which strategies have to be made includes capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

### **b. Projected financial statements/budgets as an effective tool to implement financial strategy:**

Projected (pro forma) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches. This type of analysis can be used to forecast the impact of various implementation decisions For example, to increase promotion expenditures by 50 percent to support a market-development strategy, to increase salaries by 25 percent to support a market-

penetration strategy, to increase research and development expenditures by 70 percent to support product development, or to sell common stock to raise capital for diversification. Nearly all financial institutions require a projected financial statement whenever a business seeks capital. A pro forma income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. When compared to prior years and to industry averages, financial ratios provide valuable insights into the feasibility of various strategy-implementation approaches. As a result of the governance challenges, companies today are being much more diligent in preparing projected financial statements in a reasonable manner rather than too optimistically.

A financial budget is also a document that details how funds will be obtained and spent for a specified period of time. Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years. Fundamentally, financial budgeting is a method for specifying what must be done to complete strategy implementation successfully. Financial budgeting should not be thought of as a tool for limiting expenditures but rather as a method for obtaining the most productive and profitable use of an organization's resources. Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.

There are several types of financial budgets used by different organizations. Some common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets. When an organization is experiencing financial difficulties, budgets are especially important in guiding strategy implementation.

Financial budgets have some limitations also. First, budgetary programs can become so detailed that they are cumbersome and overly expensive. Over budgeting or under budgeting can cause problems. Second, financial budgets can become a substitute for objectives. A budget is a tool and not an end in itself. Third, budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards. Finally, budgets are

sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover. To minimize the effect of this last concern, managers should increase the participation of subordinates in preparing budgets.

### **c. Strategising utilization/management of funds:**

Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans, and policies are to be made are capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

Implementation of projects in pursuance of expansion strategies typically results in increase in capital work in progress and current assets. If plans and policies are not clear, the usage of funds would be inefficient, leading to less than an optimum utilization of resources.

The management of funds is another important area of financial strategies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilization of funds objectives which are central to any strategic action. Organizations that implement strategies of stability, growth or retrenchment cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company. For instance, Gujarat Ambuja Cements, currently a highly profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control. This company has been particularly successful

inmaintaining a low cost for power, which is a major input in cement manufacturing.

Financial plans and policies, however, present a dilemma before management. The priorities of management may often conflict with those of shareholders. It is the responsibility of the strategists to minimize the conflict of interest between the management and the shareholders.

#### **d. Evaluating the worth of a business:**

Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Other strategies, such as retrenchment may result in the sale of a division of a firm itself. Thousands of transactions occur each year in which businesses are bought or sold. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

#### **Various approaches for determining a business's worth can be grouped into three main approaches:**

- ◆ The first approach in evaluating the worth of a business is determining its net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings. After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value.
- ◆ The second approach to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
- ◆ The third approach, letting the market determine a business's worth, involves three methods. First, base the firm's worth on the selling price of a similar company. A potential problem, however, is that sometimes comparable figures are not easy to locate. The second approach is called the price-earnings ratio method. To use this method, divide the market price of the firm's common

stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The third approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the other company.

### **3.6.4 PRODUCTION/OPERATIONS STRATEGY:**

After understanding the marketing and financial strategies, the next important

strategy that needs to be understood is the production strategy. The production/operations strategy is related to the production system, operational planning and control and logistics management. It affects the nature of product/service, the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and objectives which are used to determine the operational plans and policies. Thus, a strategy of expansion through related diversification, for instance, will affect what products are offered to which market and how these markets are served. The operations system structure, which is concerned with the manufacturing/service and supply/delivery system, and operations system objectives, which are related to customer service and resource utilisation, both determine what operations, plans and policies are set.

#### **3.6.4.1 Understanding the production System:**

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Therefore, all the decisions related to production of goods and services form the production strategies. Strategies related to production system are significant as they deal with vital issues related to production and thereby affecting the capability of the organisation to achieve its objectives. Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies

and achieve objectives. For example, Excel Industries, a pioneering company in the area of industrial and agro chemicals, adopted a policy of successive vertical integration for import substitution. It starts with the end product and then integrates backward to make raw materials for it.

#### **3.6.4.2 Production/Operations Planning and Control:**

Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives. Operations planning and control provides an example of an organizational activity that is aimed at translating the objectives into reality.

Some companies use quality control as a strategic tool. The operations policies at KSB Pumps Ltd lay a great emphasis on quality aspects. In implementing its strategy of stable growth, KSB Pumps has built a solid reputation for its quality products. Structurally, it has a separate department of quality assurance having two groups of quality inspection and quality engineering. Thus, quality is a consideration not only at the inspection stage but is built into the design itself.

#### **3.6.4.3 Logistics Management:**

For having a smooth and uninterrupted production process, management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. Organizations try to keep the cost of transporting materials as low as possible consistent with safe and reliable delivery.

Supply chain management helps in logistics and enables a company to have constant contact with its distribution team, which could consist of trucks, trains, or any other mode of transportation. Given the changes that affect logistics operations such as emerging technologies and industry initiatives,

developing and using a formal logistics strategy is very important. For a business enterprise, effective logistic strategy will involve raising and finding solutions to the following questions:

- ◆ which sources of raw materials and components are available?
- ◆ How many manufacturing locations are there?
- ◆ What products are being made at each manufacturing location?
- ◆ What modes of transportation should be used for various products?
- ◆ What is the nature of distribution facilities?
- ◆ What is the nature of materials handling equipment possessed? Is it ideal?
- ◆ What is the method for deploying inventory in the logistics network?
- ◆ Should the business firm own the transport vehicles or hire?

Improvement in logistics can results in savings in cost of doing business. These savings can also reveal in the profits of the company. Some examples of

#### **How logistics can help a business are as follows:**

- ◆ Cost savings
- ◆ Reduced inventory
- ◆ Improved delivery time
- ◆ Customer satisfaction
- ◆ Competitive advantage

#### **3.6.4.4 Supply Chain Management:**

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Hence, supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement

of material, conversion, and includes logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners - suppliers, intermediaries, other service providers and customers. Technological changes and reduction in information communication costs with increase in its speed has led to changes in coordination among the members of the supply chain network.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost-effective manner. In a way organization in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management? Supply chainmanagement is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inboundand outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its parts that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs to organizations and enhances customer service.

### **Implementing Supply Chain Management System for effective strategic implementation**

A successful implementation of supply management system requires a change from managing individual functions to integrating activities into key supply

chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key

requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

### **Implementing and successfully running supply chain management system will involve:**

**1. Product Development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the time of launch. Products are developed and launched in shorter time and help organizations to remain competitive.

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

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

**4. Physical Distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus, supply chain management links a marketing channel with customers.

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

provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.

**6. Customer Services:** Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers

**7. Improved Performance:** An uninterrupted supply chain can contribute significantly to improving the overall performance of the organization by building a strong relationship between the supplier, customer and organisation. Performance is measured by different parameters such as costs, customer service, productivity and quality and supplier involvement and capabilities can help in building long lasting customer relationships.

### **3.6.5 RESEARCH AND DEVELOPMENT STRATEGY:**

#### **1 .Strategic Decisions in Research and development**

Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications. Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

Technological improvements that affect consumer and industrial products and services shorten product life cycles. Companies in virtually, every industry are relying on the development of new products and services to fuel profitability and growth. Surveys suggest that the most successful organizations use an R&D strategy that ties external opportunities to internal strengths and is linked with

objectives. Well formulated R&D policies match market opportunities with internal capabilities. R&D policies can enhance strategy implementation efforts to:

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

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies. Conflicts between marketing, finance/accounting, R&D, and information systems departments can be minimized with clear policies and objectives.

A critical question is whether a firm should develop research and development expertise internally or outsource it outside to external agencies. The following guidelines can be used to help make this decision:

- ◆ If the rate of technical progress is slow, the rate of market growth is moderate, and there are significant barriers to possible new entrants, then in house R&D is the preferred solution. The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
- ◆ If technology is changing rapidly and the market is growing slowly, then a major effort in R&D may be very risky, because it may lead to the development of an ultimately obsolete technology or one for which there is no market.
- ◆ If technology is changing slowly but the market is growing quickly, there generally is not enough time for in-house development. The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.
- ◆ If both technical progress and market growth are fast, R&D expertise should be obtained through acquisition of a well-established firm in the industry.

## **2. R & D Approaches to Implement Strategic Decisions:**

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

**I. Be the leader:** The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach, but many other pioneering firms have fallen, with rival firms seizing the initiative. For example, Apple.

**II. Be an innovative imitator:** A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of startup. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department. For example, Samsung.

**III. Be a low-cost producer:** A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. As a new product accepted by customers, price becomes increasingly important in the buying decision. Also, mass marketing replaces personal selling as the dominant selling strategy. This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D than the two approaches described earlier. For example, Oppo, Xiaomi.

### **3.6.6 HUMAN RESOURCE STRATEGY:**

#### **1 .Role of Human Resources in Strategic Management:**

Strategic responsibilities of the human resource manager include assessing the staffing needs and costs for alternative strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. The plan must also include how to motivate managers and employees.

The human resource department must develop performance incentives that clearly link performance and pay to strategies. The process of empowering

managers and employees through their involvement in strategic management activities yields the greatest benefits when all organizational members understand

clearly how they will benefit personally if the firm does well. Linking company and personal benefits is a major new strategic responsibility of human resource managers. Other new responsibilities for human resource managers may include establishing and administering an employee to have conducive work environment, maintain work life balance, synchronizing individual with organisation goals.

## **2. Major Strategic Decisions/Concerns related to Human Resource Management:**

A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.

### **I. Disruption of social and political structures**

Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

### **II. Failure to match individuals' aptitudes with implementation tasks**

A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to

be implemented include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

A number of other guidelines can help ensure that human relationships facilitate rather than disrupt strategy-implementation efforts. Specifically, managers should do a form of chatting and informal questioning to stay abreast of how things are progressing and to know when to intervene. Managers can build support for strategy-implementation efforts by giving few orders, announcing few decisions, depending heavily on informal questioning, and seeking to probe and clarify until a consensus emerges. Key thrusts that needed should be rewarded generously and visibly.

It is surprising that so often during strategy formulation, individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the tight positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

### **III. Inadequate top management support for implementation activities**

Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the Importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

Perhaps the best method for preventing and overcoming human resource problems in strategic management is to actively involve as many managers and employees' as possible in the process. Although time-consuming, this approach builds understanding, trust, commitment and ownership and reduces

resentment and hostility. The true potential of strategy formulation and implementation resides in people.

### **3 .Role of Human Resource management in achieving competitive advantage**

A well trained and a competent workforce can go a long way in helping to achieve competitive advantage for an organisation. To quote Charles Greer; “In a growing number of organizations, human resources are now viewed as a source of competitive advantage. There is greater recognition that distinctive competencies are obtained through highly developed employee skills, distinctive organizational cultures, management processes and systems”

The role of human resources in enabling the organization to effectively deal with the external environmental challenges, the human resource management function has been accepted as a strategic partner in the formulation of organization’s strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel. An organization’s recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence.

#### **The following points should be kept in mind:**

- 1. Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select the most competent applicants.
- 2. Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.
- 3. Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counseling, coaching or training.
- 4. Compensation:** A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of their competitors. This practice enables organizations to attract and retain the most capable people.

## 1 Strategic Human Resource Management (SHRM):

The human resource strategy of a business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. This implies selecting the best available personnel, ensuring a 'fit' between the employee and the job and retaining, motivating and empowering employees to perform well in direction of corporate objectives.

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. This

means how they are acquired, developed, motivated and retained plays an important role in organizational success. This presupposes an integrated approach towards human resource functions and overall business functions of an organization.

The Human Resource Management practices of an organization may be an important source of competitive advantage. For this strategic focus, should be given on the following points:

- ◆ Pre-selection practices including human resource planning and job analysis.
- ◆ Selection practices meant to staff various positions in the organization. Both recruitment and selection policies and procedures should be designed keeping in view the mission and the purpose of the organization.
- ◆ Post-selection practices to maintain and improve the workers job performance levels. Human Resources decisions related to training and development, performance appraisal, compensation and motivation should be based on corporate strategy of the organization.

## 2 Strategic Role of Human Resource Manager:

The prominent areas where the human resource manager can play strategic role are as follows:

**1. Providing purposeful direction:** The human resource manager must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important task of a HR manager is to ensure that the objectives of an organization are internalized by each individual working in the organization. Objectives of an organization state the very purpose and justification of its existence.

**2. Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing capability, or technological capability. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organizations have restructured their businesses by divesting those businesses which do not match core competence. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.

**3. Creating competitive advantage:** Creating and maintaining a competitive advantage in the globalized market is the object of any organization. There are two important ways a business can achieve a competitive advantage over the others. The first is cost leadership which means the firm aims to become a low-cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.

**4. Facilitation of change:** The human resource manager will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The HR function will be responsible for furthering the organization not just maintaining it. Human resource manager will have to devote more time to promote changes than to maintain the status quo.

**5. Managing workforce diversity:** In modern organizations, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. Moreover, many organizations also have people of different castes, religious and nationalities. The workforce in future will comprise more of educated and well aware workers. They will ask for higher degree of participation and avenues for fulfillment. Money will no longer be the sole motivating force for majority of the workers. Non-financial incentives will also play an important role in motivating the workforce.

**6. Empowerment of human resources:** Empowerment means authorizing every member of an organization to take up his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control in what they do and little ability to influence the decisions being made around them.

**7. Development of work ethics and culture:** Greater efforts will be needed to achieve cohesiveness because employees will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among the employees and to encourage creative ideas by them.

## **SUMMARY:**

Functional strategies play two important roles - to provide support to the corporate and business level strategies and spell out as to how functional managers will work. Functional strategies facilitate flow of strategic decisions to the different parts of an organization.

This chapter covers different categories of functional level strategies, viz., marketing, production/operations, finance and human resources. The functional

strategy related to the marketing area deals with different aspects of marketing process and marketing mix - product, price, place and promotion. This chapter also elucidates financial strategy - acquiring capital to implement strategies, projected financial statements, management of funds and evaluating the worth of a business.

