

LECTURE NOTES
ON
STRATEGIC MANAGEMENT

2018 – 2019

II year MBA II Semester (Autonomous)

Dr.M.Neeraja, Professor



**CHADALAWADA RAMANAMMA ENGINEERING COLLEGE
(AUTONOMOUS)**

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Department of Management Studies



**CHADALAWADA RAMANAMMA ENGINEERING
COLLEGE
(AUTONOMOUS)**

(Affiliated to JNTUA, Approved by AICTE, New Delhi and accredited by NAAC 'A' Grade) Tirupati – 517506, Chittoor Dt. Andhra Pradesh.

STRATEGIC MANAGEMENT

		II MBA IV Semester :						
Course Code	Category	Hours/Week			Credits	Maximum Marks		
		L	T	P		C	Internal	External
17CE00401	Foundation							
		3	-	-	4	40	60	100
Contact classes:50	Tutorial Classes:15	Practical classes: Nil				Total classes:65		

Course Description:

The content of the course is to enable students have a grasp of various business strategies in general and functional management areas. It will provide a strategic orientation in conduct of the business

Course Objectives:

- Students will gain the knowledge about basic concepts of strategic management
- Knowledge of Strategic analysis through advanced tools and techniques.
- Getting of knowledge of strategy formulation through different models.
- Quality management systems that will influence the implementation of strategy.
- Evaluation of the strategy through auditing

Unit - I	Introduction to Strategy and Strategic Management	Classes: 10
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Introduction - Basic Concepts in Strategic Management: - Introduction to Strategic Management – Definitions -Vision, Mission, Objectives, Policies – Factors that shape a company’s strategy – Environmental Scanning - Concepts of Core Competence, Crafting a strategy for competitive advantage.

Unit - II	Strategic Analysis – Choice; Tools and Techniques	Classes: 10
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Strategic Analysis - Choice: Tools and techniques – Mc Kinsey 7-S framework, Porter's Five Force Model, BCG Matrix, GE Model, SWOT Analysis and TOWS Matrix, Market Life Cycle

Model - Organisational Learning, and the Experience Curve.

Unit - III	Strategy Formulation	Classes: 10
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Strategy Formulation : Formulation of strategy at corporate, business and functional levels. strategic planning institute matrix, Arthur D Little company's matrix, Hofer's Product/market evolution matrix, Shell's directional policy Matrix, The PIMS Model, International Portfolio analysis (GD Harrel and RO Keifer, Multinational strategic Market Portfolios), Parenting Fit Matrix (Campbell Corporate parenting).

Unit - IV	Strategic Analysis – Choice; Tools and Techniques	Classes: 10
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Strategy Implementation : Types of Strategies : Stability Strategy, Growth Strategy, Retrenchment Strategy, and Combination Strategy, Offensive strategy, Defensive strategy, vertical integration, horizontal strategy; Tailoring strategy to fit specific industry and company situations, Strategy and Leadership, Resource Allocation as a vital part of strategy – Planning systems for implementation – BPRE –Executive succession – Downsizing – TQM – MBO.

Unit - V	Strategic Evaluation and Control	Classes: 10
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Strategy Evaluation and control – Establishing strategic controls - Role of the strategist - benchmarking to evaluate performance - strategic information systems – Guidelines for proper control- Strategic surveillance -strategic audit - Strategy and Corporate Evaluation and feedback in the Indian and international context.

References:

1. Crafting and Executing Strategy: Concepts and Cases, Thompson, Gamble, Jain, TMH.
2. Strategic Management Concepts and Cases ,FredR.David, PHI.
3. Strategic Management,Hill, Ireand, manikutty, Cengage.
4. Concepts in Strategic Management and Business Policy,Wheelen& Hunger, Pearson
Strategic Management – Text and Cases, V.S.P. Rao, Excel.
5. Strategic Management, Ireland, Hoskinsson, Hitt, Cengage.
6. Strategic Management – Theory and Application, Habergerg, Rieple, oxford .
7. Strategic Management, P. SubbaRao, Himalaya.
8. Business policy and strategic management, SukulLomash, P.K.Mishra, Vikas.
9. Strategic Management – The Indian Context, r.Srinivasan, PHI.

Mode of Evaluation: Assignments, Seminars, Written Examinations

UNIT-1

INTRODUCTION TO STRATEGY AND STRATEGIC MANAGEMENT

Strategic Management is a field of study that involves the process through which firms define their missions, visions, goals, and objectives, as well as craft and execute strategies at various levels of the firms' hierarchies to create and sustain a competitive advantage.

Strategy is a high level plan to achieve one or more goals under conditions of uncertainty.

Here are some definitions of strategy.

Chandler(1962)Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals;

Mintzberg (1979) Strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment.

Prahalad (1993) Strategy is more than just fit and allocation of resources. It is stretch and leveraging of resources

Porter (1996) Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value

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

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

Strategic Management Is Basically Needed For Every Organization And It Offers Several Benefits:

1. Universal Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national policies, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

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

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

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

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

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

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

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

Importance of Strategic Management

- Proactive in shaping firm's future
- Improved understanding of competitors strategies
- Enhanced awareness of threats
- Reduced resistance to change
- Enhanced problem-prevention capabilities
- Initiate and influence firm's activities
- Formulate better strategies
 - Systematic, logical, rational

Benefits of strategic management

- Establish the mission
- Formulate philosophy
- Establish policies
- Setting objectives
- Developing strategy
- Plan the organizational structure
- Provide personnel
- It helps in answering questions:
 - Where is the Organization now?
 - Where will be the organization in a certain timeframe?
 - What are the risks and payoffs?
 - What could be possible changes in organization's internal & external environment?
- Establish procedures
- Provide facilities
- Provide capital
- Set standards
- Establish programs and plans
- Control information
- Activate people

LEVELS OF STRATEGY

A typical business firm should consider three types of strategies, which form a hierarchy as shown in Figure 2.2 Corporate strategy – Which describes a company's overall direction towards growth by managing business and product lines? These include stability, growth and retrenchment. For example, Coco cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader

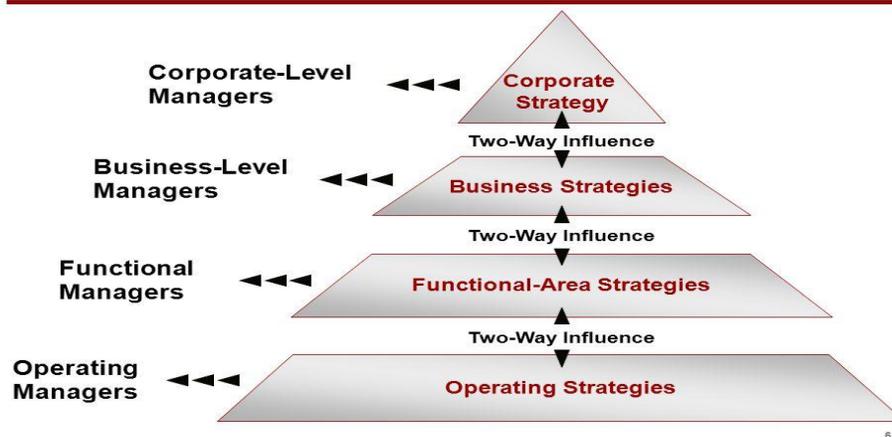
Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or services in an industry or market segment served by that business unit. Business strategy falls in the in the realm of corporate strategy.

For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grindlays merged with Standard Chartered Bank to emerge competitively.

Functional strategy – It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example, Procter and Gamble spends huge amounts on advertising to create customer demand.

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

Figure 2.2: A Company's Strategy-Making Hierarchy



Participative management style of functioning, it is a group or team exercise involving key personnel and all functional executives in the organization.

STRATEGIC MANAGEMENT DEFINITION AND MEANING

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.

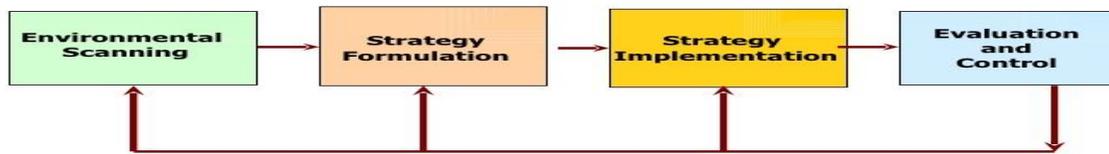
Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make 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 evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Basic Model of Strategic Management



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. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

MEANING & DEFINITION

- Strategic Management can be defined as “the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objective.”
- **Definition:**
“The on-going process of formulating, implementing and controlling broad plans guide the organization in achieving the strategic goods given its internal and external environment”.

OBJECTIVES OF STRATEGIC MANAGEMENT

In strategic management, there are strategic objectives and financial objectives. Additionally, all objectives are either short-run or long-run types. When planning a firm's strategy it is important to have objectives in mind and to understand the differences between the types of objectives.

Strategic Objectives

Strategic objectives deal with the firm's position in the model. You might do this, for example, by positioning the firm relative to the external forces – bargaining power of customers,

bargaining power of suppliers, threat of new entrants, threat of substitutes, and competition within the industry – that can impact a business. Strategic objectives might include expanding market share, changing market position or under-cutting a competitor's costs.

Financial Objectives

Managers use financial objectives to measure strategic performance. For example, if the firm's strategic objective is to increase efficiency, the financial objective could be to increase return on assets or return on capital. Financial objectives, derived from management accounting, are more concrete.

Short-run Objectives

Financial and strategic objectives can either be short-run or long-run objectives. Short-run objectives deal with the immediate future. They typically focus on tangible goals that management can realize in a short time. An example of a short-run objective might be to increase monthly sales.

Long-run Objectives

Long-run objectives target the firm's long-term position. While short-run objectives focus on a firm's annual or monthly performance, long-run objectives concern themselves with the firm's development over several years. Examples of long-term objectives might be to become the market leader or to attain sustainable growth.