Strategies related to production system are significant as they deal with vital issues affecting the capability of the organization to achieve its objectives. For a business organization, effective logistics strategy will involve solving certain problems with the help of supply chain management. Supply chain refers to the linkages between suppliers, manufacturers and customers.

Implementing and successfully running supply chain management system will involve synergistic mix of product development, material procurement, manufacturing, physical distribution, outsourcing, customer services and performance measurement. Research and Development personnel can play an important role in strategy implementation.

There must be effective interactions between R & D departments and other functional departments in implementing different types of strategies. Besides, human resource management function has been recognized as a strategic partner in the formulation and implementation of organizational strategies. The strategic role of human resource manager is also explained in the chapter.

## I. CHOOSE THE CORRECT ANSWER:

1. The corporate level is where top management directs
  - a. All employees for orientation
  - b. Its efforts to stabilise recruitment needs
  - c. Overall strategy for the entire organisation
  - d. Overall sales projections
2. Selling all of a company's assets for their tangible worth is called
  - a. Divestiture
  - b. Concentric Diversification
  - c. Liquidation

- d. Unrelated integration
3. What are the guides to decision making?
    - a. Rules
    - b. Procedures
    - c. Goals
    - d. Policies
  4. Low cost, Differentiation and Focus are examples of
    - a. Corporate strategies
    - b. Operational strategies
    - c. Business strategies
    - d. Functional strategies
  5. Which environment can create new markets and new business segments?
    - a. Political environment
    - b. Economic environment
    - c. Sociocultural environment
    - d. Technological environment

## UNIT IV

### ORGANISATION AND STRATEGIC LEADERSHIP

#### 4.0 ORGANIZATIONAL LEADERSHIP:

Organizational leadership defines how decisions are made, teams are motivated and objectives are achieved within a company or institution. It plays a fundamental role in shaping an entity's culture, productivity, and overall success.

#### 4.1 ORGANIZATIONAL STRUCTURE:

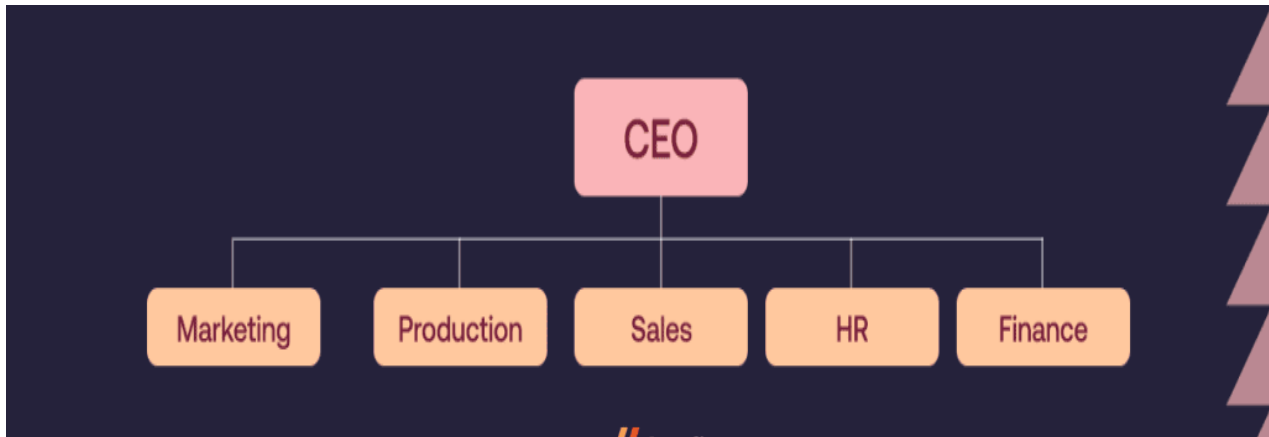
An organizational structure details how certain activities are delegated toward achieving an organization's goal. It outlines an employee's role and various responsibilities within a company. The more authority employees have, the higher up they'll be on the organizational structure. In addition, the more organized a structure is, the more efficiently a company operates.

#### 4.2 TYPES OF ORGANIZATIONAL STRUCTURES:

##### 4.2.1. FUNCTIONAL STRUCTURE:

A functional structure groups employees into different departments by work specialization. Each department has a designated leader highly experienced in the job functions of each employee supervised by them.

Most often, it implements a top-down (centralized) decision-making process where department managers report to upper management. Ideally, leaders of different teams communicate regularly and coordinate their strategies while lower-level employees have little idea of the processes taking place outside their department.



The main challenge companies with a functional structure face is the lack of coordination between departments. Employees may lose the larger company context when focusing on very specific tasks and failing to interact with members of other departments.

To create a functional organizational structure that works, you'll need to train leaders to foster collaboration across departments.

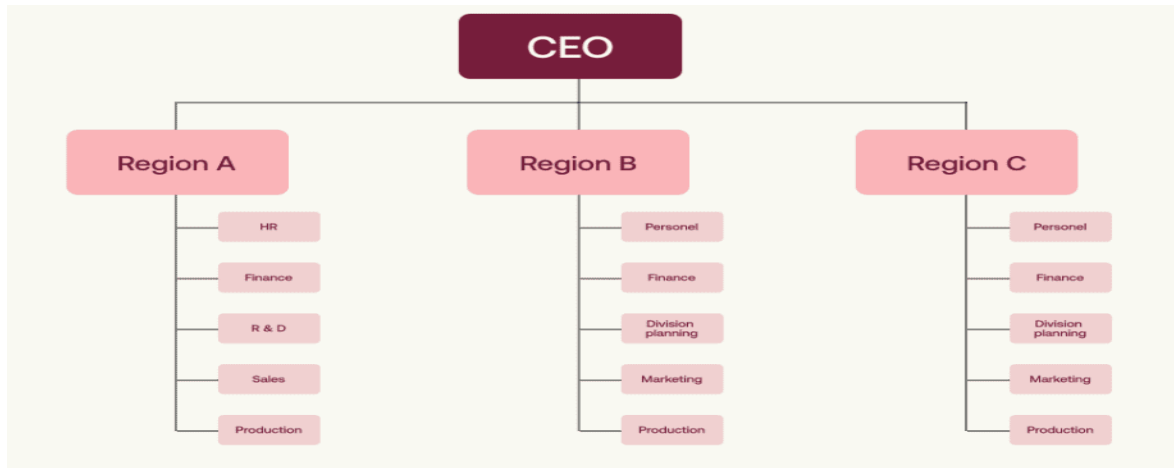
**Examples of organizations with a functional structure include:** Amazon, Starbucks.

#### **4.2.2. DIVISIONAL STRUCTURE:**

A divisional structure organizes employees around a common product or geographical location. Divisional organizations have teams focused on a specific market or product line.

Examples of companies applying a divisional structure are McDonald's Corporation and Disney. These brands can't help but split the entire organization by

location to be able to adjust their strategies for audiences representing different markets.



These smaller groups are relatively independent and mainly follow a decentralized framework. Still, the leaders of each department are likely to operate under centralized corporate management. It means that company culture is dictated by top management, but operational decisions can be made by each division independently. Giants such as McDonald's and Disney also add functional units to their structure for better control.

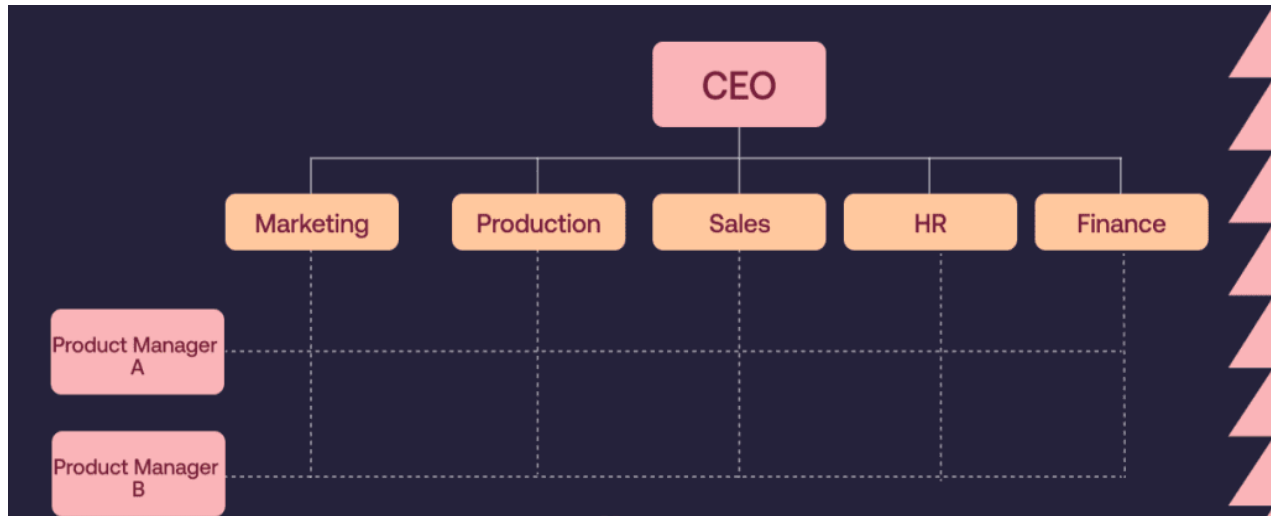
**Examples of organizations with a divisional structure include:** Disney, GM, McDonalds.

#### 4.2.3. MATRIX STRUCTURE:

Within a matrix organizational structure, team members report to several managers at once. Wait, what's the point?

Having multiple supervisors allows for company-wide interaction and faster project delivery. For instance, when answering to functional managers and project managers, employees have a chance to collect experience outside their team. While functional managers can help to solve job-specific issues, project managers can bring in knowledge or talents from other departments.

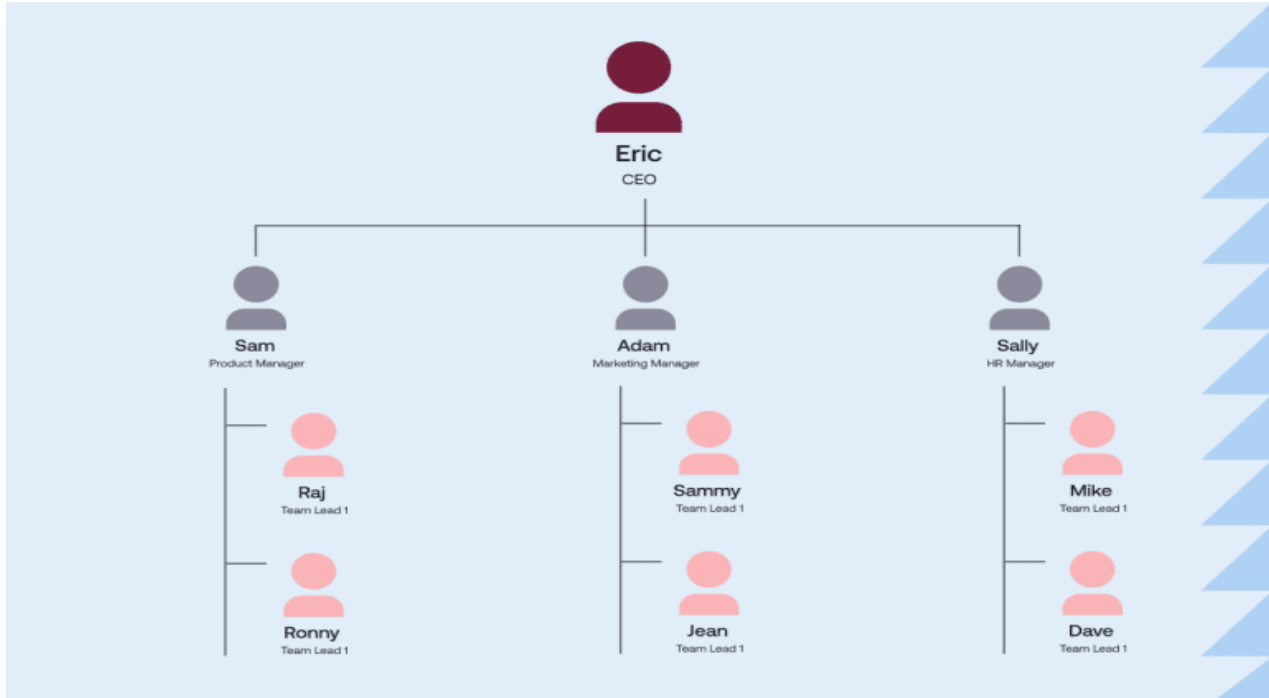
If you go after a matrix organizational structure, you'll need to find a way to avoid authority confusion and prevent conflicts between managers.



**Examples of organizations with a matrix structure:** Caterpillar, Phillips, Texas Instruments.

#### 4.2.4. TEAM STRUCTURE:

A team-based organizational structure creates small teams that focus on delivering one product or service. These teams are capable of solving problems and making decisions without bringing in third parties.