STRATEGIC MANAGEMENT PROCESS

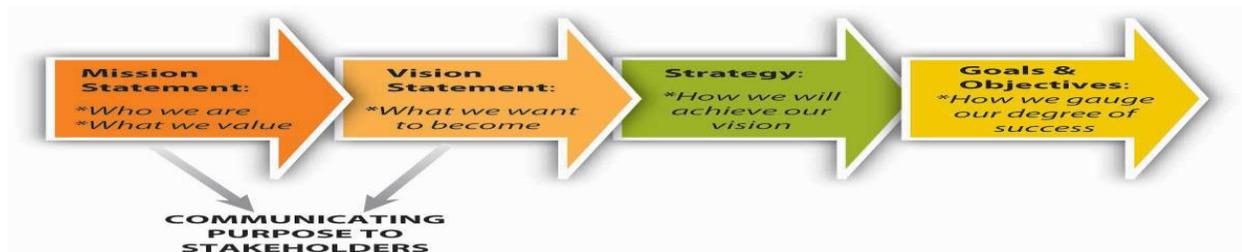


VISION, MISSION, OBJECTIVES, POLICIES

A **Mission Statement** defines the company's business, its objectives and its approach to reach those objectives.

A **Vision Statement** describes the desired future position of the company. Elements of **Mission** and **Vision** Statements are often combined to provide a **statement** of the company's purposes, goals and **values**.

Role played by mission, vision:



What is an objective? Definition and meaning

In business, an objective refers to the specific steps a company will take to achieve a desired result. The result is the goal. Hence the term ‘goals and objectives.’ In other words, my goal is what I want to become, while my objective is how I plan to get there.

A business’ goal is more general and may not specify when things will happen. Objectives, on the other hand, are specific and tell you what the company will do to reach its goal.

A business’ primary aim is to add value, which in the private sector involves making a profit. Strategic objectives or aims may include brand building, market leadership, expansion, or gaining a specific share of the market.

Objectives, if a company is losing money, may include laying off staff and closing some branches.



An objective is ‘SMART’

A company’s business objective is a detailed picture of a step its senior management plans. Specifically, they are steps it plans to take to reach a specific goal.

According to businesscasestudies.co.uk, these must be **SMART** so that the company can gauge and monitor its progress

SMART refers to the first letter of each of the five words listed below. They describe what an objective must be:

- **Specific:** easy to understand and clear.
- **Measurable:** in other words, easy to quantify.

- **Achievable:** possible to be attained.
- **Realistic:** this one is similar to achievable. The aim must not be ‘pie in the sky’.
- **Time-bound:** related to specific durations and dates.

POLICIES: Policies are principles, rules and guidelines formulated or adopted by an organization to reach its long term goals .They are designed to influence and determine all major decisions and actions, and all activities take place within the boundaries set by them.

FACTORS THAT SHAPE A COMPANY'S STRATEGIES

Organizations do not exist in a vacuum. Many factors enter into the forming of a company's strategy. Each exists within a complex network of environmental forces. These forces, conditions, situations, events, and relationships over which the organization has little control are referred to collectively as the organization's environment.

In general terms, environment can be broken down into three areas:

- the macro environment, or general environment (remote environment) - that is, economic, social, political and legal systems in the country;
- operating environment - that is, competitors, markets, customers, regulatory agencies, and stakeholders; and
- The internal environment - that is, employees, managers, union, and board directors.

Analysis Of The Macro environment

An organization ignores the macro environment at its own great peril. Many studies support the concept that there are needs to be a link between the organization's strategic decisions and its environment. All organizations are affected by four macro environmental forces: political-legal, economic, technological, and social.

Political and Regulatory Forces

Political-legal forces include the outcomes of elections, legislation, and court judgments, as well as the decisions rendered by various commissions and agencies. The political sector of the environment presents actual and potential restriction on the way an organization operates.

Among the most important government actions are: regulation, taxation, expenditure, takeover (creating a crown corporation, and privatization. The differences among local, national, and international subsectors of the political environment are often quite dramatic. Political instability in some areas makes the very form of government subject to revolutionary changes.

In addition the basic system of government and the laws the system promulgates, the political environment might include such issues as monitoring government policy toward income tax, relative influence of unions, and policies concerning utilization of natural resources.

Political activity may also have significant impacts on three additional governmental functions influencing a firm's external environment:

* Supplier function. Government decisions regarding creation and accessibility of private businesses to government-owned natural resources and national stockpiles of agricultural products will profoundly affect the viability of some firm's strategies.

* Customer function. Government demand for products and services can create, sustain, enhance, or eliminate many market opportunities.

* Competitor function. The government can operate as an almost unbeatable competitor in the market place, Therefore, knowledge of government strategies can help a firm to avoid unfavorable confrontation with government as a competitor.

In general, the impact of government is far-reaching and increasing.

Economic Forces

Economic forces refer to the nature and direction of the economy in which business operates. Economic factors have a tremendous impact on business firms. The general state of the economy (e.g., depression, recession, recovery, or prosperity), interest rate, stage of the economic cycle, balance of payments, monetary policy, fiscal policy, are key variables in corporate investment, employment, and pricing decisions.

The impact of growth or decline in gross national product and increases or decreases in interest rates, inflation, and the value of the dollar are considered as prime examples of significant impact on business operations.

To assess the local situation, an organization might seek information concerning the economic base and future of the region and the effects of this outlook on wage rates, disposable income, unemployment, and the transportation and commercial base. The state of world economy is most critical for organizations operating in such areas.

Technological Forces

Technological forces influence organizations in several ways. A technological innovation can have a sudden and dramatic effect on the environment of a firm. First, technological developments can significantly alter the demand for an organization's or industry's products or services.

Technological change can decimate existing businesses and even entire industries, since it shifts demand from one product to another. Moreover, changes in technology can affect a firm's operations as well its products and services.

These changes might affect processing methods, raw materials, and service delivery. In international business, one country's use of new technological developments can make another country's products overpriced and noncompetitive. In general,

Technological trends include not only the glamorous invention that revolutionizes our lives, but also the gradual painstaking improvements in methods, in materials, in design, in application, unemployment, and the transportation and commercial base. They diffusion into new industries and efficiency" (John Argenti).

The rate of technological change varies considerably from one industry to another. In electronics, for example change is rapid and constant, but in furniture manufacturing, change is slower and more gradual.

Changing technology can offer major opportunities for improving goal achievements or threaten the existence of the firm. Therefore, "the key concerns in the technological environment involve building the organizational capability to (1) forecast and identify relevant developments - both within and beyond the industry, (2) assess the impact of these developments on existing operations, and (3) define opportunities" (Mark C. Baetz and Paul W. Beamish).

These capabilities should result in the creation of a technological strategy. Technological strategy deals with "choices in technology, product design and development, sources of technology and R&D management and funding" (R. Burgeleman and M. Maidique).

The effect that changing technology can have upon the competition in an industry is also dealt with other chapters. Technological forecasting can help protect and improve the profitability of firms in growing industries.

Social Forces

Social forces include traditions, values, societal trends, consumer psychology, and a society's expectations of business.

The following are some of the key concerns in the social environment: ecology (e.g., global warming, pollution); demographics (e.g., population growth rates, aging work force in industrialized countries, high educational requirements); quality of life (e.g., education, safety, health care, standard of living); and noneconomic activities (e.g., charities).

Moreover, social issues can quickly become political and even legal issues. Social forces are often most important because of their effect on people's behaviour. For an organization to survive, the product or service must be wanted, thus consumer behaviour is considered as a separate environmental behaviour. Behaviour factors also affect organisations internally, that is, the employees and management.

A society's expectations of business present other opportunities and constraints. These expectations emanate from diverse groups referred to as stakeholders. Stakeholders include a firm's owners (stockholders), members of the board of directors, managers and operating employees, suppliers, creditors, distributors, customers, and other interest groups - at the broadest level, stakeholders include the general public.

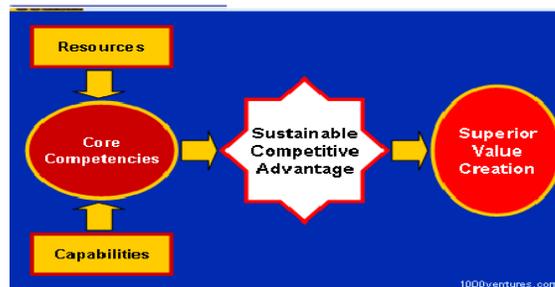
Determining the exact impact of social forces on an organization is difficult at best. However, assessing the changing values, attitudes, and demographic characteristics of an organization's customers is an essential element in establishing organizational objectives.

CONCEPT OF CORE COMPETENCE IN STRATEGIC MANAGEMENT

Core competencies are the most significance value of creating skills within your corporation and key areas of expertise which are distinctive to your company and critical to the company's long term growth Your company's core competencies are the things that you do better than your competitors in the critical, central areas

of your company where the most value is added to your products. These areas of expertise may be in any area product development to employee dedication. A competence which is central to your business's operations but which is not exceptional in some way should not be considered as a core competence, as it will not generate a diffetiante advantage over rival businesses. It follows from the concept of Core Competencies that resources that are standardized or easily available will not enable a business to achieve a competitive advantage over rivals. The concept of core competencies was developed in the management field in 1990 by **C.K. Prahalad** and **Gary Hamel** in the Harvard Business Review article titled

Core Competence of the Corporation



Core competence diagram

Objectives of core competence:-

Core Competence as a Team Sport A core competence is a combination of

Complementary

Skills and knowledge bases embedded in a group or team that taken together makes it possible to provide a

Superior product

The Seven Dimensions of Strategic Innovation

The Strategic Innovation framework weaves together seven dimensions to produce a range of outcomes that drive growth.

Core Technologies and Competencies

is the set of internal capabilities, organizational competencies and assets that could potentially be leveraged to deliver value to customers, including technologies, intellectual property, brand equity and strategic relationships... More

Building Synergies

A corporation that builds on core competencies utilizes skills that combine to strengthen value chains and build greater competitive advantages. This leads to

synergies

among business units, whereby they become more productive together than independently

Strategic management core competence:



Core Products

Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products include:

- 3M - substrates, coatings, and adhesives
- Black & Decker - small electric motors
- Canon - laser printer subsystems
- Matsushita - VCR subsystems, compressors
- NEC - semiconductors
- Honda - gasoline powered engines

The core products are used to launch a variety of end products. For example, Honda

Core competencies → core products → end products

Identifying the core competence:

1. Does this competence provide potential access to a wide variety of markets?
2. Does this competence make a significant contribution to the perceived customer benefits of the end product?
 - is this competence difficult for competitors to imitate?
3. Is this competence difficult for competitors to intimate?