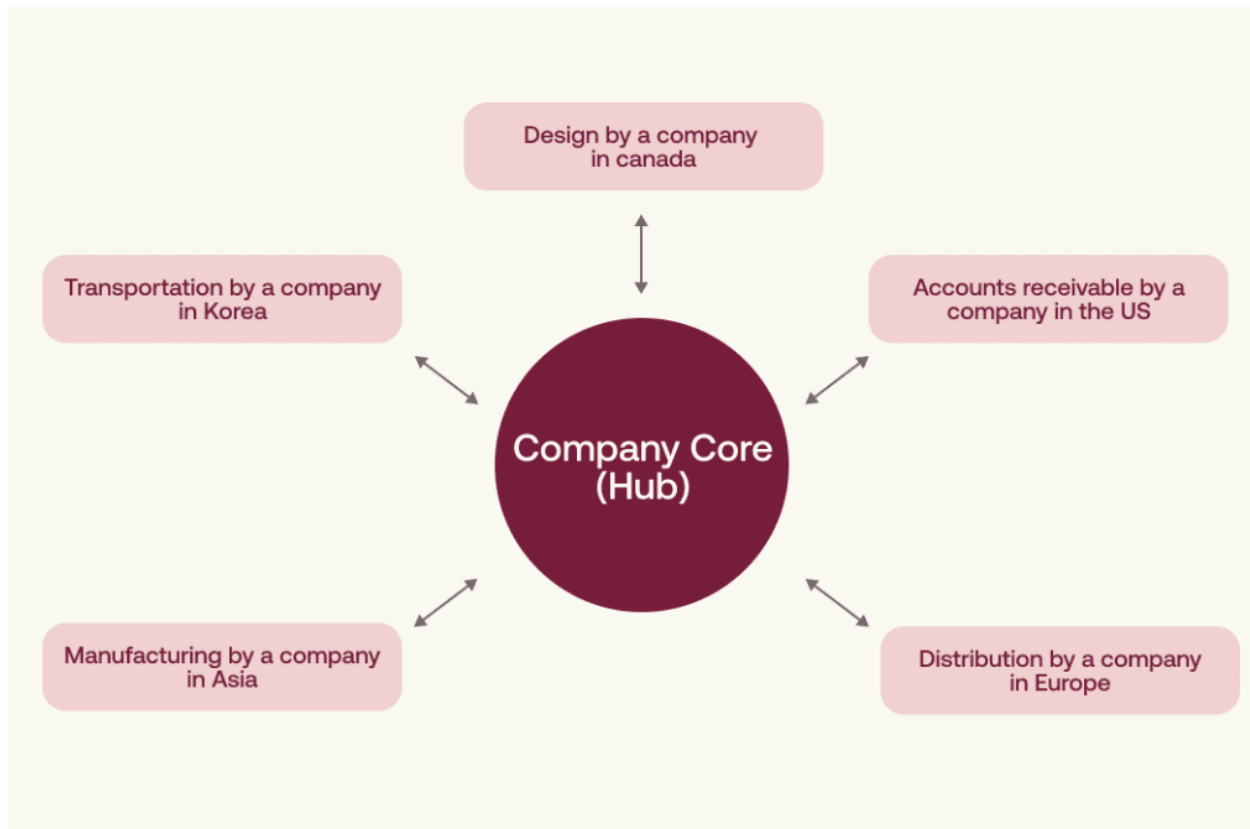
Team members are responsible for managing their workload and have full control over the project. Team-based organizations are distinguished by little formalization and high flexibility. This structure works well for global organizations and manufacturers.

**Examples of organizations with a team-based structure include:** Apple, Cisco, Google, Whatfix.

#### 4.2.5. NETWORK STRUCTURE:

A network structure goes far beyond your internal company structure. It's an act of joining the efforts of two or more organizations with the goal of delivering one product or service. Typically, a network organization outsources independent contractors or vendors to complete the work.

In a network organization, teams are built from full-time employees as well as freelance specialists – this way, in-house workers can spend most of their time focusing on the work they specialize in. Such an approach allows companies to adapt to market changes and obtain the missing skills fast



Working with individuals that aren't integrated into your company culture results in lower formalization and higher agility.

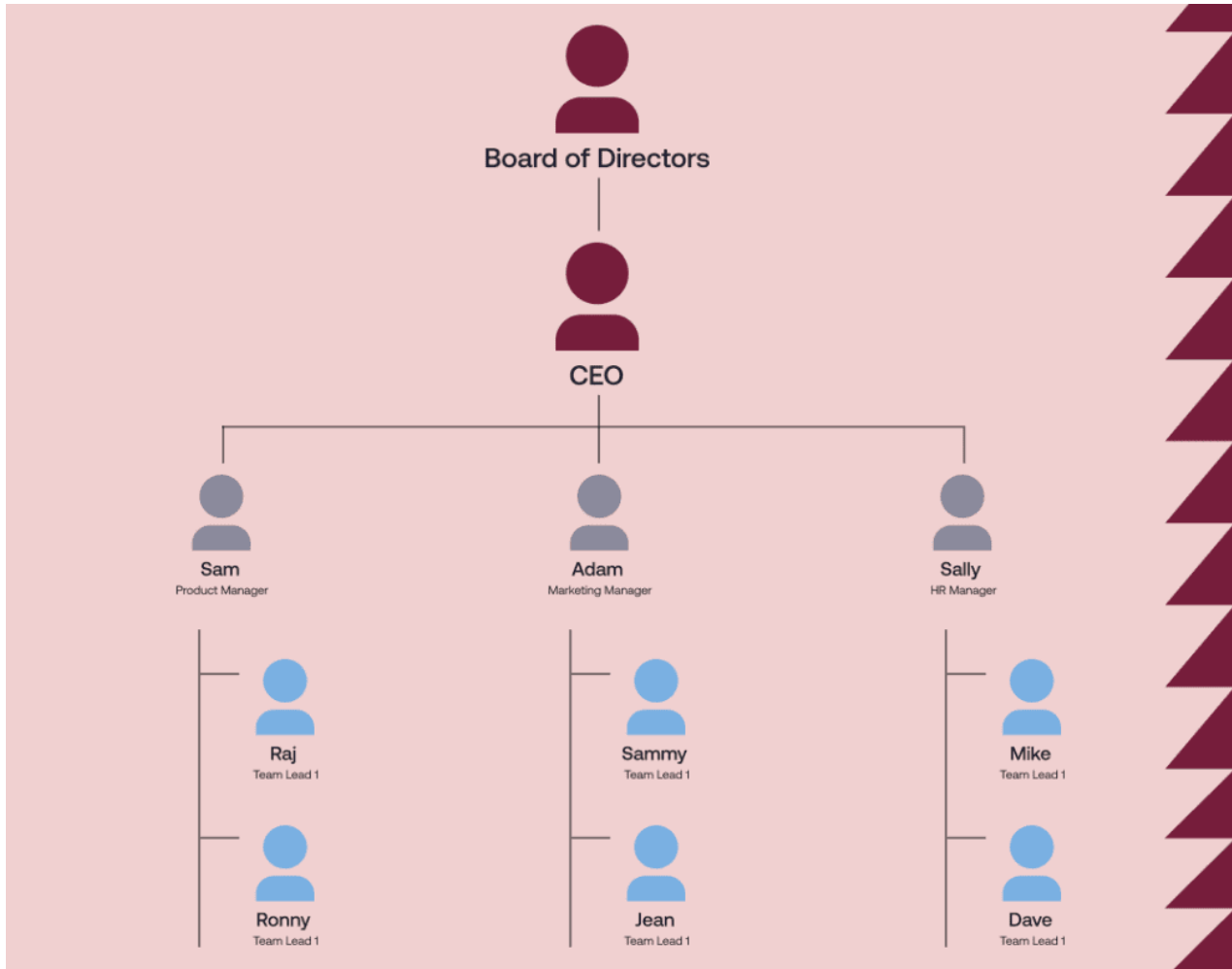
**Examples of organizations with a network structure include:** Dow Chemical, H&M, IBM

#### 4.2.6. HIERARCHICAL STRUCTURE:

You must already have an idea of what a hierarchical structure is. It's the most common organizational structure type that follows a direct chain of command.

A chain of command, in this case, goes from senior management to general employees through a range of executives on the departmental and team level. The highest-level executive has the highest power over the decision-making process.

On one hand, this structure enables organizations to streamline business processes, develop clear career paths, and reduce conflicts. A company hierarchy leaves no place for challenging managers' authority, which can be good in some cases. On the other hand, a hierarchical structure slows down decision-making and may hurt employee morale.

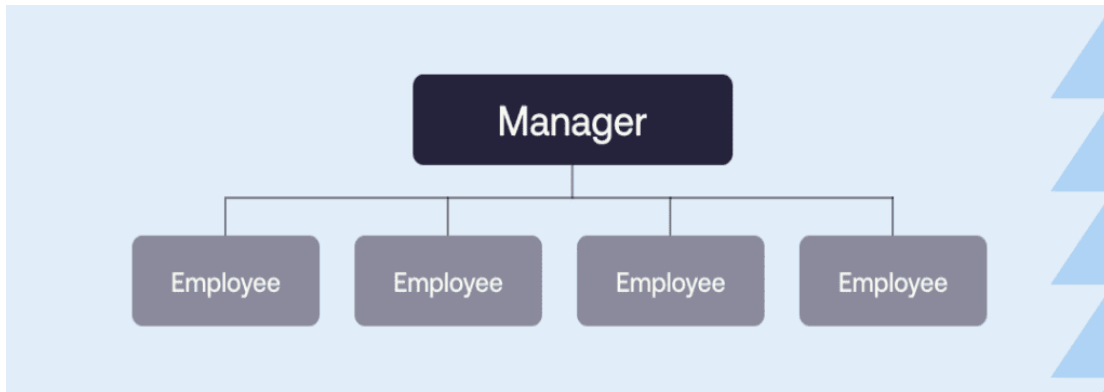


**Examples of organizations with a hierarchical structure include:** Amazon, Sony

#### 4.2.7. FLAT ORGANIZATION STRUCTURE:

In a flat organizational structure, there are few middle managers between employees and top managers. The structure requires less supervision, increases employee involvement, and boosts trust in the workplace.

Due to its simple nature, a flat organization structure, also called a “flatarchy”, is typically used by small businesses and start-ups.



**Examples of organizations with a flat structure include:** Value, most small businesses.

### 4.3 STRATEGIC BUSINESS UNIT:

A Strategic Business Unit, commonly referred to as an SBU, is an autonomous division or subunit within a larger organisation that operates as a distinct entity with its own strategic objectives, markets, and resources. SBUs are typically established to manage a unique product line, geographic region, or customer segment, allowing organisations to tailor their strategies to meet the diverse needs of various markets effectively.

At its core, an SBU functions as a mini-company within the overarching organisational structure, possessing its own set of responsibilities, decision-making authority, and performance metrics. This decentralised approach empowers SBUs to adapt swiftly to market changes, capitalise on emerging opportunities, and address specific challenges without being hindered by bureaucratic processes typical of larger corporations.



#### 4.3.1 CHARACTERISTICS OF STRATEGIC BUSINESS UNITS:

1. **Autonomy:** SBUs enjoy a high degree of autonomy, allowing them to make independent decisions regarding strategic planning, resource allocation, and operational management. This autonomy fosters agility and responsiveness, enabling SBUs to capitalise on market opportunities and mitigate risks promptly.
2. **Strategic Focus:** Each SBU is aligned with a specific strategic focus, whether it be catering to a particular market segment, product category, or geographic region. This focused approach enables SBUs to concentrate their efforts and resources on addressing the unique needs and preferences of their target audience, driving competitive advantage and market penetration.
3. **Accountability:** SBUs are held accountable for their performance and outcomes, with clear performance metrics and targets set to evaluate their effectiveness. This accountability fosters a culture of performance excellence and encourages SBUs to strive for continuous improvement and innovation in pursuit of organisational goals.
4. **Resource Allocation:** SBUs have control over their resources, including finances, human capital, and technological assets, enabling them to allocate resources based on their specific needs and priorities. This flexibility ensures that resources are deployed efficiently to support strategic initiatives and drive growth within the SBU.

5. **Cross-functional Collaboration:** While SBUs operate autonomously, they often collaborate with other units within the organisation to leverage synergies, share best practices, and capitalise on economies of scale. This collaborative approach enables SBUs to tap into the collective expertise and resources of the organisation, enhancing their competitiveness and performance.

#### 4.3.2 PRACTICES FOR SUCCESSFULLY ESTABLISHING AND MANAGING SBUS:

1. **Strategic Alignment:** Ensure that the objectives and activities of each SBU are aligned with the overall strategic goals and vision of the organisation. This alignment ensures coherence and synergy across the organisation, preventing conflicts and maximising the collective impact of SBUs on organisational performance.
2. **Clear Governance Structure:** Establish a clear governance structure that defines the roles, responsibilities, and decision-making authority of each SBU. Clarifying reporting lines, communication channels, and accountability mechanisms is essential for ensuring effective coordination and management of SBUs within the organisation.
3. **Robust Performance Management:** Develop robust performance management systems to monitor and evaluate the performance of SBUs against predefined metrics and targets. Regular performance reviews, benchmarking exercises, and feedback mechanisms are critical for identifying areas of improvement and driving continuous..

#### 4.3.3 TYPES OF STRATEGIC BUSINESS UNIT (SBU):

Companies after creating the Strategic Business Unit (SBU) have to ascertain how much resources shall be employed by individual SBUs. For this, they have to take into account several factors to decide, like, Profitability, Market Share, Opportunity Market, etc. To divide SBU categories to ascertain resources to be deployed, Boston Consulting Group's Matrix is given which divides SBUs into four different categories which are:

### 1. Star:

These are the SBUs that perform well and have recorded rapid growth. They possess a decent market share and possess a high market growth rate. As they have growth potential, they are the most favorable for expansion. **For example**, Apple's iPhone.

### 2. Cash-Cow:

These SBUs have a high market share but a low growth rate. These are generally those markets that are already established and generate regular economies for business and as their growth rate is low they need low costs to survive. **For example**, Apple's IWatch (Smartwatch) or Apple's MacBook.

### 3. Question Marks:

They have low market share but high growth opportunities. As opportunities are high they require more cash to hold their market share and require heavy investment. If Question Marks are attended well they can become Star, but if not handled carefully they may turn into Cash Trap for business. **For example**, Apple's iPad.

### 4. Dogs:

These SBU's growth rate and market share are relatively low. They do not have much future and must be disinvested by the company. **For example**, Apple's iPod.