Developing of core competence:

A Core Competence is built through a process of continuous improvement and enhancement. It should constitute the focus for corporate strategy. Once top management have identified an all embracing Core Competence, it must ask businesses to identify the projects and the people that are closely connected with it. A core competency often can be acquired through alliances and licensing agreements.

Building for core competence: Invest in needed technologies

e.g. Citicorp Adopting The Operating System.

Infuse resources throughout business units

to outpace rivals in new business development

e.g. 3M, Honda won races of brand dominance

Forge strategic alliances

NEC's collaboration with partners like Honeywell

Losses in core competence:

Cost-cutting moves sometimes destroy the ability to build core competencies Outsourcing prevents the firm from developing core competencies in those tasks since it no longer consolidates the know-how that is spread throughout the company Failure to recognize core competencies may lead to decisions that result in their loss e.g. Motorola divested itself of its semiconductor DRAM business at 256Kb level, and then was unable to enter the 1Mb market on its own.

CRAFTING A STRATEGY FOR COMPETITIVE ADVANTAGE:

There Are Basically Four Approaches to Crafting a Strategy

1. The Chief Architect approach A single person – the owner or CEO – assumes the role of chief strategist and chief entrepreneur, single handedly shaping most or all of the major pieces of strategy. This does not mean that one person is the originator of all the ideas underlying the resulting strategy or does all the background data gathering and analysis: there may be much brainstorming with subordinates and considerable analysis by specific departments. The chief architect approach to strategy formation is characteristic of companies that have been founded by the company's present CEO. Michael Dell at Dell Computer, Steve Case at America Online, Bill Gates at Microsoft, and Howard Schultz at Starbucks are prominent examples of corporate CEOs who exert a heavy hand in shaping their company's strategy.

2. The Delegation Approach: Here the manager in charge delegates big chunks of the strategy-making task to trusted subordinates, down-the-line managers in charge of key business units and departments, a high-level task force of knowledgeable and talented people from many parts of the company, self-directed work teams with authority over a particular process or function, or, more rarely, a team of consultants brought in specifically to help develop new strategic initiatives.

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

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

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

UNIT –II

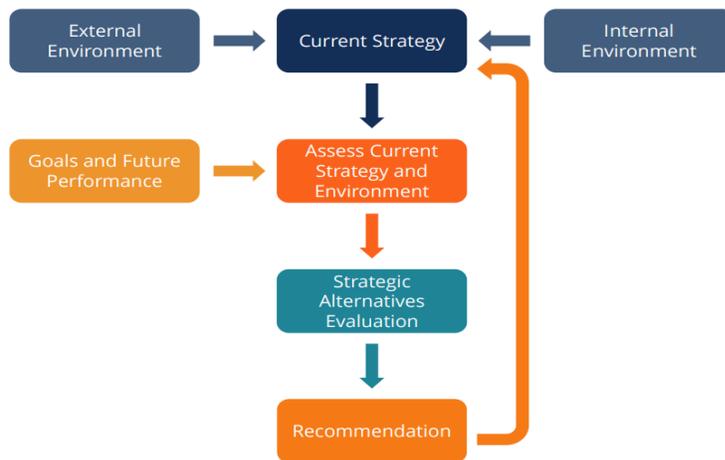
STRATEGIC ANALYSIS –CHOICE, TOOLS & TECHNIQUES

Strategic analysis refers to the process of conducting research on a company and its operating environment to formulate a strategy. The definition of strategic analysis may differ from an academic or business perspective, but the process involves several common factors:

1. Identifying and evaluating data relevant to the company's strategy
2. Defining the internal and external environments to be analyzed
3. Using several analytic methods such as Porter's five forces analysis, SWOT analysis, and value chain analysis

Strategic Analysis Process

The following info graphic demonstrates the strategic analysis process:



1. Perform an environmental analysis of current strategies

Starting from the beginning, a company needs to complete an environmental analysis of its current strategies. Internal environment considerations include issues such as operational inefficiencies, employee morale, and constraints from financial issues. External environment considerations include political trends, economic shifts, and changes in consumer tastes.

2. Determine the effectiveness of existing strategies

A key purpose of a strategic analysis is to determine the effectiveness of the current strategy amid the prevailing business environment. Strategists must ask themselves questions such as: Is

our strategy failing or succeeding? Will we meet our stated goals? Does our strategy align with our vision, mission, and values?

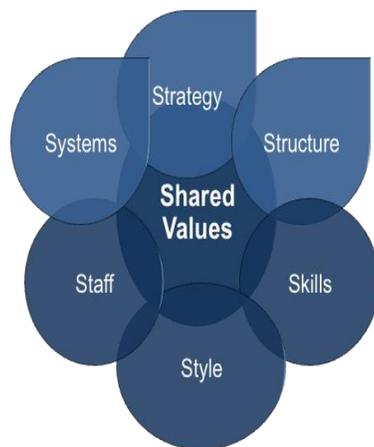
3. Formulate plans

If the answer to the questions posed in the assessment stage is “No” or “Unsure,” we undergo a planning stage where the company proposes strategic alternatives. Strategists may propose ways to keep costs low and operations leaner. Potential strategic alternatives include changes in capital structure, changes in supply chain management, or any other alternative to a business process.

4. Recommend and implement the most viable strategy

Lastly, after assessing strategies and proposing alternatives, we reach the recommendation. After assessing all possible strategic alternatives, we choose to implement the most viable and quantitatively profitable strategy. After producing a recommendation, we iteratively repeat the entire process. Strategies must be implemented, assessed, and re-assessed. They must change because business environments are not static.

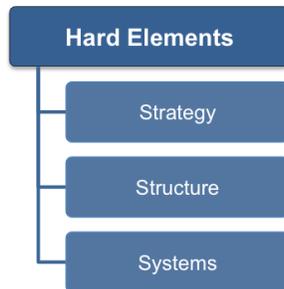
The McKinsey 7S Framework is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7 Ss are structure, strategy, systems, skills, style, staff and shared values.



To help you better understand this model, it is divided into two categories – hard elements, and soft elements. Three of the factors are categorized on the hard elements side, with four on the soft elements side. Let’s take a look at each of these separately to better understand how the McKinsey 7-S Model can influence your organization.

The Hard Elements

The three factors which are considered as ‘hard’ elements under this model are strategy, structure, and systems. For most managers, these are going to be the elements that are easier to understand and quantify. In fact, these are probably the areas that you are currently spending most of your time, even if you don’t think about them as such.



These are the classic elements of business operations and your work on a daily basis very likely relates to one or more of these areas.

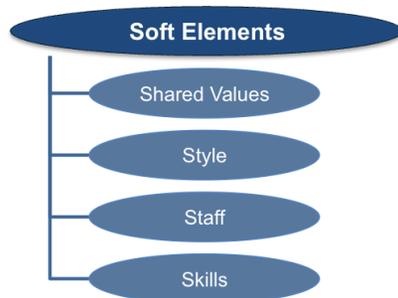
Strategy. This is a high-level perspective on the business and how you plan to rise above your competitors over time. Most likely, you will be able to draw most of your strategy from the business plan that should have been drafted when you were first getting started. In some cases, your strategy could be defined by the sub-section of the business in which your work. For example, if you are the accounting manager within a larger organization, your strategy may relate to how you can best provide the accurate data that is required by those above you – as opposed to having it relate the business operations as a whole.

Structure. The structure element is another one that you probably have a handle on already. Structure is often visualized in the form of an organizational chart or other document that outlines who reports to whom. This structure could deal in terms of the whole organization, or simply a department within the company, such as the accounting department from our previous example.

Systems. How the job gets done. This is the work that is taking place on a regular basis to keep the business operating and moving forward. Most likely, systems is where you spend the vast majority of your time as a manager. Making sure all of your employees are working on the right projects, and getting them done in time, is the life of a leader within any business. Without systems that function properly, none of the rest of the model will get you anywhere.

It should be pretty easy to get a handle on these hard elements of the model. However, just by thinking of them in this way and making sure each is aligned to the other, your management style could be improved or refined.

The Soft Elements



This is where it will get trickier for many people. The soft elements within this model are somewhat harder to define, and definitely more difficult to quantify. They are no less important, however, and the good leader will give them just as much time and attention as the previous group.

Shared Values. Think of this point as the overall culture of the company, and the purpose behind everything that is done. The shared values of an organization should stretch to all employees, to create a feeling of cohesiveness and camaraderie.

Style. How are you going to lead your team? The style of leadership that you use should fall in line with both the culture of the organization, and the needs of your team. There are many different leadership styles employed by managers depending on the situation, so you will need to craft your own approach to the job as you see best fit based on the circumstances around you.

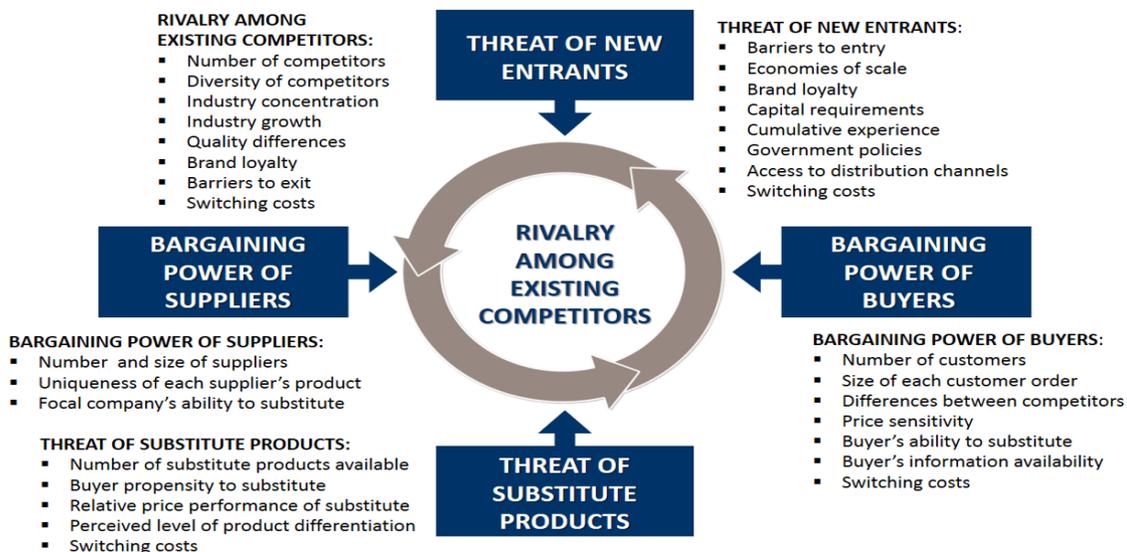
Staff. Understanding the strengths and weaknesses of your team is a classic leadership responsibility – but you also need to know how to then get the most from them while also developing their skills along the way. A good leader will constantly be improving their team so they are stronger tomorrow than they were today.