#### 4.3.4 DIFFERENCE BETWEEN STRATEGIC BUSINESS UNIT & DIVISION

Basis	Strategic Business Units	Division
<b>Strategy</b>	Each and every SBU prepares its own set of targets, objectives, and vision which they have to follow.	Divisions do not have a particular strategy of their own. They accept the strategy formulated by top-tier management.
<b>Decentralisation</b>	SBU has a manager who is charged with proper authority and responsibility, which makes it flexible to manage an SBU.	Divisions follow a traditional hierarchy, where there is no flexibility of control, as they follow commands from upper management.
<b>Result Oriented</b>	SBU are formulated with a result to achieve.	No such goal-oriented style is adopted under divisions.
<b>Feedback</b>	SBU's are formulated to achieve goals, and the top management here looks for feedback from the SBUs.	Divisions Feedback is not the priority of management.
<b>Use of Technology</b>	SBU involves the use of the latest technology and modern means of input as new-age tech can help better in achieving the desired outcome effectively and efficiently.	Divisions rely only on traditional approaches under their department.

## Advantages of Strategic Business Unit (SBU):

- 1. Focused Strategy:** SBUs allow for a more focused approach to different markets or product lines. Each SBU can develop its own strategies in accordance with its target audience.
- 2. Resource Allocation:** SBUs enable efficient allocation of resources based on the individual unit's needs and priorities, optimising the utilisation of assets and capital.
- 3. Risk Management:** Since SBUs operate somewhat independently, risks in one unit are somewhat contained and may not affect the entire organisation. This risk mitigation can enhance overall corporate stability.
- 4. Innovation:** SBUs can experiment and innovate more freely, as they have greater autonomy. This can lead to quicker product development and adaptation to market changes.
- 5. Accountability:** Each SBU has a manager, who is accountable for his/her SBU's performance. Similarly, each SBU is accountable to the top-level management.

## Disadvantages of Strategic Business Unit (SBU):

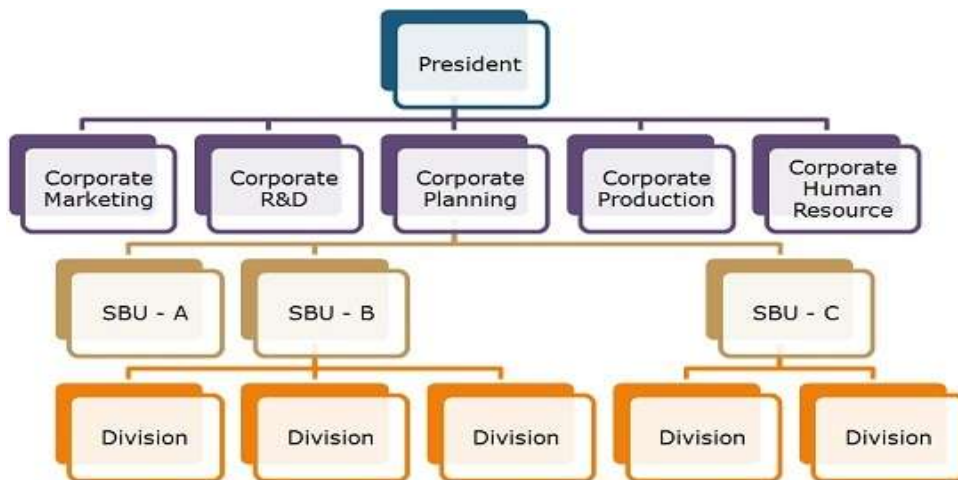
- 1. Duplication of Efforts:** There may be duplication of functions and resources across SBUs, leading to inefficiencies in areas such as administration, marketing, and research and development.
- 2. Conflict of Interests:** SBUs may prioritise their individual goals over the organisation's overall objectives, potentially leading to conflicts of interest and competition among units.
- 3. Overhead Costs:** Maintaining separate SBUs can increase administrative and overhead costs, particularly if each SBU requires its own support staff and infrastructure.
- 4. Resources Allocation Bias:** There is a risk that resources are allocated in a biased manner to SBUs that appear more profitable or promising, neglecting long-term strategic priorities or emerging markets.

## 4.4 STRUCTURE OF STRATEGIC BUSINESS UNIT (SBU):

The SBU structure is composed of operating units where each unit represents a separate business to which the corporation delegates responsibility for day-to-day operations. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and managing SBUs through strategic and financial controls.

The SBU structure groups similar products into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units.

A Strategic Business Unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level. This enables the company to more accurately monitor the performance of individual businesses, and control problems.



### For example,

- Aditya Birla Group's corporate headquarters are at the top of the whole structure of SBUs. The corporate office provides overall strategic direction, governance, and oversight for the entire structure.

- Further, at the second level, Aditya Birla Group has several major SBUs, each operating in a distinct industry. Some of the SBUs are Aditya Birla Capital Limited, Aditya Birla Fashion & Retail Limited, Aditya Birla Chemicals Limited, and Aditya Birla Group's Metals Business.

## 4.5 STRATEGIC LEADERSHIP:

Strategic leadership is when managers use their creative problem-solving skills and strategic vision to help team members and an organization achieve long-term goals. More specifically, according to Margaret Andrews, instructor of Strategic Leadership, a Professional & Executive Development program in the Harvard Division of Continuing Education, strategic leadership is not so much a clear-cut leadership style as a mindset “that you want to be strategic about your leadership.”

“Strategic leadership is about understanding yourself and your goals,” she says. “It’s about understanding the situation, considering options, and deciding. It’s also about getting the best out of people, the best out of the situation, so that the organization does well. Leaders who lead strategically have done the inner work necessary to lead with integrity, vision, and purpose.”

The concept of strategic leadership is not always straightforward. Leading strategically actually requires a manager to choose from among a variety of leadership styles depending on the situation and the people involved.

### 4.5.1. INTRODUCTION:

In simple words, the strategy can be defined as establishing a plan to achieve the mission and envisioned future of the firm. In recent times, strategy is transformed phenomenally as success tool that engaged various stakeholders to participate in the economic success of the firms. The global economy and the worldwide trends bring new challenges filling the corporate life. Along with the changing economic paradigm, the political and economic uncertainty brings about an increased demand for ‘right leaders’ with visions and authority.

Moreover, the economic recession of the last decade has stressed the importance of leadership as a significant part of the corporate strategic management. Viewed from a distance of several years, this topic should be reconsidered and the

situation analyzed from different angles. Figure 1 depicts how Leadership prevails and act as the backbone of the business decision making and organizational excellence.



**Figure: Leadership role in an organization**

Strategic leadership ensured six skills, that encourage leaders to think strategically and navigate the unknown effectively. Skills includes (a). Anticipate; (b) Challenge; (c) Decide; (d) Align; and (e) Learn. An effective Strategic Leader should focus on developing these abilities as suggested in the Table

#### **4.5.2. DEFINING STRATEGIC LEADERSHIP:**

The term “Strategic Leadership” refers as the strategic outlook of the manager’s potential to express a strategic vision for the organization, or a part of the organization. Primarily involved into motivating, persuade others to acquire the vision as a whole. Strategic leadership can also be defined as utilizing strategy in the management of employees.

#### **4.5.3. FACTOR AFFECTING “STRATEGIC LEADERSHIP”:**

The term “Strategic leadership” is getting momentum in last one decade, due to the following factors:

1. Pace of Change: There is a quick change in the product / service innovation, new products is being developed faster, fast change in the business landscape. Therefore,

there is an emerging requirement of establishing right relationship between changing business landscape and leadership at business level.

2. Increasing uncertainty: Due to the uncertainty, long term forecasting and planning becomes essentially important in recent times.

3. Growing ambiguity: Problem levels are required to be clearly indicated and required to be solved using competent Human resource.

4. Increasing Complexity: Business problems are getting complex. The amount of usable information required at process level getting importance for operational decisions.

#### **4.5.4. SCOPE OF STRATEGIC LEADERSHIP:**

Conceptually, the focus of strategic leadership is sustainable competitive advantage, or the enduring success of the organization. Sustainable competitive advantage is the key focus of Strategic Leadership. Strategic leadership is exerted when the decisions and actions of leaders have strategic implications for the organization.

The Scope of Strategic leadership can be understood as:

- a. Strategic leadership is broad in scope.
- b. The impact of strategic leadership is felt over long periods of time.
- c. Strategic leadership often involves significant organizational change.

#### **4.5.5. PROPERTIES OF STRATEGIC LEADERSHIP:**

**a. Scope:** The broad scope of strategic leadership means that it impacts areas outside the leader's own functional area and business unit—and even outside the organization. This broad scope requires seeing the organization as an interdependent and interconnected system of multiple parts, where decisions in one area provoke actions in other areas. The scope of strategic leadership extends beyond the organization, acting on and reacting to trends and issues in the environment.

**b. Duration:** Like its scope, the time frame of strategic leadership is also far reaching. The strategic leader must keep long-term goals in mind while working to achieve short-term objectives. In contrast, not all leadership requires this forward view to be effective. Very good operational leaders manage day-to-day functions effectively and are skilled

at working with people to ensure that short-term objectives are met. This is important work, but it does not always need to take the long term into account.

**C.Organizational Culture:** A third way strategic leadership differs from leadership in general is that it results in significant change and impact the organization in the longer run. For example, consider the strategic impact of a new compensation system that touches all parts of the organization, provides a structure for defining differences in roles and appropriate salary ranges, and ties performance plans and measures to the strategic objectives of the organization, giving people a clear understanding of what is required to advance along various career ladders.

#### 4.5.6. FOCUS OF STRATEGIC MANAGEMENT:

Strategic leadership provides a framework that primarily focused on values, vision, business techniques that focus organizations to follow certain course of action to remain competitive and relevant.

Strategic leadership ensured a learning organization to adapt various survival strategies to remain competitive and sustain in the market place. Also, to ensure adoption towards changing technology, climate change and economic factors risks the organization becoming obsolete. It balances a focused analytical perspective with human dimension of strategy making. Overall, Strategic leadership engage entire business in one strategic thread in order to lay the foundation for building winning organizations that can define, commit, adjust and adapt their strategy wherever required.

#### 4.5.7. PROCESS OF STRATEGIC LEADERSHIP:



**Figure : depicts the process of strategic leadership.**

### **Various stages involved in the Strategic leadership includes**

**(i) Define Leadership requirements:** As formal definition of leadership depict the term leadership as a process of social influence in which a person can enlist the aid and support of others to accomplish common task. Understanding the 'Leadership requirements' become a focal requirement of successful and effective leadership. Various factors that need to be consider while defining the leadership requirements includes; Traits, situational interaction, function, behavior, power, vision and values.

**(ii) Assess Current Behavior:** There is always a need to evaluate the behavior of successful leaders, determining a behavior taxonomy, and identifying broad leadership styles. It is observed that positive reinforcement can be used to resolve a business issues.

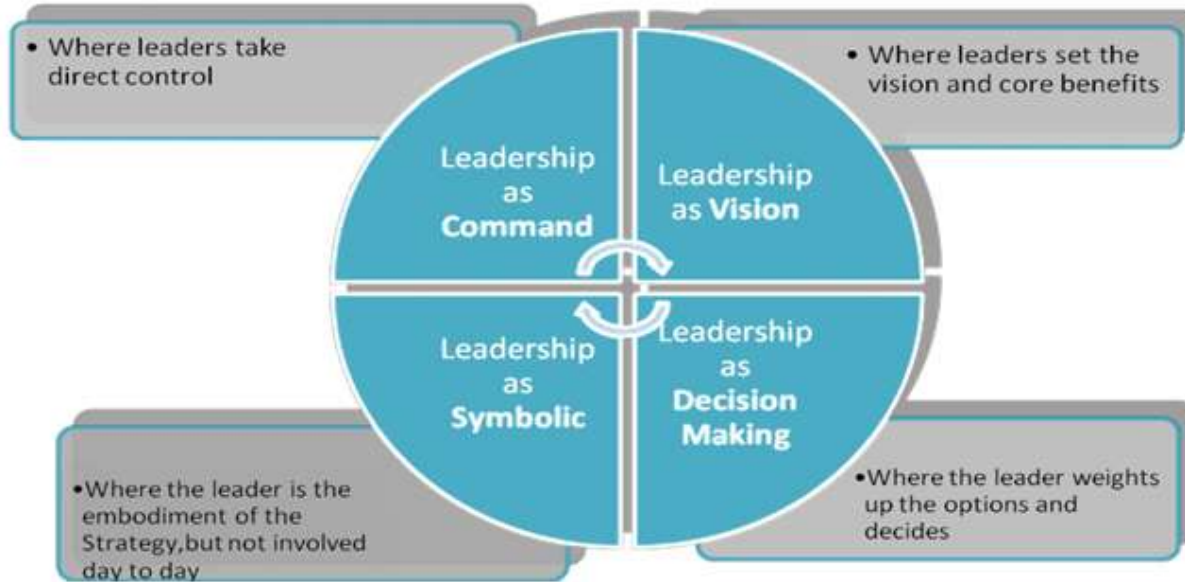
**(iii) Assess Organizational Implications:** Assessment of implication of leadership on overall processes, functions and style is important to know the effectiveness of leadership.

**(iv) Develop strategically individual team organization:** For successful implications of overall strategy, team structuring is required.

**(v) Reassessment:** Reassessment of processes, evaluating and redesigning the same for next level.

### **4.5.8. ROLES OF STRATEGIC LEADERS:**

Besides to activities like industry analysis, competitive analysis, strategic Leaders has to perform lot of organizational roles and activities. The Roles and responsibilities primarily aims to develop a Strategic Vision and Mission; Setting Goals and Objectives; Crafting a Strategy, Executing a Strategy and Evaluating the Performance.



In other words, we may define the scope of Strategic leadership as leadership as vision; leadership as command, leadership as symbol and Leadership as Decision Making.

Figure 4 depicts the scope of Leadership from different perspective.

#### 4.5.9. PRINCIPLES OF STRATEGIC LEADERSHIP:

**I. Distribute responsibility.** Strategic leaders gain their skill through practice. For decision making at different levels, distribution of responsibility gives potential strategic leaders the opportunity towards better decision making.