Skills. In many ways, this point goes along with staff in terms of knowing what you can get done in-house with the skills you have available to you. You never want to ask someone on your team to do something they aren't capable of, so having a strong understanding of the skills within your staff is something that you should prioritize.

Within these seven elements is essentially everything that a good manager needs to pay attention to on a regular basis. You probably already have a good feel for many of these points, but some of them may be new to you – or you may have let them slide recently. Organizational alignment is an important quality within any business, and following the McKinsey 7-S Model is a good way to get started working toward that goal. Take the time to review the model carefully and then apply it to the existing condition of your company.

PORTER'S FIVE FORCES FRAMEWORK

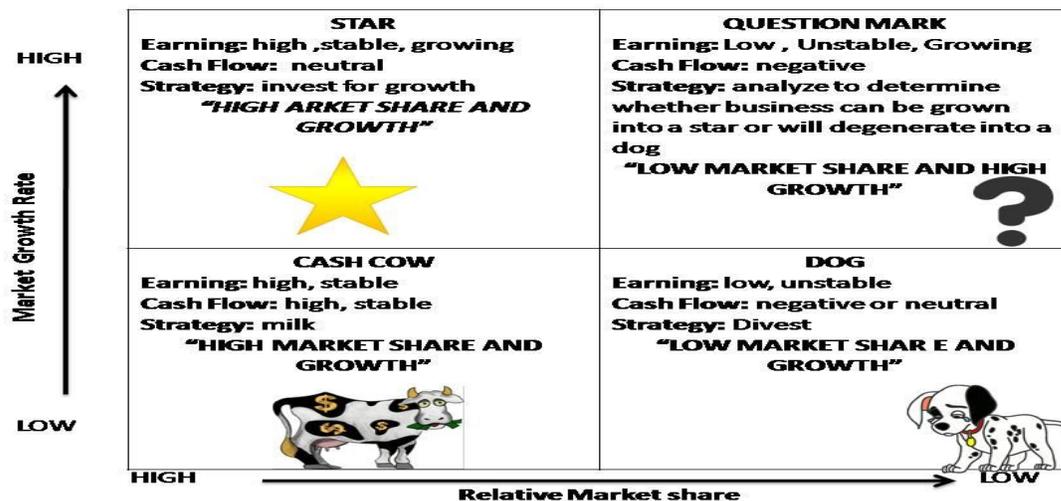
Porter's Five Forces Framework is a tool for analyzing competition of a business. It draws from industrial organization economics to derive five forces that determine the competitive intensity and, therefore, the attractiveness of an industry in terms of its profitability.



BCG MATRIX

The Boston Consulting group's product portfolio matrix (BCG matrix) is designed to help with long-term strategic planning, to help a business consider growth opportunities by reviewing its portfolio of products to decide where to invest, to discontinue or develop products. It's also known as the Growth/Share Matrix.

The Matrix is divided into 4 quadrants based on an analysis of market growth and relative market share, as shown in the diagram below.



- **1. Dogs:** These are products with low growth or market share.
- **2. Question marks or Problem Child:** Products in high growth markets with low market share.
- **3. Stars:** Products in high growth markets with high market share.
- **4. Cash cows:** Products in low growth markets with high market share

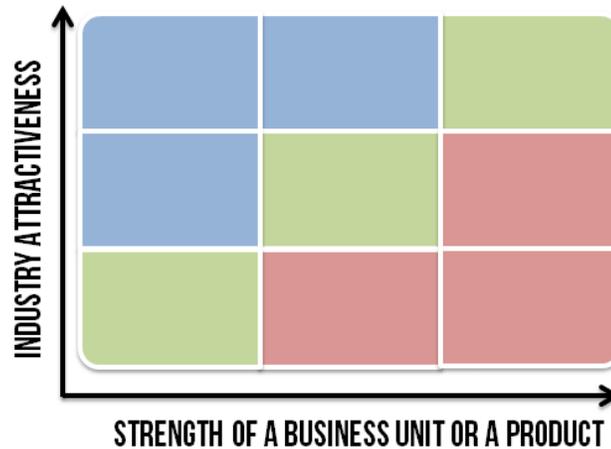
GE-McKinsey nine-box matrix

Is a strategy tool that offers a systematic approach for the multi business corporation to prioritize its investments among its business units.

GE-McKinsey

is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit

GE-MCKINSEY MATRIX



In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the resources. Therefore, GE consulted the McKinsey & Company and as a result the nine-box framework was designed. The nine-box matrix plots the BUs on its 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there're still some resources left. The BUs are evaluated on two axes: industry attractiveness and a competitive strength of a unit.

Industry Attractiveness

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

Industry attractiveness consists of many factors that collectively determine the competition level in it. There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common:

- Long run growth rate
- Industry size
- Industry profitability: entry barriers, exit barriers, supplier power, buyer power, threat of substitutes and available complements (use Porter's Five Forces analysis to determine this)
- Industry structure (use Structure-Conduct-Performance framework to determine this)
- Product life cycle changes
- Changes in demand
- Trend of prices

- Macro environment factors (use PEST or PESTEL for this)
- Seasonality
- Availability of labor
- Market segmentation
- Competitive strength of a business unit or a product

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: “For how long it will be sustained?”

The following factors determine the competitive strength of a business unit:

- Total market share
- Market share growth compared to rivals
- Brand strength (use brand value for this)
- Profitability of the company
- Customer loyalty
- VRIO resources or capabilities (use VRIO framework to determine this)
- Your business unit strength in meeting industry’s critical success factors (use Competitive Profile Matrix to determine this)
- Strength of a value chain (use Value Chain Analysis and Benchmarking to determine this)
- Level of product differentiation
- Production flexibility

Advantages

- Helps to prioritize the limited resources in order to achieve the best returns.
- Managers become more aware of how their products or business units perform.
- It’s more sophisticated business portfolio framework than the BCG matrix.
- Identifies the strategic steps the company needs to make to improve the performance of its business portfolio.

Disadvantages

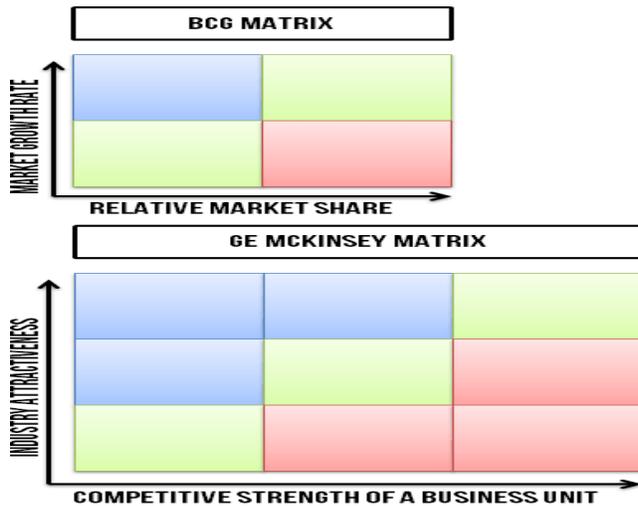
- Requires a consultant or a highly experienced person to determine industry’s attractiveness and business unit strength as accurately as possible.
- It is costly to conduct.
- It doesn’t take into account the synergies that could exist between two or more business units.

Difference between GE McKinsey and BCG matrices

GE McKinsey matrix is a very similar portfolio evaluation framework to BCG matrix. Both matrices are used to analyze company’s product or business unit portfolio and facilitate the investment decisions.

The main differences:

Visual difference. BCG is only a four cell matrix, while GE McKinsey is a nine cell matrix. Nine cells provide better visual portrait of where business units stand in the matrix. It also separates the invest/grow cells from harvest/divest cells that are much closer to each other in the BCG matrix and may confuse others of what investment decisions to make. GE-McKinsey matrix compared to BCG matrix visually



Comprehensiveness. The reason why the GE McKinsey framework was developed is that BCG portfolio tool wasn't sophisticated enough for the guys from General Electric. In BCG matrix, competitive strength of a business unit is equal to relative market share, which assumes that the larger the market share a business has the better it is positioned to compete in the market. This is true, but it's too simplistic to assume that it's the only factor affecting the competition in the market. The same is with industry attractiveness that is measured only as the market growth rate in BCG. It comes to no surprise that GE with its complex business portfolio needed something more comprehensive than that.

SWOT analysis is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.



The TOWS Matrix is derived from the SWOT Analysis model, which stands for the internal Strengths and Weaknesses of an organisation and the external Opportunities and Threats that the business is confronted with.

The acronym TOWS is a variant of this and was developed by the American international business professor Heinz Weirich.

The TOWS Matrix is aimed at developing strategic options from an external-internal analysis and is a practical tool, particularly in the fields of business administration and marketing.

The other way around

Whereas SWOT Analysis starts with an internal analysis, the TOWS Matrix starts the other way around, with an external environment analysis; the threats and opportunities are examined first.

From that standpoint, an organisation gets a clear picture of its environment and the opportunity to think about strategy and what direction the company will go in. Next the company's strengths and weaknesses are considered; what it's good at internally and what it's not so good at.

The external analysis is linked to the analysis and the resulting TOWS Matrix can help an organisation to make decisions better, seize opportunities and protect itself better against threats.