**Case:** In an oil refinery on the U.S. West Coast, a machine malfunction in a treatment plant was going to cause a three-week shutdown. Ordinarily, no one would have questioned the decision to close, but the company had recently instituted a policy of distributed responsibility. One plant operator spoke up with a possible solution. She had known for years that there was a better way to manage the refinery's technology, but she hadn't said anything because she had felt no ownership. The engineers disputed her idea at first, but the operator stood her ground. The foreman was convinced, and in the end, the refinery did not lose a single hour of production.

When individuals like the plant operator are given responsibility and authority, they gain more confidence and skill. And when opportunities to make a difference are

common throughout an organization, a “can-do” proficiency becomes part of its identity. At Buurtzorg, a Dutch neighborhood nursing organization, most decisions are made by autonomous, leaderless teams of up to a dozen nurses. A small central management team supports and coaches the frontline nurses; there is no other middle management. The company achieves the highest client satisfaction levels of all community nursing delivery in the Netherlands, at only 70 percent of the usual cost. Patients stay in care half as long, heal faster, and become more autonomous themselves. And the nurses gain skills not just for leading their part of the enterprise, but in community leadership as well.

**2. Be honest and open about information.** The management structure traditionally adopted by large organizations evolved from the military, and was specifically designed to limit the flow of information. In this model, information truly equals power. The trouble is, when information is released to specific individuals only on a need-to-know basis, people have to make decisions in the dark. They do not know what factors are significant to the strategy of the enterprise; they have to guess. And it can be hard to guess right when you are not encouraged to understand the bigger picture or to question information that comes your way. Moreover, when people lack information, it undermines their confidence in challenging a leader or proposing an idea that differs from that of their leader.

Some competitive secrets (for example, about products under development) may need to remain hidden, but employees need a broad base of information if they are to become strategic leaders. That is one of the principles behind “open-book management,” the systematic sharing of information about the nature of the enterprise. **Case:** Southwest Airlines, Harley-Davidson, and Whole Foods Market, which have all enjoyed sustained growth after adopting explicit practices of transparency.

Transparency fosters conversation about the meaning of information and the improvement of everyday practices. If productivity figures suddenly go down, for example, that could be an opportunity to implement change. Coming to a better understanding of the problem might be a team effort; it requires people to talk openly and honestly about the data. If information is concealed, temptation grows to manipulate

the data to make it look better. The opportunity for strategic leadership is lost. Worse still, people are implicitly told that there is more value in expediency than in leading the enterprise to a higher level of performance. Strategic leaders know that the real power in information comes not from hoarding it, but from using it to find .

#### **4.5.10. STRATEGIC LEADERSHIP AS SUSTAINABLE COMPETITIVE ADVANTAGE**

Individuals and teams enact strategic leadership when they think, act, and influence in ways that promote the sustainable competitive advantage of the organization.

The focus of strategic leadership is sustainable competitive advantage, or the enduring success of the organization. Indeed, this is the work of strategic leadership: to drive and move an organization so that it will thrive in the long term. This is true whether the organization is for-profit or nonprofit.

It depends only on whether your organization seeks and achieves an enduring set of capabilities that provide distinctive value to stakeholders over the long term, in whatever sector your organization operates or whatever bottom line you are measured by.



#### 4.5.11. LEADERSHIP STYLES MIGHT INCLUDE:

##### **Authoritarian leadership:**

When a leader imposes expectations and defines outcomes

##### **Participative leadership:**

When a leader involves team members in the decision-making process

##### **Delegative leadership:**

When a leader delegates tasks to other team members

##### **Transactional leadership:**

When a leader rewards or punishes team members in an effort to complete a task.

##### **Transformational leadership:**

When a leader uses a vision to inspire and motivate others

##### **Servant leadership:**

When a leader serves others by putting the needs of employees first, helping them develop to perform at higher levels

## **SUMMARY:**

Strategic Leadership is at the same time a high position in an organization or society, a personal characteristic, and a relationship between leaders and followers. Strategic Leaders are partially born and partially made.

## **4.6 FIVE STRATEGIES TO ESTABLISH A SUPPORTIVE COMPANY CULTURE:**

### **4.6.1. PRIORITIZE TRUST AND PSYCHOLOGICAL SAFETY:**

A supportive culture is one that empowers employees to do their best work. Leaders give their direct reports what they need to do their jobs—like information, tools, access, and guidance—but then get out of their way.

It sounds simple in theory but is more challenging to implement in reality. That's why micromanagement is still frighteningly common, with 59% of employees saying they've worked for a micromanager at some point in their career.

One of the best ways to show employees that you trust them is to offer flexibility and let them choose when they get their work done. It's a concept you'll likely hear referred to as a results-based culture—where the emphasis is on what's achieved and not on the hours worked.

“The biggest unlock for me was being given the freedom to work when I was most productive,” says Hiba Amin, Senior Marketing Manager at Hypercontext.

Beyond the trust autonomy for employees to set their own schedules, there also needs to be a broader focus on psychological safety. What's that? Nicole Kahansky, Content Marketing Manager at Hypercontext, describes psychological safety as “when your manager creates a space where you feel comfortable contributing ideas, asking questions, sharing and receiving feedback, and being yourself.” Basically, employees know it's safe (and ideally, not mortifying) for them to fail at work.

“The best [leaders] have created space for mistakes and truly back up their team when they made them, allowing them to not just recover but grow from them,” echoes Kelly Mayes, Head of Communications at Digits.

So...how do you do that? Here are a few quick tips to help you establish psychological safety on your own team:

- Publicly celebrate failures and learning experiences, rather than only wins and accomplishments
- Resist the urge to pick apart ideas in brainstorming sessions and reserve that as creative time for off-the-wall ideas
- Stick up for your team if another leader, department, or colleague points the finger at a perceived flop

#### **4.6.2. ENCOURAGE AND RESPECT TIME OFF:**

“The majority of employees don’t take leave because they fear what their inbox will look like on return,” says Rachel Service, CEO of Happiness Concierge, a firm focused on workplace cultures.

There’s plenty of data to back that up, with hundreds of millions (768 million in 2018, to be exact) of vacation days wasted in the United States every single year.

“Talk to your team about leave options and how you can support them to take leave,” Service explains. “Our workplace offers us unlimited PTO and our supervisors remind us regularly to take time off to recharge,” adds Janel Forsythe, Coordinator at Upshift Strategies.

You might even consider instituting a new type of leave depending on the unique needs of your team. Happiness Concierge, as just one example, started “Health and Wellness Leave,” where employees get two days per quarter to spend time on what brings them joy.

There’s one more thing to keep in mind: When employees actually *do* take their well-deserved PTO, they shouldn’t be bombarded with emails and pings while they’re out. In fact, make your best effort to avoid contacting them at all. “To me, this indicates a respect for boundaries,” says Alyssa Towns, a Business Operations Specialist at Adswerve and a freelance writer.

### 4.6.3. HAVE THE HARD CONVERSATIONS:

“Empathy, especially during the pandemic, has been huge,” says Ray Hernandez, a spokesperson for Otis. “Being able to vocalize when you’re not okay or having colleagues [and] leaders step in to help or adjust priorities are also great qualities of a strong culture.”

This level of transparency and vulnerability is so important that a whopping 90% of employees say they perform better “when their company supports their emotional wellness.” But, that doesn’t make it easy—especially when two-thirds of managers admit that they’re a little uncomfortable communicating with their employees.

Fortunately, Service says that using numbers over emotions can make these types of conversations a lot more approachable for both leaders and employees (and help keep those jitters and sweaty palms at bay).

“For example, instead of asking, ‘how are you feeling today?’, you might ask, ‘on a scale from 0 (not great) to 10 (amazing), where would you sit?’” Service says. “What could I do to improve that score for you? What would be something I could support you to do or help you out with?”

### 4.6.4. OFFER TANGIBLE RESOURCES:

There’s a lot that goes into a supportive culture that’s somewhat intangible and tough to quantify. But, there’s plenty more that leaders can do to prove to employees that they’re actually investing in support.

One example is the creation of employee resource groups (ERGs) dedicated to all sorts of different characteristics or experiences. “At Otis, we have more than 20 ERGs worldwide, with more than 2K employees engaged in them,” says Hernandez.

However, Hernandez emphasizes that employers need to do more than create ERGs—they need to actively support them. That includes things like providing an adequate budget, getting leadership buy-in, encouraging employee participation, and actually listening to the requests and feedback of those groups.

Another great option is to provide access to mental health resources. While a company-paid subscription to a meditation app is a nice perk, there are far more

substantial things that employers can do to support the mental wellbeing of employees, including:

- Ensuring mental health benefits are included with health insurance options
- Training leaders and managers on mental health and burnout
- Providing mental health days or dedicated time off (for example, Nike recently gave the entire corporate staff a week off specifically for a mental health break)

#### **4.6.5. PUT STRATEGIES INTO ACTION:**

One of the most effective ways to create a supportive culture is to talk directly to your team. What do they need? What do they think is missing? What would make them feel the most supported at work?

Collecting that information is an important step. But, without any action, it's...well, pretty useless. You need to follow through on the feedback that employees offer.

“To me, it’s all about action,” says Lisa Lark, Founder of Lisa Lark Communications. “Yes, you listened to me vent, heard my ideas, and may be even shared my feelings. But if you never speak of it again, you’re not supportive. That might just be saying, ‘Hey, I shared that with X and I’ll keep you posted. But there needs to be a follow-up.”

#### **4.7 DIFFERENCES BETWEEN ENTREPRENEURSHIP AND INTREPRENEURSHIP:**

Points of difference	Intrapreneurship	Entrepreneurship
<b>Definition</b>	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.
<b>Core objective</b>	To increase the competitive strength and market sustainability of the organization.	To innovate something new of socio-economic value.
<b>Primary motives</b>	Enhance the rewarding capacity of the organization and autonomy.	Innovation, financial gain and independence.
<b>Activity</b>	Direct participation, which is more than a delegation of authority.	Direct and total participation in the process of innovation.
<b>Risk</b>	Hears moderate risk.	Bears all types of risk.
<b>Status</b>	Organizational employees expecting freedom at work.	The free and sovereign person doesn't bother with status.
<b>Failure and mistakes</b>	Keep risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures to take new innovative efforts.
<b>Decisions</b>	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
<b>Whom serves</b>	Organization and intrapreneur himself.	Customers.
<b>Family heritage</b>	May not have or a little professional post.	Professional or small business, family heritage.
<b>Relationship with others</b>	Authority structure delineates the relation.	A basic relationship based on interaction and negotiation.
<b>Time orientation</b>	Self-imposed or organizationally stipulated time limits.	There is no time-bound.
<b>The focus of attention</b>	On Technology and the market.	Increasing sales and sustaining competition.
<b>Attitude towards destiny</b>	Follows self-style beyond the given structure.	Adaptive self-style considering Structure as inhabitants.
<b>Attitude towards destiny</b>	Strong self-confidence and hope for achieving goals.	Strong commitment to self-initiated efforts and goals.
<b>Operation</b>	Operates from inside the organization.	Operates from outside the organization.

## I. CHOOSE THE CORRECT ANSWER:

1. Strategic Management handles
  - a. External issues
  - b. Administrative issues
  - c. Internal issues
  - d. Management issues
2. The following are considered grand strategies, except for
  - a. A retrenchment strategy
  - b. Strategic business unit
  - c. A growth strategy
  - d. Related diversification
3. Strategic business units
  - a. Are found in one-business organisations
  - b. Carry out strategies assigned by the CEO
  - c. Implement the marketing function's strategic planning and management decisions
  - d. Develop their own unique way of competing
4. Retrenchment is
  - a. When a company experiences declining profits and makes cutbacks to improve efficiency.
  - b. When a company adopts a new strategic position for a product or service
  - c. The sale of the complete business, either as a single going concern or piecemeal to different buyers or sometimes by auctioning the assets
  - d. Implement the marketing function's strategic planning and management decisions
5. When does horizontal integration occur?
  - a. When a firm acquires or merges with a major competitor
  - b. When a firm acquires or merges with a an unrelated business
  - c. When a firm acquires or merges with a distributor
  - d. When a firm acquires or merges with a supplier firm

## UNIT V

# STRATEGY IMPLEMENTATION AND CONTROL

### 5.1 INTRODUCTION:

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action. It requires support of all managers and employees of the business. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business. Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment.

Strategic control is an integral part of strategic management. It focuses on whether the strategy is being implemented as planned and the results produced are those intended. In addition, we will also have an overview of the emerging concepts in strategic management, namely, strategy audit, business process reengineering and benchmarking.

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into action. It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

## 5.2. RELATIONSHIP WITH STRATEGY FORMULATION:

Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus, organizational success is a function of good strategy and proper implementation. The matrix in the figure below represents various combinations of strategy formulation and implementation:

Strategy Formulation	Sound	A	B
	Flawed	C	D
		Weak	Excellent

**Figure 5.1: Strategy formulation and implementation matrix**

The above mentioned figure depicts the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation.

Square A is the situation where a company apparently has formulated a very competitive strategy but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation the company will aim at moving from square A to square B, given they realize their implementation difficulties. Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing, they have to do is to redesign their strategy before readjusting their implementation/execution skills.

Square C is denotes for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Taken together all the elements of business strategy, it is to be seen as a chosen set of actions by means of which a market position relative to the competing enterprises is sought and maintained. This gives us the notion of competitive position.

It needs to be emphasized that 'strategy' is not synonymous with 'long-term plan' but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change. While a series of strategic moves may be planned, competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

In contrast to this view of strategy there is another approach to management practice, which has been followed in many organizations. In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has been on efficiency (i.e., the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the attainment of organisational goals - including that of desired competitive position). While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. The responsibility for efficiency lies with operational managers, with top management having the primary responsibility for the strategic orientation of the organization.

	Effective	ineffective
Efficient	1 Thrive	2 Die Slowly
Inefficient	3 Survive	4 Die Quickly

**Figure 5.2: Principal combinations of efficiency and effectiveness**

An organization that finds itself in cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio. In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction. The particular point to note is that cell 2 is a worse place to be than is cell 3 since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs. To be effective is to survive whereas to be efficient is not in itself either necessary or sufficient for survival.

In crude terms, to be effective is to do the right thing, while to be efficient is to do the thing right. An emphasis on efficiency rather than on effectiveness is clearly wrong. But who determines effectiveness? Any organization can be portrayed as a coalition of diverse interest groups each of which participates in the coalition in order to secure some advantage. This advantage (or inducement) may be in the form of dividends to shareholders, wages to employees, continued business to suppliers of goods and services, satisfaction on the part of consumers, legal compliance from the viewpoint of government, responsible behaviour towards society and the environment from the perspective of pressure groups, and so on.

Even the most technically perfect strategic plan will serve little purpose if it is not implemented effectively. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and

circumstances under which it will be implemented as afterthoughts. Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation). Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

### 5.2.1 STRATEGY FORMULATION VS. STRATEGY IMPLEMENTATION

Strategy Formulation	Strategy Implementation
◆ Strategy formulation focuses on effectiveness.	◆ Strategy implementation focuses on efficiency.
◆ Strategy formulation is primarily an intellectual process.	◆ Strategy implementation is primarily an operational process.
◆ Strategy formulation requires conceptual intuitive and analytical skills.	◆ Strategy implementation requires motivation and leadership skills.
◆ Strategy formulation requires coordination among the executives at the top level.	◆ Strategy implementation requires coordination among the executives at the middle and lower levels.

Strategy formulation concepts and tools do not differ greatly for small, large, for-profit, or non-profit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementation of strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's

pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly among manufacturing, service, and governmental organizations.

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of strategy formulation on strategy implementation while the backward linkages are concerned with the impact in the opposite direction.

### **5.2.2 FORWARD LINKAGES:**

The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

### **5.2.3 BACKWARD LINKAGES:**

Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. The next section focuses on the various issues involved in the implementation of strategies.

### **5.3. ISSUES IN STRATEGY IMPLEMENTATION:**

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design organisational structure, formulate functional policies, and to provide strategic leadership.

- ◆ The strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent. Implementation tasks are meant to realize the intent. Strategies, therefore, have to be activated through implementation.
- ◆ Strategies should lead to formulation of different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation.
- ◆ Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations. Thus, research and development programme may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After resources

have been provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

Given below in sequential manner the issues in strategy implementation which are to be considered:

- ◆ Project implementation
- ◆ Procedural implementation
- ◆ Resource allocation
- ◆ Structural implementation
- ◆ Functional implementation
- ◆ Behavioural implementation

It should be noted that the sequence does not mean that each of the above activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once. Thus, there can be overlapping and changes in the order in which these activities are performed.

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategic decisions come as a surprise to middle and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in the strategy-formulation process. Similarly, strategists should also be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, developing a strategy-

supportive

culture, adapting production/operations processes, developing an effective human resource system and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation activities. Their role in strategy implementation

should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood clearly throughout the organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered satisfactorily. Top-down flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus on all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

#### **5.4. STRATEGIC CHANGE:**

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

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

**(i) Recognize the need for change:** The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may be through SWOT analysis and then determining where the lacuna lies and scope for change exists.

**(ii) Create a shared vision to manage change:** Objectives of both individuals and organization should coincide. There should be no conflict between them. This is possible only if the management and the organization members follow a shared vision. Senior managers need to constantly and consistently communicate the vision to all the organizational members. They have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

**(iii) Institutionalise the change:** This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

**KURT LEWIN'S MODEL OF CHANGE:** To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

**(a) Unfreezing the situation:** The process of unfreezing simply makes the individuals aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first “unfreezing the situation”, so that members would be willing and ready to accept the change. Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the new ideas throughout the organization.

**(b) Changing to the new situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

**Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.

**Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.

**Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to the changes introduced. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

**(c) Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish. Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

## **5.5. STRATEGIC CHOICE:**

1. Learning Outcome
2. Introduction
3. Process of Strategic Choice
4. Approaches to Strategic Choice
5. Subjective Factors in Strategic Choice

### **5.5.1.LEARNING OUTCOME:**

After completing this module the students will be able to understand: The processes, tools, and techniques used for strategic choice. The importance of subjective factors in strategic choice

### **5.5.2. INTRODUCTION:**

Strategic Choice is looked upon as a key aspect of the strategic management process. The process of strategic choice is essentially a decision-making process that has a lasting impact on the organization's performance. The decision-making involves relating intent to the vision/mission of the organization, generating alternatives, choosing one or more alternatives that helps the firm to achieve its objectives and finally, implementing the chosen strategy. Thus, for the purpose of selecting or rejecting alternatives, the managers have to ascertain a set of criteria.

These criteria are termed as selection factors and can be broadly classified into two groups: the objective and subjective factors. The objective factors are basically data driven and are based on analytical techniques whereas the subjective factors are based on one's experience and personal judgment.

### **5.5.3.PROCESS OF STRATEGIC CHOICE:**

The process of strategic choice comprises of following four steps:

1. Relating intent to the vision & mission
2. Generating alternatives
3. Assessing the options
4. Selecting one option that fits with the intent

A foremost step in the process of strategic choice is to define the intent and relate it to the vision, mission and goals of the organization. Unless the intent is clear, it would be difficult to generate alternatives and further assess them so as to facilitate a strategic choice.

### **5.5.4. APPROACHES TO STRATEGIC CHOICE:**

It is well acknowledged that strategic decision-making is a complex activity where no single factor is adequate for making a strategic choice. The various approaches used to generate the strategic alternatives ranges from some of the simplest techniques that are based on intuition, are judgmental and descriptive in nature to the highly sophisticated analytical models such as Product Life Cycle (PLC), Boston Consulting Group (BCG) matrix, GE Nine Cell Model. These models provide generic guidelines for a specific business situation. With the help of these approaches a blueprint is drafted that helps to describe the strategies and the conditions under which they could be made to operate.

### **5.5.5. SUBJECTIVE FACTORS IN STRATEGIC CHOICE:**

Strategic decision making is a complex activity where no one factor is sufficient for exercising a strategic choice. Strategy formulation is looked upon as an art as it is a science. The strategists should be capable to sense the future opportunities and respond quickly to build a strong position for a business.

## **5.6. STRATEGIC CONTROL:**

Controlling is one of the important functions of management and is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the pre-determined goals and results. Control is intended to regulate and check,

i.e., to structure and condition the behaviour of events and people, to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track. It is also to ensure that what is planned is translated into results, to keep a watch on proper use of resources, on safeguarding of assets and so on.

The controlling function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. It is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.

### **5.6.1. OPERATIONAL CONTROL:**

The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, *procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole*. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions. Some of the examples of operational controls can be stock control (maintaining stocks between set limits), production control (manufacturing to set programmes), quality control (keeping product quality between agreed limits), cost control (maintaining expenditure as per standards), budgetary control (keeping performance to budget).

### **5.6.2. MANAGEMENT CONTROL:**

When compared with operational control, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities

of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units.

The basic purpose of management control is the achievement of enterprise goals- short range and long range - in a most effective and efficient manner. The term management control is defined by Robert Anthony as ‘the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

### **5.6.3. STRATEGIC CONTROL:**

According to Schendel and Hofer “Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.”

There is often a time gap between the stages of strategy formulation and its implementation. A strategy might be affected on account of changes in internal and external environments of organisation. There is a need for warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

**Types of Strategic Control: There are four types of strategic control as follows:**

#### **1 Premise control:**

A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

(i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.

(ii) Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

## **2 Strategic surveillance:**

Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can help in strategic surveillance.

Strategic surveillance may be loose form of strategic control but is capable of uncovering information relevant to the strategy.

## **3 Special alert control:**

At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. To cope up with such eventualities, the organisations form crisis management teams to handle the situation.

## **4 Implementation control:**

Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

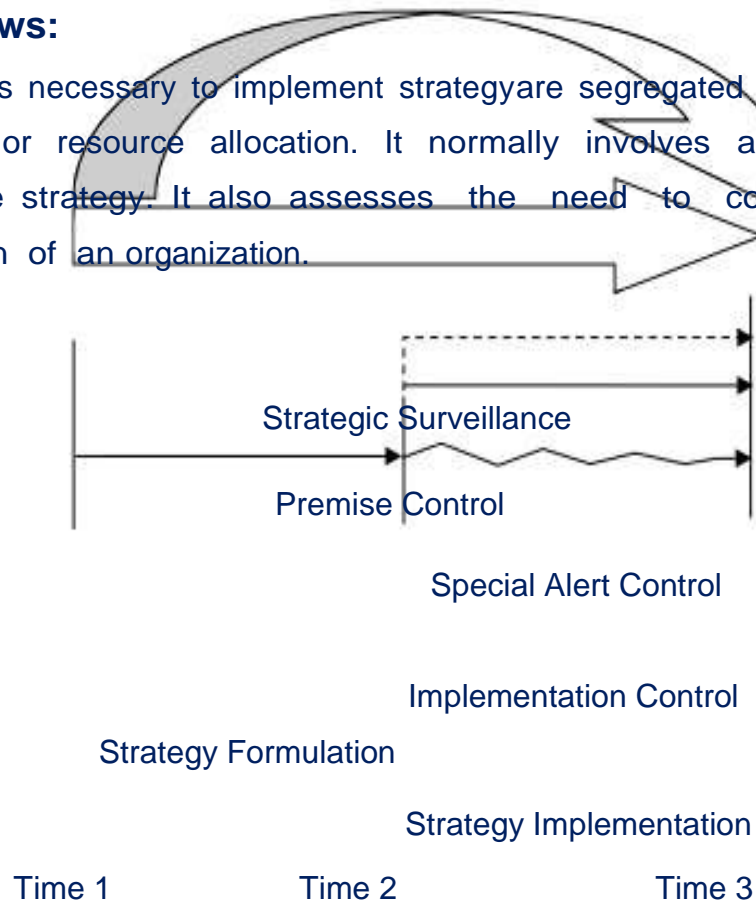
Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

### 5 Monitoring strategic thrusts:

Monitoring strategic thrusts helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

### 6 Milestone Reviews:

All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.



**Source: John A Pearce II, Richard B Robinson, Jr. and Amita Mital “Strategic Management Formulation, Implementation and Control”.**

These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment

### 5.7. STRATEGY AUDIT:

The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective so far. An assessment of the external environment shows where changes happen and where organization's strategic management no longer match the demands of the marketplace. Based on such analysis, the organization can improve business performance by periodically conducting such an audit.

Companies review their business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. The strategy audit secures that all necessary information for the development of the company is included in the business plan and that the management supports it.

The core of Strategy Audit, for any corporate entity, lies on following important questions:

- ◆ How well is the current strategy working?
- ◆ How well will the current strategy be working in future?
- ◆ How can this be evaluated in present and future?
- ◆ How urgent is there a need to change the strategy?

For this, a periodic review and evaluation of the fundamental characteristics of a strategy are necessary.

A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization.

A strategy audit provides an excellent platform for discussion with the top management regarding necessary corporate actions or changes in the existing business plan. It also identifies the need to adjust the existing business strategies and plans.

### **5.7.1. NEED OF STRATEGY AUDIT:**

A strategy audit is needed under the following conditions:

- ◆ When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.

- ◆ When the goals and objectives of the strategy are not being accomplished.
- ◆ When a major change takes place in the external environment of the organization.

- ◆ When the top management plans:

(a) to fine-tune the existing strategies and introduce new strategies and

(b) to ensure that a strategy that has worked in the past continues to be in-tunewith subtle internal and external changes that may have

### **5.7.2 OCCURRED SINCE THE FORMULATION OF STRATEGIES:**

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

- 1.Examining the underlying bases of a firm's strategy,
- 2.Comparing expected results with actual results, and
- 3.Taking corrective actions to ensure that performance conforms to plans.

### **5.7.3 RICHARD RUMELT'S CRITERIA FOR STRATEGY AUDIT:**

**a. Consistency:** A strategy should not present inconsistent goals and policies.Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy:

- ◆ If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- ◆ If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- ◆ If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

**b. Consonance:** Consonance refers to the need for strategists to examine setof trends, as well as individual trends, in auditing strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, *the day-care school/centre came about as a combined result of many trends that included a rise in the average level of education, need for different education pedagogy, increase in income, inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.*

**c. Feasibility:** A strategy must neither overtax available resources nor createunsolvable sub-problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is audited. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In auditing a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

**d. Advantage:** A strategy must provide for the creation and/or maintenance ofa competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas:

(1) Resources, (2) skills, or (3) position.

The idea that the positioning of firm's resources that enhance their combined effectiveness is familiar to military theorists and chess players. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their skill levels are only average.

Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in auditing strategy, organizations should examine the nature of positional advantages associated with a given strategy.

#### **5.7.4 REASONS WHY STRATEGY EVALUATION IS MORE DIFFICULT TODAY INCLUDE THE FOLLOWING TRENDS:**

- ◆ A dramatic increase in the environment's complexity.
- ◆ The increasing difficulty of predicting the future with accuracy.
- ◆ The increasing number of variables in the environment.
- ◆ The rapid rate of obsolescence of even the best plans.
- ◆ The increase in the number of both domestic and world events affecting organizations.
- ◆ The decreasing time span for which planning can be done with any degree of certainty.

#### **5.8.BUSINESS PROCESS REENGINEERING:**

Waiting in a queue in a post office or bank, a person may feel a need for improvement in processes. In case of queue, the process begins with your stepping into the queue, and ends with receiving the desired service and leaving the place. The steps of the process are the activities that you and the personnel providing services perform to complete the transaction.

Buying a ticket is a simple business process. There are other business processes such as purchasing raw materials, logistic movements of finished products, developing new products, etc. that are much trickier to deal with. Business processes are simply a set of activities that transform a set of inputs into a set of outputs for another person or process.

In order to have a better appreciation of what Business Process Reengineering (BPR) really means it would be pertinent to have preliminary knowledge of business processes. What is a business process and how it differs from other processes is the question that may come to mind? Business process or business activities are not discrete or unrelated pieces of work. They are parts of recurrent work processes within which they are located, sequenced and organized.