Strategic options

The TOWS Matrix helps businesses to identify their strategic options. An organisation gets the opportunity to make the most of its strengths and get around its internal weaknesses and learn to deal with them properly. Externally, an organisation learns to carefully look for market opportunities and recognise possibilities. And they learn how to control and overcome potential threats.

The TOWS Matrix can also help with brainstorming and developing great ideas to generate effective marketing strategies and tactics. Furthermore, the model goes beyond merely finding out the strengths and weaknesses within an organisation and what opportunities and threats there are in its environment. It forces organisations to really think about how they can improve themselves, how they can guard against threats and become more aware of their expertise and potential shortcomings.

External environment

The TOWS Matrix is not just meant for the highest levels of management in an organisation. It can be a very useful tool for departments (i.e. a marketing or sales team) or for individual employees on an operational level. Once it's employee's or a department's strengths are known, these can be improved further to become even better. The TOWS Matrix emphasises the external environment.

It starts by analysing external opportunities and threats. Up next are the internal strengths and weaknesses, which will subsequently be linked to the external analysis. And this is where it goes a step beyond the traditional SWOT analysis; strategic tactics emerge by opposing **S-O** (Strengths-Opportunities), **W-O** (Weaknesses-Opportunities), **S-T** (Strengths-Threats) and **W-T** (Weaknesses-Threats).

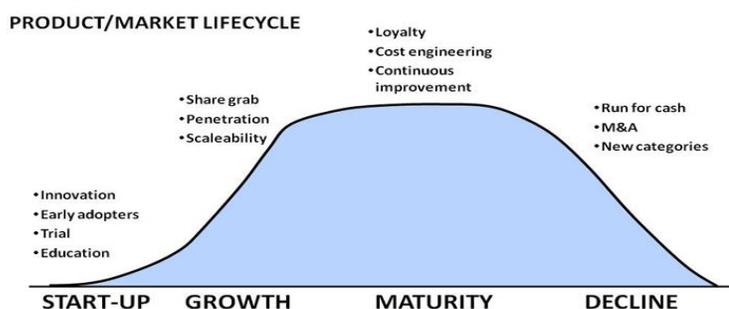
A next step in the analysis helps when thinking about the option they want to pursue. Here the external opportunities and threats are compared to the internal strengths and weaknesses to help identify strategic options:

1. Internal Strengths and External Opportunities (**S-O**) – how can they use the strengths to benefit from existing external opportunities?
2. Internal Strengths and External Threats (**S-T**) – how can they benefit from their strengths to avoid or lessen (potential) external threats?
3. Internal Weaknesses and External Opportunities (**W-O**) – how can they use opportunities to overcome the organisation’s internal weaknesses?
4. Internal Weaknesses and External Threats (**W-T**) – how can they minimise weaknesses and thus avoid potential threats?



MARKET LIFE CYCLE MODEL

The Product/Market lifecycle model tells you how your strategy should change as the market matures



ORGANIZATIONAL LEARNING

Organizational learning is the process by which an organization gains new knowledge about its environment, goals, and processes. Herbert Simon (1997) posits three ways in which organizations learn: (1) individuals within the organization learn some new fact or procedure, (2) the organization ingests outsiders with knowledge not already in the organization, and (3) the organization incorporates new knowledge into its files and computer systems. As broader organizations, governments and policy-making communities also learn.” (Smith)



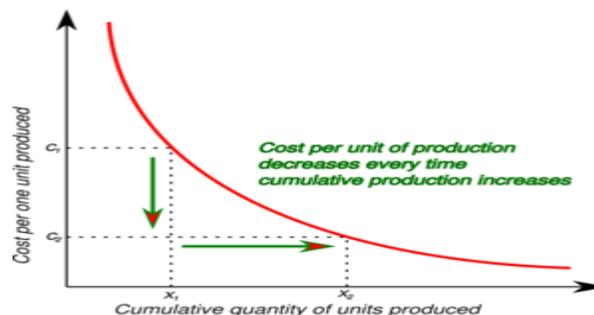
Experience curve

is a graph that shows the effect of improving the organization and functioning of the company. There are many factors that influence the magnitude of this effect, and the most common are:

- increase of the scale of production,
- technical and organizational progress in the production process,
- quality improvement.

PRINCIPLES OF CREATING A GRAPH

There is a relationship between the scale of production and the size of the unit cost of the product, known as the effect of experience. Graphical image of this effect (created on the basis of cumulative production and unit costs of the sector) is called experience curve.



showing the positions of individual producers you get a graph of the experience curve. The possibility of obtaining a competitive advantage is related to the effect of the experience and depends on the situation within the sector and particularly the rate of growth of demand. When it is too weak, it is difficult to increase production.

Interpretation

The increase in scale of production has a beneficial effect on the unit cost, which generally decreases with the volume of production. It is the interpretation of the law of increasing production. Also, technological advances and organizational development impact in a fundamental way unit costs.

Another area of experience effect is the quality. It concerns: the human factor, the state machinery, and raw material quality. These factors determine the production strategy of the company, which may result in better utilization of productive capacity, as well as lower production costs. In quality analysis experience curve is a graph showing the deficiency of production. Such graph can be considered as the experience curve, the downward trend is expressed in different periods (the effect of experience is a positive dimension). If the chart shows a negative trend of number of defective product, it is called by the term: error (failures) curve.

Knowledge of the experience curve for a given product and its position on this curve allows each company to formulate its own strategy for development of production and unit costs. It also allows you to compare the situation of the cost of all enterprises in the sector and inform investors about the economic barrier to entry to the sector.

UNIT-3

STRATEGY FORMULATION

Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the strategic management process. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

It is examined through **SWOT** analysis. SWOT is an acronym for strength, weakness, opportunity and threat. The strategic plan should be informed to all the employees so that they know the company's objectives, mission and vision. It provides direction and focus to the employees.

STEPS OF STRATEGY FORMULATION

The steps of strategy formulation include the following:



1. **Establishing Organizational Objectives:** This involves establishing long-term goals of an organization. Strategic decisions can be taken once the organizational objectives are determined.

2. **Analysis of Organizational Environment:** This involves SWOT analysis, meaning identifying the company's strengths and weaknesses and keeping vigilance over competitors' actions to understand opportunities and threats.

Strengths and weaknesses are internal factors which the company has control over. Opportunities and threats, on the other hand, are external factors over which the company has no control. A successful organization builds on its strengths, overcomes its weakness, identifies new opportunities and protects against external threats.

3. **Forming quantitative goals:** Defining targets so as to meet the company's short-term and long-term objectives. Example, 30% increase in revenue this year of a company.
4. **Objectives in context with divisional plans:** This involves setting up targets for every department so that they work in coherence with the organization as a whole.
5. **Performance Analysis:** This is done to estimate the degree of variation between the actual and the standard performance of an organization.
6. **Selection of Strategy:** This is the final step of strategy formulation. It involves evaluation of the alternatives and selection of the best strategy amongst them to be the strategy of the organization.

Strategy formulation process is an integral part of strategic management, as it helps in framing effective strategies for the organization, to survive and grow in the dynamic business environment.

Levels of strategy formulation

There are three levels of strategy formulation used in an organization:



- **Corporate level strategy:** This level outlines what you want to achieve: growth, stability, acquisition or retrenchment. It focuses on what business you are going to enter the market.
- **Business level strategy:** This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the strategic business unit (SBU).
- **Functional level strategy:** This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

Hence, all organisations have competitors, and it is the strategy that enables one business to become more successful and established than the other.

Strategic planning process is a continuous process that starts with Situation Analysis and ends with Preparation of Business Unit Strategic Plan juxtaposed between other logical stages namely, development of mission statement and objectives, determining the business composition, strategic analysis of business units and selecting business unit objectives and strategies.

The side chart makes it amply clear, that will help our future elucidation the steps involved in the process.

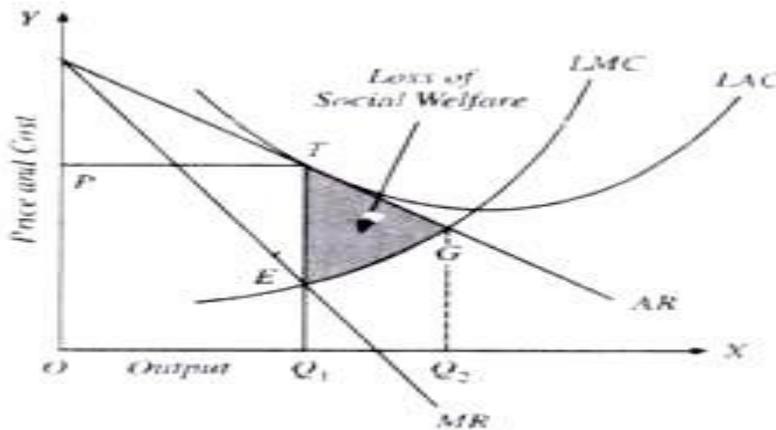


Fig. 28.16. Loss of Social Welfare.

The Arthur D Little (ADL) Strategic Condition Matrix offers a different perspective on strategy formulation. ADL has two main dimensions – *competitive position* and *industry maturity*.

Competitive position is driven by the sectors or segments in which a Strategic Business Unit (SBU) operates. The product or service which it markets, and the accesses it has to a range of geographically dispersed markets that are what makes up an organization’s competitive position i.e. product and place.

Industry maturity is very similar to the Product Life Cycle (PLC) and could almost be renamed an ‘industry life cycle.’ Of course not only industries could be considered here but also segments

		Stages of Industry Maturity			
		Embryonic	Growth	Maturity	Ageing
Company's Competitive Position	Dominant				
	Strong				
	Favourable				
	Tenable				
	Weak				

A D Little Competitive Position/Industry Maturity Matrix
www.marketingteacher.com

It is a combination of the two aforementioned dimensions that helps us to use ADL for marketing decision-making. Now let's consider options in more detail. Competitive position has five main categories:

- 1. Dominant – This is a particularly extraordinary position. Often this is associated with some form of monopoly position or customer lock-in e.g. Microsoft Windows being the dominant global operating system.
- 2. Strong – Here companies have a lot of freedom since position in an industry is comparatively powerful e.g. Apple's iPod products.
- 3. Favourable – Companies with a favourable position tend to have competitive strengths in segments of a fragmented market place. No single global player controls all segments. Here product strengths and geographical advantages come into play.
- 4. Tenable – Here companies may face erosion by stronger competitors that have a favourable, strong or competitive position. It is difficult for them to compete since they do not have a sustainable competitive advantage.
- 5. Weak – As the term suggests companies in this undesirable space are in an unenviable position. Of course there are opportunities to change and improve, and therefore to take an organization to a more favourable, strong or even dominant position.