#### *What is a Business Process?*

A process is a set of logically related tasks or activities oriented towards achieving a specified outcome. It is a collection of activities which creates an output of value to the customer and often transcends departmental or functional boundaries. For example, *one common process found almost in every organization is the order fulfilment.* Order fulfilment begins with procuring an order and ends with delivery of goods to the customer. It also includes all other related activities in between. Likewise, other basic processes may include developing a new product or service, launching a new product in the market, procuring goods from suppliers, preparing the organization's budget, processing and paying insurance claims, and so on.

Typically, a business process involves a number of steps performed by different people in different departments. The structural elements that constitute a

process provide the basis for its analysis, appraisal, and redesign for achieving higher levels of efficiency and effectiveness, economy and speed, and quality and output.

A set of interconnected processes comprise a business system. The performance of business firm is, thus, the outcome of the interrelated operations of its constituent work processes. The redesign of processes, therefore, provides a powerful basis for improving the performance of a business enterprise.

**Core Processes:** Some processes turn out to be extremely critical for the success and survival of the enterprise. BPR focuses on such critical business processes out of the many processes that go on in any company. These are the core business processes of the company. A core business process creates value by the capabilities it provides to the competitiveness. Core business processes are critical in a company's evaluation by its customers. They are vital for success in the industry sector within which the company is positioned. They are crucial for generating competitive advantages for a firm in the marketplace.

While some core business processes are easily identifiable, some core business processes may not always be immediately apparent. The following instances serve to show that core processes need to be identified carefully in terms of their bearing on a firm's competitiveness:

1. In the electronics and semi-conductor industries, new product development is a core process.
2. In a fast-moving consumer goods industry marketing is a core process.
3. In the banking industry, the activities that help mobilise deposits and generate funds for advances to customers, is a core business process.
4. In the insurance industry, the actual work that leads to a balance of competitive premium for customers, and profit after claims for the company, is a core business process.

The core processes of a company may change over a period of time according to the shifting requirements of its competitiveness. Since the

objective of reengineering is to provide competitive advantage to the enterprise, it is extremely important to identify those core processes which need to be focussed for achieving excellence. In order to do this, we have to necessarily start from the organization's business vision, and drive from there the processes that have to be best in the world in order to realize that vision.

One of the reasons for which an imperative need is felt for process change is that most of the processes that the organizations are engaged in might have been developed by their functional units over a period of time and might have been evolved based on a series of unplanned decisions. Seldom there has been any serious effort to systematically analyse the processes and measure their effectiveness towards the organizational efficiency. Quite often the individual departments or units of a company aim at optimising their own performance disregarding the resultant effect on other areas of operation. This may result in a sub-optimal performance for the organization as a whole. The overall business processes in an organization extending over several departments may be quite lengthy, time consuming, costly and inefficient. Also, the existing business processes and work patterns might have largely obsolete and irrational because of change in information and communication technologies.

Fragmentation of work processes makes it difficult to improve the quality of work performance and also develops a narrow vision among the employees. As a result, the employees tend to focus more on the narrow goals of their own department at the cost of larger goals of the organization as a whole. This results in piecemeal accomplishment of tasks without looking at the overall goal. As the small fragments of work move from person to person and from unit to unit, delays keep on mounting and it enhances the chances of errors. In such a situation, the emerging critical issues often remain unattended as they do not fit into the narrow definitions of tasks or roles of an individual department.

It must be remembered that most of the existing work processes were developed before the advent of computers and IT revolution. Even after the massive penetration of information technology, many organizations have usually

applied the technology only in a limited way to automate their existing work methods or to speed up the isolated or narrow components of a larger existing work process. This has resulted only in some sort of mechanization of the existing work methods without bringing in any appreciable change in the process and output. Examples from established Japanese industries as well as new entrepreneurial ventures in Japan proves that it is possible to achieve a much higher level of process performance by redesigning the process. It has been possible to double the speed of normal production, utilize assets several times more productively and respond to customers' needs and expectations much more rapidly. This could be achieved by effecting a total change in the process instead of a piecemeal change. It is, therefore, imperative that for many organizations on the decline, changing the process or redesigning the process may be the only viable alternative for turnaround. They must break themselves free from their primitive and archaic work processes that drag them down. Issues that emerge from the foregoing discussions on the need for change from the underlying premises of Business Process Reengineering (BPR), are briefly outlined as follows:

- ◆ The operational excellence of a company is a major basis for its competitiveness.
- ◆ The business strategy of a company should be oriented towards leveraging its operational excellence into the marketplace.
- ◆ A customer-focussed organization needs to be realigned in terms of a process orientation.
- ◆ Process needs to be managed, not only its components.
- ◆ For considering totally new ways of redesigning processes, each and every concept, assumption, purpose, and principle, needs to abandon temporarily.
- ◆ Continuous improvement is lacking in the organisation. The company is far behind the industry standards and needs rapid quantum leaps in performance. Dramatic improvement in performance is the prerequisite for overcoming competition.

- ◆ How to compete is more important than deciding about where to compete?

### **5.8.1 CONCEPT AND NATURE OF BPR:**

Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. The redesign effort aims at simplifying and streamlining a process by eliminating all redundant and non-value adding steps, activities and transactions, reducing drastically the number of stages or transfer points of work, and speeding up the workflow through the use of IT systems.

BPR is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where it is done and when it is done. BPR focuses on the process of producing the output and output of an organization is the result of its process.

“Business process reengineering means starting all over, starting from scratch.” Reengineering, in other words, means putting aside much of the age-old practices and procedures of doing a thing. It implies forgetting how work has been done so far and deciding how it can best be done now.

### **5.8.2 THE ELEMENTS OF BPR ARE AS FOLLOWS:**

#### **I. Reengineering begins with a fundamental rethinking.**

In doing reengineering people must ask some most basic questions about their organizations and about their operations. They try to find out answers to such questions like “Why do we do what we do? And why do we do it the way we do?” An

attempt to find out answers to such questions may startlingly reveal certain rules, assumptions and operational processes as obsolete and redundant. Reengineering does not begin with anything given or with any assumptions. The thinking process in reengineering begins with a totally free state of mind without having any preconceived notion. Reengineering first determines what a company must do. And then it decides on how to do it. Reengineering ignores what the existing process is and concentrates on what it should be. If something is not required to be done it is outright discarded.

## **II. Reengineering involves radical redesigning of process.**

Radical redesigning means going to the root of the problem areas and not attempting to make any superficial changes. Radical redesign involves completely discarding all existing structures and procedures and evolving completely new ways of doing the work. “Reengineering is about business reinvention - not business improvement, business enhancement, or business modification.”

## **III. Reengineering aims at achieving dramatic improvement in performance.**

If an organization feels the need for marginal improvement in any area of operation at any point of time, the same can be achieved by conventional methods of adjustments in operating processes and reengineering is not the answer. Reengineering is meant for replacement of the old process by altogether new one to achieve dramatic improvement in the performance.

It follows from the above that the main focus of reengineering is on the process. In an attempt to improve performance, most people in business focus their attention on tasks, jobs, people, structure, but fail to pay adequate attention on the process. Business process, as already mentioned earlier, has been defined as the series of activities that utilizes various inputs to create output that are valued by customers. Not all the processes in an enterprise enjoy equal importance in creating customers value. In order to improve its competitive position a firm must try to identify the generic business processes which significantly add to the value for its

output to the customer and should try to focus on reengineering these processes first. The generic business processes of a firm needing redesign may be classified into three broad categories as follows:

- ◆ Processes pertaining to development and delivery of product(s) and/or services: These may include research, design, engineering, manufacturing, and logistics, besides purchasing / procurement and materials management.
- ◆ Processes involving interface(s) with customers: These usually include marketing, advertising, order fulfilment, and service.
- ◆ Processes comprising management activities: These include strategy formulation, planning and budgeting, performance measurement and reporting, human resource management, and building infrastructure.

In the context of these generic business processes, BPR may be viewed as a means of solving business problems through an imaginative leveraging of IT capabilities.

### **5.8.3 RATIONALE OF BPR:**

Improving business processes is paramount for businesses to stay competitive in today's marketplace. Over the last three decades several factors have accelerated the need to improve business processes. The most obvious is technology. New technologies (like Information Technology) are rapidly bringing new capabilities to businesses, thereby raising the strategic options and the need to improve business processes dramatically.

After opening up of Indian economy, companies have been forced to improve their business processes because of increased competition. More companies have entered the marketplace, and competition has become harder. In today's marketplace, major changes are required to just stay even. It has become a matter of survival for most companies.

Customers are also demanding better products and services. If they do not receive what they want from one supplier, they have many others to choose from. They are ready to try new suppliers and new brands.

### **5.8.4 IMPLEMENTING BPR IN ORGANIZATIONS:**

In a crude sense, companies began business process improvement with a continuous improvement model. This model attempts to understand and measure the current processes and make performance improvements. However, some companies make reengineering efforts under the assumption that the current processes are wrong and irrelevant. Under such perspectives designers of business process disassociate themselves from existing processes. This helps in looking at the problem with a clean mind, free of any biases.

The approach to BPR begins with defining the scope and objectives of the reengineering project. Persons entrusted with the tasks of BPR have to undertake research in the light of scope and objectives. They have to go through a learning process. They have to research customers, employees, competitors, new technology, etc. With the help of this research base BPR designers are in a position to create a vision for the future and design new business processes. They also create a plan of action based on the gap between the current and proposed processes, technologies and structures. Steps in BPR are as follows:

#### **I. Determining objectives:**

Objectives are the desired end results of the redesign process which the management and organization attempts to realise. They will provide the required focus, direction, and motivation for the redesign process and help in building a comprehensive foundation for the reengineering process.

#### **II. Identify customers and determine their needs:**

The process designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides value addition to the customer.

#### **III. Study the existing processes:**

The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and

'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

#### **IV. Formulate a redesign process plan:**

The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

#### **V. Implement the redesigned process:**

It is easier to formulate new processes than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

#### **5.8.5 ROLE OF INFORMATION TECHNOLOGY IN BPR:**

The accelerating pace at which information technology has developed during the past few years had a very large impact in the transformation of business processes. Various studies have conclusively established the role of the information technology in the transformation of business processes. That information technology is going to play a significant role in changing the business processes during the years to come, has been established beyond doubt.

A reengineered business process, characterised by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focussed on meeting the customer needs and expectation quickly and adequately, thereby enhancing his/her satisfaction level.

Globalization and competition call for better management, faster response to change and adherence to globally accepted standards of quality and services.

Impact of IT-systems are identified as:

- ◆ Compression of time

- ◆ Overcoming restrictions of geography and/or distance
- ◆ Restructuring of relationships. IT-initiatives, thus, provide business values in three distinct areas:
  - ◆ Efficiency - by way of increased productivity
  - ◆ Effectiveness - by way of better management,
  - ◆ Innovation - by way of improved products and services

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

### 5.8.6 CENTRAL THRUST OF BPR:

Improvement on quality and cost follows after improvement on thrust area. BPR is a continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance its thrust area may be identified as “the reduction of the total cycle time of a business process.” BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures and also by eliminating the transit and waiting times as far as possible. Even after redesigning of a process, BPR maintains a continuous effort for more and more improvement.

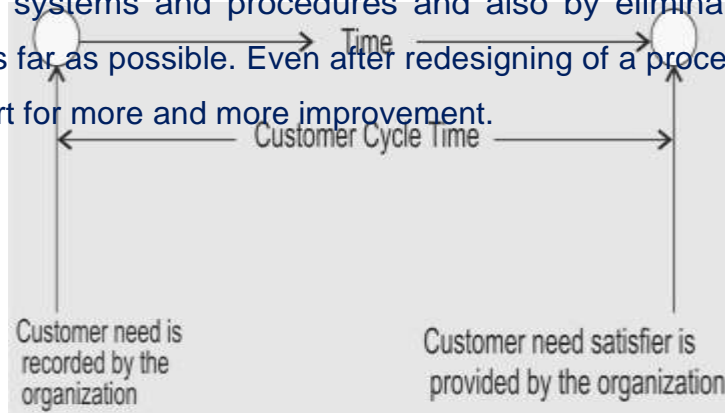


Figure: Customer Time Cycle

### 5.8.7 BPR AND OTHER PROCESSES:

Reengineering does not mean any partial modification or marginal improvement in the existing work processes. Reengineering is a revolutionary approach towards radical and total redesigning of the business processes. While reengineering may lead to restructuring of organization, any restructuring does not necessarily mean reengineering. The basic principles that differentiate reengineering from any other drive on improving organizational efficiency may be summarized as follows:

- ◆ At the core of reengineering lies the concept of discontinuous thinking. Reengineering does not have any scope for any partial modification or marginal improvement in the existing business processes. It aims at achieving excellence and a breakthrough in performance by redesigning the process entirely and radically. Obviously, it requires challenging the necessity of existing rules and procedures and discarding the same to evolve altogether new processes.
  
- ◆ BPR approach recognizes that most of the existing rules and procedures of work methods are based on certain assumptions about technology, people and the goals of the organization. These assumptions may not be valid anymore. Besides many of these systems and procedures have failed to reap the benefit of massive development of information technology during the past few years. BPR recognizes “the” vast and expanding potential of IT for the most rational, simple, and efficient redesign of work structure.” BPR aims at utilizing information technology for evolving a new process, instead of automating the existing process.

While reengineering starts with the process it does not end there. The fundamental and radical changes that takes place while reengineering the process has its own implication on other parts of the organization - almost on every part of it. Reengineering requires viewing a process from cross-functional perspective. Reengineering effort, therefore, focuses on a multidimensional approach disregarding the constraints of departmental boundaries.

◆ BPR efforts involve managing massive organizational change.” Reengineering is not just changing the process. The change in process is almost always accompanied by a whole lot of changes in other areas too. Work changes from task oriented to process oriented. People have the choice of making their own decisions instead of being directed. “Functional departments find their existence as redundant. Practically every aspect of the organization changes beyond recognition.

In view of the massive organizational changes involved in reengineering, it is imperative that a reengineering drive is supported by the vision and commitment of the top leadership of the organization.