From here the strategic position of an organisation can be established. Managers then need to decide upon the best strategic direction for the business. For example they might use a Gap Analysis. According to ADL, there are six generic categories of strategy that could be employed by individual SBU's:

- Market strategies.
- Product strategies.
- Management and systems strategies.
- Technology strategies.
- Retrenchment strategies.
- Operations strategies.

Ch. W . Hofer's Portfolio Matrix (or just **Hofer's Portfolio Matrix**) is a tool used in the field of marketing; it belongs to the group of **portfolio matrixes**. It facilitates the **graphic visualisation** of the competitive position of a company for each of the individual phases of the **life cycle of the market branch**. On the vertical axis the competitive position of the company is mapped, whereas on the horizontal axis the individual phases are entered. The circles represent the size of the branch and the turquoise sections of the circles show the market share of the company.

The Shell Directional Policy Matrix is another refinement upon the Boston Matrix. Along the horizontal axis are *prospects for sector profitability*, and along the vertical axis is a *company's competitive capability*. As with the GE Business Screen the location of a Strategic Business Unit (SBU) in any cell of the matrix implies different strategic decisions.

- **Double or quit** – gamble on potential major SBU's for the future.
- **Growth** – grow the market by focusing just enough resources here.
- **Custodial** – just like a cash cow, milk it and do not commit any more resources.
- **Cash Generator** – Even more like a cash cow, milk here for expansion elsewhere.

- **Phased withdrawal** – move cash to SBU’s with greater potential.
- **Divest** – liquidate or move these assets on as fast as you can.

However decisions often span options and in practice the *zones* are an irregular shape and do not tend to be accommodated by box shapes. Instead they blend into each other.

		Prospects for Sector Profitability		
		Unattractive	Average	Attractive
Company's Competitive Capability	Weak	Disinvest	Phased Withdrawal Custodial	Double or Quit
	Average	Phased Withdrawal	Custodial Growth	Try Harder
	Strong	Cash Generation	Growth Leader	Leader

Shell Directional Policy Matrix
www.marketingteacher.com

Each of the *zones* is described as follows:

- **Leader** – major resources are focused upon the SBU.
- **Try harder** – could be vulnerable over a longer period of time, but fine for now.

What is PIMS?

The Strategic Planning Institute (SPI) in Cambridge, Massachusetts developed an alternative tool based on extensive data bank that contains information about business performance and various factors found related to business performance.

Strategic Planning Institute’s research program better known as PIMS, involves use of data collected and analyzed over a period of twenty years by Prof. Sidney Schoerffler and his close associates. The PIMS data bank currently contains detailed information for more than 2200 companies or the SBUs within the companies.

The data got from each participating company consists of nearly one hundred items including descriptive features of the market environment, the state of competition, the strategy followed by the business and the operating results obtained.

Each company is expected to supply its assumptions or the postulations about the “most likely” future rates of changes in sales, prices, material costs, wage rates and equipment costs as a part of its profile. Normally, such information is collected in two time ranges namely one to four years and five to ten years.

It is very important to note here that a business area services as the unit of analysis in the PIMS studies. Here, each business is a division product-line or other profit centre within its parent company, selling a distinct set of products and services or only products or services to an identifiable group of customers, in comparison with a well-defined set of competition and for

which purposeful separation can be made of revenues, operating costs, investments and strategic plans.

Depending on the individual case and situation, a company might choose to give data on any product category or an entire division with several products.

The requirement of purposeful or meaningful segregation of revenues, operating costs, investments and strategic plans is likely to result in reporting by division or business unit than by specific product market categories. Following is the chart showing Business Information in the PIMS Data Base.

1. Characteristics of the Business Environment:

- i. Long-run growth rate of the market.
- ii. Short-range growth rate of the market.
- iii. Rate of inflation of selling price levels.
- iv. Number and size of customers.
- v. Purchase frequency and magnitude.

2. Competitive Position of the Business:

- i. Share of the server market.
- ii. Share relative to that of large competitors.
- iii. Product quality relative to that of competitors.
- iv. Prices relative to those to competitors.
- v. Pay-scales relative to those of competitors.
- vi. Marketing efforts relative to those of competitors.
- vii. Pattern of market-segmentation.
- viii. Rate of new product introductions.

3. Structure of the Production Process:

- i. Capital intensity (degree of automation etc.)
- ii. Degree of vertical integration.
- iii. Capacity utilization.

iv. Productivity of capital equipments.

v. Productivity of people.

vi. Inventory levels.

4. Discretionary Budget Allocations:

i. Research and development budgets.

ii. Advertising and promotion budgets.

iii. Sales-force expenses.

5. Strategic Moves:

i. Patterns of change in the controllable elements above.

6. Operating Results:

i. Profitability results.

ii. Cash-flow results.

iii. Growth results.

PIMS approach has identified nine major strategic influences on the profitability and net cash-flow accounting for 80 percent of business success or failure.

These influences are narrated below in order of importance:

1. Investment intensity:

The extent of fixed and working capital needed to make available a product or product value in terms of rupee sales or value added in the business is determined by the technology chosen and the way of doing the business capital or investment intensity has, generally a negative impact on the percentage measures of profitability or net cash-flow.

In other words, it means that mechanized, automated or inventory intensive business generally indicates lower rates of returns on investment and sales.

2. Productivity:

Among other inputs, the productivity of capital equipment and labour force is of paramount importance.

Generally, business with high value added per employee is more profitable than one with low value added per employee. Here the phrase 'Value Added' means the amount by which the business increases the market value of the raw-materials and other components it uses.

3. Market position:

A business unit's share of its served market has a positive impact on profit and net cash-flow. In this context, the "served market" is the specific segment of the total potential market defineable in terms of products, customers or areas in which the business unit actually competes with others. Such market served may be both absolute and relative to that of its at least three largest competitors.

4. Growth of the served market:

Growth is generally favourable to rupee measures of profits, indifferent to the percentage measures of profit and negative to all measures of net cash-flow. That is the growth of the served market goes in line with rupee measures of profits and not necessarily the percentage measures.

5. Quality of the products or services offered:

The concept of quality here is one as perceived by the customer. It is purely customer's evaluation or perception regarding the company's products or service package as compared to those of competitors.

Such an attitude has mostly favourable impact on all the measures of financial performance. That is on profits and cash-inflows.

6. Innovative and differentiation efforts:

Intensive and extensive actions taken by a business unit in the areas of new-product introduction, research and development extension strategies, market efforts and the like generally have a positive or favourable effect on performance in case the company enjoys a very strong market position to start with. Conversely reverse is true.

7. Vertical integration:

For all those business units located in mature and stable markets, vertical, integration say "make rather than buy" generally affects the performance favourably.

However, the impact is quite opposite in those firms in markets which are either rapidly growing or declining or otherwise changing.

8. The cost push:

The rates of increase in the prices of 'raw-materials', in wage rates and salaries and the presence of a strong labour union have really very complex impacts on profit and cash flow, depending on how the business is positioned to move along the cost increase to its customers or the ability to absorb the higher costs.

9. The present strategic effort:

The present direction of change in any of the above factors has definite impact on profit and the net cash-flows which are frequently opposite to the direction of the factor or factors itself or themselves. For instances having a strong market share tends to increase the net cash flow, but getting market share rather strong market share is likely to drain cash while the business unit is putting its best efforts.

From the above, it is clear that there can be a 'good' or 'poor' operator. Naturally, a 'good' operator can improve the profitability of a strong strategic position or at least minimize the damage of a weak one. On the other hand, 'poor' operator does exactly the reverse.

Therefore, the presence of a management team that functions as a good operator is definitely a plus point of a business unit and is sure to produce a financial result greater than that would be expected from the strategic position of the business unit alone.

Strength and Weaknesses of PIMS:

Among other things, one very strong point in favour of PIMS is that from its empirical findings the rough detailed investigation and analysis, it is quite evident that there are good many strategic factors that are related to profitability and cash inflows.

As against this plus point, certain limitations are in its trail which we can afford to forget before we come to its validity as a tool. The PIMS approach is historical; therefore, it is very difficult to say how far the past relations cause and effect hold good for the future.

The regression analysis conducted clearly indicates only the factors closely related to performance but not answer as to why it so happens. Again, that data collected from firms for PIMS might be incorrect or inadequate thus, further reducing its accuracy of findings.

However, one thing is sure, that PIMS can be used as effective tool to analyze the impact of alternative strategies provided that the relationships in the model are sure to hold good for the future so that it is possible to identify the future strategies.

INTERNATIONAL PORTFOLIO ANALYSIS:

BCG matrix

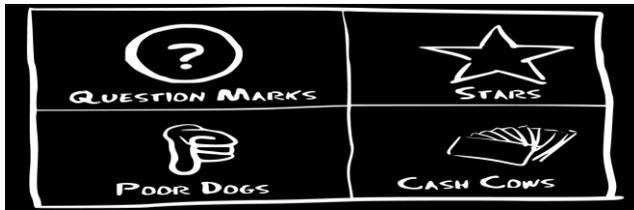
(or growth-share matrix) is a corporate planning tool, which is used to portray firm's brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

Growth-share matrix

is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

Understanding the tool

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.