Also, efficiently redesigned business processes provide a firm with many more opportunities for trying, testing, modifying and learning.

#### **5.8.8 PROBLEMS IN BPR:**

◆ Reengineering is a major radical improvement in the business process. Only a limited number of companies are able to have enough courage for having BPR because of the challenges posed. It disturbs established hierarchies and functional structures and creates serious repercussions and involves resistance among the workforce.

◆ Reengineering involves time and expenditure, at least in the short run, that many companies are reluctant to go through the exercise. Even there can be loss in revenue during the transition period.

◆ Setting of targets is tricky and difficult. If the targets are not properly set or the whole transformation not properly carried out, reengineering efforts may turn-out to be a failure.

#### **5.8.9 PRINCIPLES OF BPR:**

1. Organize around outcomes, not tasks.
2. Identify all the processes in an organization and prioritize them in order of redesign urgency.
3. Integrate information processing work into the real work that produces the information.

4. Treat geographically dispersed resources as though they were centralized.
5. Link parallel activities in the workflow instead of just integrating their results.
6. Put the decision point where the work is performed and build control into the process.
7. Capture information once and at the source.

### **5.8.10 STEPS TO BUSINESS PROCESS REDESIGN:**

There are multiple frameworks and steps an organization can follow to implement BPR. For example, even though the process can vary from organization to organization, the following five basic steps summarize the process:

1. Map current business processes, gather data from software and stakeholders and understand how the current process is performing.
2. Analyze business processes to find any errors and delays that could affect the process.
3. Review and confirm any improvement opportunities.
4. Design a new process map that solves the problem the organization has identified.
5. Implement changes and educate stakeholders on these changes.

The business community's enthusiasm for business process reengineering in the 1990s generated many interpretations of how radical change should be implemented.

Thomas Davenport, a professor at Babson College who collaborated with Hammer before developing his own approach to BPR, used the term business process redesign rather than reengineering and provided business leaders with concrete advice, emphasizing the value of prototypes, simulations and tests.

A variation on the five-step process is the seven-step INSPIRE framework developed by business process management expert

- **I**nitiate the new BPR project and prepare the business case.
- **N**egotiate with senior management for approval to start.
- **S**elect the processes to be reengineered.
- **P**lan the activities in the project.
- **I**nvestigate processes for problems.
- **R**edesign the selected processes to improve performance.
- **E**nsure success through monitoring

## 5.9. BENCHMARKING:

Benchmarking helps an organization to get ahead of competition. The organizations can possess a large amount of information that help them in taking strategic and other important decisions. Companies that translate this information to knowledge and use it in their planning and decision making are the winners.

A benchmark may be defined as a standard or a point of reference against which things may be compared and by which something can be measured and judged. In this sense, at a naïve level, it may be compared to the concept of control as the similarities do exist. However, the concept of benchmarking is much broader than mere controlling as there are major strategic dimensions involved. The term has presumably been adapted from physical sciences wherein it refers to a surveyor's mark made on a stationary object at previously determined position and elevation and used as a reference point to measure altitudes.

The scientific studies conducted by Frederick Taylor in the latter part of the nineteenth century represent an early use of the benchmarking concept. However, the term got popularity much later in the seventh decade of twentieth century. Initially, the concept evolved in companies operating in an industrial environment. Over a period of time, it covered other spheres of business activity. In recent years, different commercial and non-commercial organizations are discovering the value of benchmarking and are applying it to improve their processes and systems.

### 5.9.1 WHAT IS BENCHMARKING?

In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of the need to have information against which performances can be measured. For example, *a customer support engineer of a television company attends a call within forty-eight hours*. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance

with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization.

Benchmarking is not a panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational requirements. Further, benchmarking exercises are also repeated periodically so that the organization does not lag behind in the dynamic environment.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other acknowledged leaders in their field. Xerox pioneered this process in late 70's by benchmarking its manufacturing costs against those of domestic and Japanese competitors and got dramatic improvement in the manufacturing cost. Firms can use benchmarking process to achieve improvement in diverse range of management functions like:

### **5.9.2 MAINTENANCE OPERATIONS:**

- ◆ Assessment of total manufacturing costs
- ◆ Product development
- ◆ Product distribution
- ◆ Customer services
- ◆ Plant utilization levels
- ◆ Human resource management

### **5.9.3 STEPS IN BENCHMARKING PROCESS:**

Benchmarking processes used by different organisations lack standardization. However, common elements are as follows:

**(1) Identifying the need for benchmarking:** This step will define the objectives of the benchmarking exercise. It will also involve selecting the type

of benchmarking. Organizations identify realistic opportunities for improvements.

**(2) Clearly understanding existing business processes:** This step will involve compiling information and data on performance. This will include mapping processes. Information and data are collected by different methods such as interviews, visits and filling of questionnaires.

**(3) Identify best processes:** Within the selected framework, best processes are identified. These may be within the same organization or external to it.

**(4) Compare own processes and performance with that of others:** While comparing gaps in performance between the organization and better performers is identified. Further, gaps in performance are analysed to seek explanations. Such comparisons have to be meaningful and credible. Feasibility of making the improvements in the light of the conditions that apply within the organization is also examined.

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

**(6) Evaluation:** A business organization must evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It should also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact its performance.

## 5.10. SIX SIGMA PRINCIPLES:

There are five main principles of Six Sigma:

### **1. Customer focus:**

The main objective is to maximize the benefits for customers. Hence, a business must understand the needs of their customers and the drivers of sales. It requires establishing quality standards according to the market or customer demands.

### **2. Assess the value chain and find the problem:**

Outline the steps of a process to find out unwanted areas and gather related data. Define goals for data collection, purposes for data gathering, and expected insights. Verify that the data is assisting in achieving the objectives, whether more information is needed to be collected, or if data cleansing is required. Find out the problem and its root cause.

### **3. Eliminate defects and outliers:**

After the identification of the problem, make appropriate modifications in the process to eliminate defects. Eliminate any activity in the given process that does not contribute to the customer value. If the value chain is unable to reveal the problem area, various tools are used to find out the problem areas and outliers. Eliminating the outliers and defects removes the bottlenecks in a given process.

### **4. Involve stakeholders:**

A structured process should be adopted where all stakeholders collaborate and contribute to finding solutions to complex issues. The team needs to achieve proficiency in the methodologies and principles applied. Hence, specialized knowledge and training are required to lower project failure risks and ensure optimal performance of the processes.

### **5. Flexible and responsive system:**

Whenever an inefficient or faulty process is eliminated, the employee approach and work practices need to be changed. A flexible and responsive environment to the changes in processes can lead to the efficient implementation of the projects.

The departments involved should be capable of adapting easily to the change. Companies that periodically examine the data and make appropriate changes to their processes may achieve a competitive advantage.

### 5.10.1 THE SIX SIGMA METHODOLOGY:

The two main Six Sigma methodologies are DMAIC and DMADV. Each has its own set of recommended procedures to be implemented for business transformation.

DMAIC is a data-driven method used to improve existing products or services for better customer satisfaction. It is the acronym for the five phases: D – Define, M – Measure, A – Analyse, I – Improve, C – Control. DMAIC is applied in the manufacturing of a product or delivery of a service.

DMADV is a part of the Design for Six Sigma (DFSS) process used to design or re-design different processes of product manufacturing or service delivery. The five phases of DMADV are: D – Define, M – Measure, A – Analyse, D – Design, V – Validate. DMADV is employed when existing processes do not meet customer conditions, even after optimization, or when it is required to develop new methods. It is executed by Six Sigma Green Belts and Six Sigma Black Belts and under the supervision of Six Sigma Master Black Belts. We'll get to the belts later.

The two methodologies are used in different business settings, and professionals seeking to master these methods and application scenarios would do well to take an online certificate program taught by industry experts.

### 5.10.2 THE SIX SIGMA PROCESS OF BUSINESS TRANSFORMATION:

Although what is Six Sigma uses various methods to discover deviations and solve problems, the DMAIC is the standard methodology used by Six Sigma practitioners. Six Sigma uses a data-driven management process used for optimizing and improving business processes. The underlying framework is a strong customer focus and robust use of data and statistics to conclude.

#### **The Six Sigma Process of the DMAIC method has five phases:**

Each of the above phases of business transformation has several steps:

#### **1. DEFINE:**

The Six Sigma process begins with a customer-centric approach.

Step 1: The business problem is defined from the customer perspective.

Step 2: Goals are set. What do you want to achieve? What are the resources you will use to achieve the goals?

Step 3: Map the process. Verify with the stakeholders that you are on the right track.

## **2. MEASURE :**

The second phase is focused on the metrics of the project and the tools used in the measurement. How can you improve? How can you quantify this?

Step 1: Measure your problem in numbers or with supporting data.

Step 2: Define performance yardstick. Fix the limits for "Y."

Step 3: Evaluate the measurement system to be used. Can it help you achieve your outcome?

## **3. ANALYZE :**

The third phase analyzes the process to discover the influencing variables.

Step 1: Determine if your process is efficient and effective. Does the process help achieve what you need?

Step 2: Quantify your goals in numbers. For instance, reduce defective goods by 20%.

Step 3: Identify variations using historical data.

## **4. IMPROVE :**

This process investigates how the changes in "X" impact "Y." This phase is where you identify how you can improve the process implementation.

Step 1: Identify possible reasons. Test to identify which of the "X" variables identified in Process III influence "Y."

Step 2: Discover relationships between the variables.

Step 3: Establish process tolerance, defined as the precise values that certain variables can have, and still fall within acceptable boundaries, for instance, the quality of any given product. Which boundaries need X to hold Y within specifications? What operating conditions can impact the outcome? Process tolerances can be achieved by using tools like robust optimization and validation set.

## **5. CONTROL :**

In this final phase, you determine that the performance objective identified in the previous phase is well implemented and that the designed improvements are sustainable.

Step 1: Validate the measurement system to be used.

Step 2: Establish process capability. Is the goal being met? For instance, will the goal of reducing defective goods by 20 percent be achieved?

Step 3: Once the previous step is satisfied, implement the process.

### **5.10.3 SIX SIGMA TECHNIQUES:**

The Six Sigma methodology also uses a mix of statistical and data analysis tools such as process mapping and design and proven qualitative and quantitative techniques, to achieve the desired outcome.

Six Sigma Techniques in use

#### **1. Brainstorming:**

Brainstorming is the key process of any problem-solving method and is often utilized in the "improve" phase of the DMAIC methodology. It is a necessary process before anyone starts using any tools. Brainstorming involves bouncing ideas and generating creative ways to approach a problem through intensive freewheeling group discussions. A facilitator, who is typically the lead Black Belt or Green Belt, moderates the open session among a group of participants.

#### **2. Root Cause Analysis/The 5 Whys:**

This technique helps to get to the root cause of the problems under consideration and is used in the "analyze" phase of the DMAIC cycle.

In the 5 Whys technique, the question "why" is asked, again and again, finally leading up to the core issue. Although "five" is a rule of thumb, the actual number of questions can be greater or fewer, whatever it takes to gain clarity.

#### **3. Voice of the Customer:**

This is the process used to capture the "voice of the customer" or customer feedback by either internal or external means. The technique is aimed at giving the customer the best products and services. It captures the changing needs of the

customer through direct and indirect methods. The voice of the customer technique is used in the "define" phase of the DMAIC method, usually to further define the problem to be addressed.

#### **4. The 5S System:**

This technique has its roots in the Japanese principle of workplace energies. The 5S System is aimed at removing waste and eliminating bottlenecks from inefficient tools, equipment, or resources in the workplace. The five steps used are Seiri (Sort), Seiton (Set In Order), Seiso (Shine), Seiketsu (Standardize), and Shitsuke (Sustain).

#### **5. Kaizen (Continuous Improvement):**

The Kaizen technique is a powerful strategy that powers a continuous engine for business improvement. It is the practice continuously monitoring, identifying, and executing improvements. This is a particularly useful practice for the manufacturing sector. Collective and ongoing improvements ensure a reduction in waste, as well as immediate change whenever the smallest inefficiency is observed.

#### **6. Benchmarking:**

Benchmarking is the technique that employs a set standard of measurement. It involves making comparisons with other businesses to gain an independent appraisal of the given situation. Benchmarking may involve comparing important processes or departments within a business (internal benchmarking), comparing similar work areas or functions with industry leaders (functional benchmarking), or comparing similar products and services with that of competitors (competitive benchmarking).

#### **7. Poka-yoke (Mistake Proofing):**

This technique's name comes from the Japanese phrase meaning "to avoid errors," and entails preventing the chance of mistakes from occurring. In the poka-yoke technique, employees spot and remove inefficiencies and human errors during the manufacturing process.

#### **8. Value Stream Mapping:**

The value stream mapping technique charts the current flow of materials and information to design a future project. The objective is to remove waste and

inefficiencies in the value stream and create leaner operations. It identifies seven different types of waste and three types of waste removal operations.

## I. CHOOSE THE CORRECT ANSWER:

1\_ refers to the process of conducting research on a company and its operating environment to formulate a strategy.

- (A) SWOT analysis
- (B) Strategic implementation
- (C) Strategic analysis
- (D) Strategic turnaround

2.\_\_\_ is a process through which a strategy is put into action.

- (A) Strategic analysis
- (B) Strategy implementation
- (C) SWOT analysis
- (D) Strategic turnaround

3. Strategic implementation is

- (A) Concerned with translating a strategic decision into action.
- (B) Crafting a combination of strategies and picking out the best one.
- (C) Primarily an intellectual process.
- (D) Considered easier and less time-consuming.

4. The critical 7 S model was developed and created by a reputed consulting firm:

- (A) Mckinsey
- (B) Bain & Co
- (C) A. T. Kearney
- (D) Accenture

5.\_\_\_\_ focuses on whether the strategy is being implemented as planned and the results produced are those intended.

- (A) Strategic analysis
- (B) Strategic control
- (C) Strategy formulation
- (D) Strategy implementation

-----**ALL THE BEST**-----