Relative market share. One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Market growth rate. High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

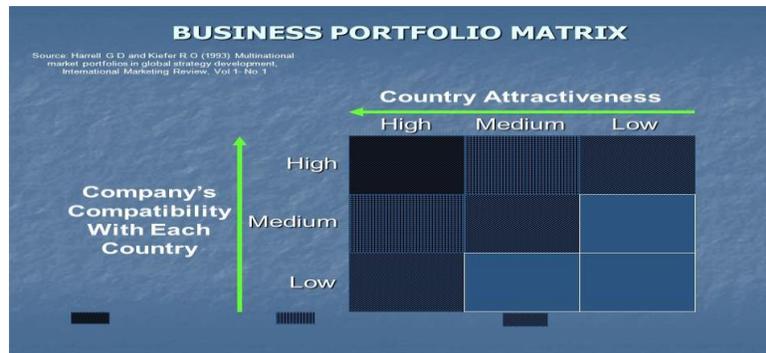
There are four quadrants into which firms brands are classified:

Dogs. Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested. Strategic choices: Retrenchment, divestiture, liquidation

Cash cows. Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations. Strategic choices: Product development, diversification, divestiture, retrenchment

Stars. Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog. Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

Question marks. Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not. Strategic choices: Market penetration, market development, product development, divestiture



Multinational strategic market portfolio:

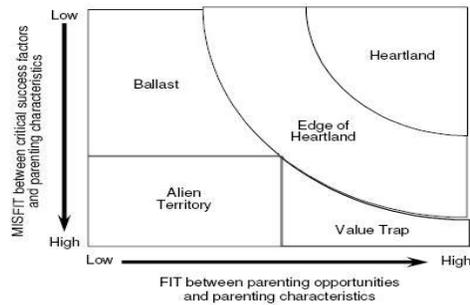
Market Growth Rate	High	Question Marks Must decide whether to try for a star-hold as is – or divest.	Stars Hold and build, even though additional investment may be required.
	Low	Dogs Divestiture is often advisable. Turn-around prospects are low.	Cash Cows Hold and harvest; invest the returns elsewhere.
		Low	High
		Relative Market Share	

Parenting Fit Matrix summarizes the various judgments regarding corporate/business unit fit for the corporation as a whole. This matrix emphasizes their fit with the corporate parent Fit.

Parenting Fit Matrix composes of 2 dimensions: Positive contributions that the parent can make and the negative effects the parent can make. The combination of these two dimensions creates 5 different positions:

1. Heartland Businesses
2. Edge-of-Heartland Businesses
3. Ballast Businesses
4. Alien Territory Businesses

5. Value Trap Businesses



- **Heartland Businesses:** Heartland Businesses should be at the heart of the corporation's future. These Heartland Businesses have opportunities for improvement by the parent, and the parent understands their critical success factors well. These businesses should have priority for all corporate activities.
- **Edge-of-Heartland Businesses:** In these businesses some parenting characteristics fit the business, but other do not. The parent may not have all the characteristics needed by a unit, or the parent may not really understand all of the units strategic factors. E.g.: a unit in this area may be very strong in creating its own image through advertising – a critical success factor in its industry. The corporate may however not have this strength and tends to leave this to its advertising agency. If the parent forced the unit to abandon its own creative efforts in favor of using the corporation's favorite ad agency, the unit may struggle. Such business units are likely to consume much of the parent's attention, as the parent tries to understand them better and transform them into Heartland Businesses.
- **Ballast Businesses:** Ballast Businesses fit very comfortably with the parent corporation but contain very few opportunities to be improved by the parent. Like cash cows may be important sources of stability and earnings. But if environmental changes, ballast could move to alien territory. Therefore corporate decision makers should consider divesting this unit as soon as they can get a price that exceeds the expected value of future cash flows. E.g.: IBM's mainframe business.
- **Alien Territory Businesses:** Alien Territory Businesses have little opportunities to be improved by the corporate parent, and a misfit exists between the parenting characteristics and the units strategic factors. There is little potential for value creation but high potential for value destruction on the part of the parent. The corporation must divest this unit while it still has value.
- **Value Trap Businesses:** Value Trap Businesses fit well with parenting opportunities, but they are a misfit with the parent's understanding of the units. This is where the corporate headquarters can make its biggest error. It mistakes what it sees as opportunities for ways to improve the business units profitability or competitive position. E.g.: To make the unit a world-class manufacturer (because the parent has world-class manufacturing skills) it may not notice that the unit is primarily successful because of its unique product development and niche marketing expertise.

STRATEGIC ANALYSIS –CHOICE; TOOLS AND TECHNIQUES

TYPES OF STRATEGIES

1. Stability strategy: This type of strategy is used by an organization in cases where the organization is satisfied with the current situation and therefore it does not want to move away from such a position. Consequently, in such a case, the organization goes for the stability strategy. However a stability strategy can prove to be effective when the environment of the organization is also stable. In most of the cases, this type of strategy is used by the organizations. The reason is that it is the least risky course of action.

For example, the stability strategy will be adopted by an organization if it is satisfied by dealing with the same product or service, providing its services to the same group of consumers and maintaining the same market share. Sometimes, the organization is not adventurous enough to try new strategies and change its situation. However, the stability strategy can be adopted successfully by the organizations from a mature industry that has a static technology. But as a result of adopting the stability strategy, the managers may become complacent. In the same way, whenever a change arises in such an organization, the managers find it difficult to deal with such changes.

2. Growth strategy: growth is related with expansion and diversification of the business operations. Therefore, if the management of the organization is not satisfied with the present status of the company, or when changes are taking place in the environment of the organization, or if favorable opportunities arise, it will be helpful for the organization to adopt growth strategy as it helps in expansion and also in diversification. A growth strategy can be implemented in the organization through market development, product development, merger or diversification.

In case of product development, the organization adds new products to the existing products or these new products replace the products that were offered by the organization earlier. On the other hand, in case of vertical integration, the organization may also decide to take backward or forward lines. In such a case, either the company may decide to produce its own raw materials or it may decide that it will process its own output in future. It is very important that the growth strategy should be controlled and planned in a proper way otherwise such a strategy may not be successful in achieving its objectives. Due to the reason that growth indicates effective management, it is always desirable to adopt such a strategy.

3. Retrenchment strategy: an organization may decide to retreat or the change from its current position for the purpose of improving its position or sometimes in order to survive. This type of strategy has to be adopted by an organization when the company is going through the times of recession, or the competition is tough, or there is a scarcity of resources and as a result, the resources need to be reorganized in order to reduce waste. In this way, even if the retrenchment or retreat strategy reflects a failure on the part of the organization to some extent, however it is very important that such a strategy should be adopted in order to ensure the survival of the organization.

4. Combined strategy: in case of large organizations that are working in a number of industries, there may be a need to adopt the combined strategy. In this way, a combined strategy reflects the mix of the strategies that have been mentioned above. For example, it is possible that a large organization may adopt growth strategy in one area and at the same time it may also adopt the

retreat strategy in another particular area. For the purpose of making sure that the combined strategy turns out to be effective, objective decisions should be made by the managers that are taken, keeping in view all the relevant factors.

OFFENSIVE AND THE DEFENSIVE STRATEGY

Competitive strategies can be divided into the offensive and the defensive. Companies pursuing offensive strategies directly target competitors from which they want to capture market share. In contrast, defensive strategies are used to discourage or turn back an offensive strategy on the part of the competitor. There are a number of ways in which a company can pursue an **offensive strategy**: Direct attack: It can slash prices, introduce new features, launch comparison advertisements unfavourable to the competition, or go after parts of the market that the competition has served poorly.

For smaller companies, such strategies can be accompanied by low-cost guerrilla marketing campaigns designed to attract attention.

End-run: Companies can avoid direct competition but still pursue an offensive attack by going into unoccupied markets or countries that have been ignored completely by the rest of the industry.

Pre-emption: Sometimes the first company into a market gains a position from which later entrants cannot dislodge it. The first company into a market can secure relationships with the best suppliers, it can acquire the best locations, and it can target and build relationships with the best customers.

Acquisition: A truly aggressive company with deep pockets can eliminate a rival simply by purchasing it. Acquiring a company in a foreign market can also bring with it a position in the marketplace, geographic coverage, and established relationships. Even so, such a strategy is complex and expensive, and it should not be pursued unless it can be shown to be contributing to the firm's bottom line. It may also run afoul of local competitive or anti-monopoly legislation.

On the other side, there are also a number of defensive strategies that managers can adopt to deflect attacks from competitors. **Exclusion:** One way of defending a position is to set up exclusive arrangements with key suppliers in the market. Such exclusive arrangements can block the access of rivals to the best suppliers, sources or partners. **Pricing:** A simple strategy is to match any price cuts by the competition with similar discounts, as long as the price war does not get out of hand and ruin both sides.

Features: Adding new features or capabilities can be a positive and appealing way of countering a competitive challenge. **Service:** A company can respond to competitor price-cuts or new features by emphasizing after-sales service or warranties, implicitly demonstrating that it stands by the superiority of its products.

Advertising: A strong public campaign demonstrating commitment to the market, confidence in the products, or a willingness to meet the competitor's challenge.

Counter-parry: Companies respond to an attack in their own market from a foreign competitor by moving into the competitor's home market. This can draw off resources and blunt the initial

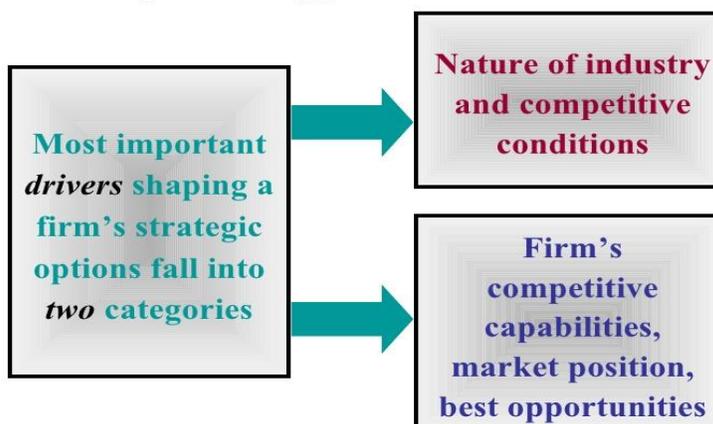
foray. When Fujitsu entered the American market, Kodak responded by marketing in Japan. Goodyear responded to Michelin in North America by marketing in Europe. To do this effectively, the new entry has to establish itself as a good corporate citizen in the new environment. Companies will participate in community and family oriented events to position themselves as friendly and familiar rather than foreign and aggressive.

Growth and expansion are the two needs of every firm, irrespective of its size and nature. Firms can grow and expand themselves by way of integration. There are two major forms of integration, i.e. Horizontal Integration and Vertical Integration. **Horizontal Integration** is a kind of business expansion strategy, wherein the company acquires same business line or at the same level of value chain so as to eliminate competition to a greater extent.

Conversely, **Vertical Integration** is used to rule over the entire industry by covering the supply chain. It implies the integration of various entities engaged in different stages of the distribution chain.

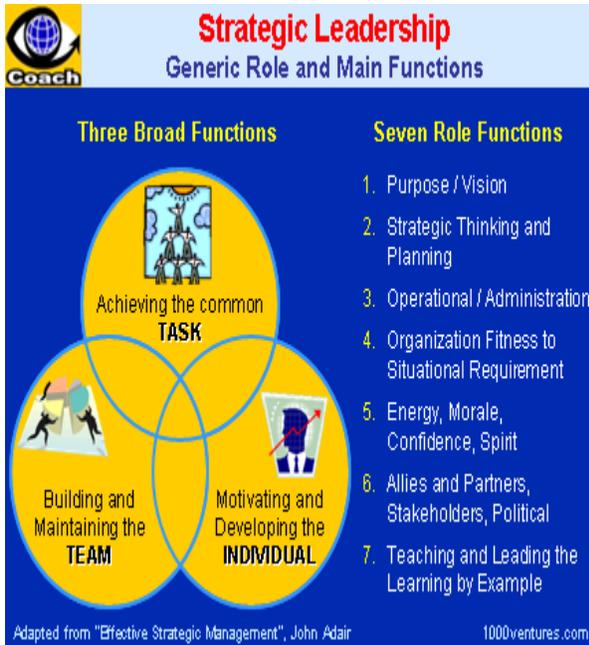
Tailoring Strategy to fit specific industry and company situations

Matching Strategy to a Co's Situation

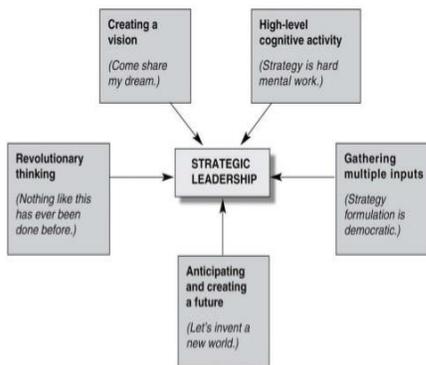


Strategic leadership refers to a manager's potential to express a **strategic** vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision. **Strategic leadership** can also be defined as utilizing **strategy** in the management of employees.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization's needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is about inventiveness, perception, and planning to assist an individual in realizing his objectives and goals.



COMPONENTS OF STRATEGIC LEADERSHIP



Resource allocation is a process and strategy involving a company deciding where scarce resources should be used in the production of goods or services. A resource can be considered any factor of production, which is something used to produce goods or services. Resources include such things as labor, real estate, machinery, tools and equipment, technology, and natural resources, as well as financial resources, such as money.

Method of Resource Allocation

In an economist's perfect world, which doesn't exist, of course, resources are optimally allocated when they are used to produce goods and services that match consumers' needs and wants at the lowest possible cost of production. **Efficiency of production** means fewer resources are expended in producing goods and services, which allows resources to be used for other economic

activities, such as further production, savings, and investment. This basically boils down to creating what customers want as cheaply and efficiently as possible.

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Following are the main **steps in implementing a strategy:**

- ✓ Developing an organization having potential of carrying out strategy successfully.
- ✓ Disbursement of abundant resources to strategy-essential activities.
- ✓ Creating strategy-encouraging policies.
- ✓ Employing best policies and programs for constant improvement.
- ✓ Linking reward structure to accomplishment of results.
- ✓ Making use of strategic leadership.

Business process re-engineering (BPRE) or business re-engineering has become the millennium's buzzword in management and industry circles. Business process re-engineering has become a most efficient grand strategy for the industry leaders to keep up their competitive position for the followers to attack the leaders. The BPRE concept is meant to be used as a strategic instrument for maintaining an enterprise competitiveness.

Characteristics of Re-Engineering

Re-engineering varies from one business to another. However, Michael Hammer and James Champy observed some common characters in the re-engineering process of their client firms.

1. **Several jobs are combined into one:** The feature of re-engineered process is absence of an assembly line. The formerly distinct tasks/ jobs are combined and compressed into one. The jobs are combined mostly based on the needs and preference of the customer.
2. **When jobs are integrated,** the chances of errors are reduced, eliminates misunderstandings, delays and reworking are minimized.

3. **Workers make decisions** as they are required to do so. Jobs are combined, both horizontally but also vertically. In other words jobs are compressed based on job enlargement and job enrichment. Vertical integration incorporates the tasks of decision making in the top ladders of the hierarchy. In addition, the workers in the re-engineering are empowered. The empowered workers are motivated and self determined to make decision. Decision-making is part of the work of the workers.

4. **Compressing the work both horizontally and vertically** reduces delays, overhead costs and betterment of response and satisfaction of customers.

5. The **steps in the process are performed in a natural order** straight-line sequence is avoided in the re-engineering. Activities are performed not in artificial order but in natural order. This process is termed as 'De-linearising' which allows performing of many jobs simultaneously. This process reduces the process time and thereby delay.

Executive succession

Part of a firm's business continuity plan. It establishes the order in which the firm's **executives** at different levels will assume the responsibilities and control of the firm's operations in the absence of the primary or substantive officeholder. **Executive succession plan** -Business continuity plan section for smooth, pre-planned, transferal of authority under any condition. It identifies who succeeds the current position holder and is done for every position deemed critical for recovery from the worst conceived disasters.

DOWNSIZING

refers to reducing operating costs – making a company leaner – often described as 'trimming the fat'. This involves reducing the size of the workforce, plant closures, and making the firm's departments more productive and efficient.

The aim of downsizing is to restructure an organization in order to make it more competitive. It is a natural progression in terms of the development of an organization.

Definition of TQM

Total Quality Management is defined as a customer-oriented process and aims for continuous improvement of business operations. It ensures that all allied works (particularly work of employees) are toward the common goals of improving product quality or service quality, as well as enhancing the production process or process of rendering of services. However, the emphasis is put on fact-based decision making, with the use of performance metrics to monitor progress.

The key principles of Total Quality Management

Commitment from the management:

- Plan (drive, direct)
- Do (deploy, support, and participate)
- Check (review)

- Act (recognize, communicate, revise)

Employee Empowerment

- Training
- Excellence team
- Measurement and recognition
- Suggestion scheme

Continuous Improvement

- Systematic measurement
- Excellence teams
- Cross-functional process management
- Attain, maintain, improve standards

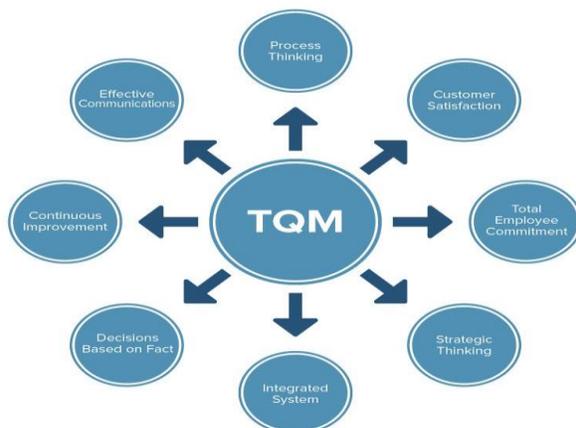
Customer Focus

- Partnership with Suppliers
- Service relationship with internal customers
- Customer-driven standards
- Never compromise quality

Benefits of Total Quality Management

The benefits arising from the implementation of a Total Quality Management in an organization are:

- This will increase the awareness of quality culture within the organization.
- A special emphasis on teamwork will be achieved.
- TQM will lead to a commitment towards continuous improvement.



Management by objectives (MBO) is a management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization. The term was first outlined by management guru Peter Drucker in his 1954 book, *The Practice of Management*

UNIT-5

STRATEGY EVALUATION AND CONTROL

Strategic evaluation and control is the process of determining the effectiveness of a given **strategy** in achieving the organizational objectives and taking corrective actions whenever required.

Strategic control is concerned with tracking a Strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments. • Strategic control is concerned with guiding action on behalf of the strategy as that action is taking place and when the end result is still several years off.

- The sooner an invalid premise can be recognized and rejected, the better are the chances that an acceptable shift in the strategy can be devised.
- Planning premises are primarily concerned with environmental and industry factors

Establishing Strategic Controls

- The control of strategy can be characterized as a form of "steering control".
- As time lapses between the initial implementation of a strategy and achievement of its intended result, investments are made and numerous projects and actions are undertaken to implement the strategy.
 - Environmental situation (e.g. competitors launching new products or change in government regulations) and the firm's internal situation (core competencies being achieved, learning curve effect).
- Strategic controls are necessary to steer the firm through these events.
- Strategic controls must provide the basis for adopting the Firm's strategic actions and directions in response to these developments and changes

The four basic types of strategic control are:

1. Premise control
2. Strategic surveillance
3. Special alert control
4. Implementation control

1. Premise control

- Premises are assumptions or predictions.
- Premise control is designed to check systematically and continuously whether the premises on which the strategy is based are still valid.
- If a vital premise is no longer valid, the strategy may have to be changed. E.g. many software companies postponing the joining dates of new recruits during slowdowns
- The sooner an invalid premise can be recognized and rejected, the better are the chances that an acceptable shift in the strategy can be devised.
- Planning premises are primarily concerned with environmental and industry factors

Environmental factors • Some of the factors are inflation, technology, interest rates, regulation, etc. • Environmental factors exercise considerable influence over the success of a firm's strategy as strategies usually are based on key premises about them. —e.g. All the polluting industries in the vicinity of Taj Mahal at Agra were asked to use cleaner fuel like natural gas. Some of the more polluting industries like tannery were asked to shift their base

Industry factors • The performance of the firms in a given industry is affected by industry factors. • Competitors, suppliers, product substitutes, and barriers to entry are a few of the industry factors about which strategic assumptions are made

2. Strategic Surveillance

Premise controls are focused controls; strategic surveillance is unfocused. Strategic surveillance is designed to monitor a broad range of events inside and outside the firm that are likely to affect the course of its strategy.

- The basic idea behind strategic surveillance is that important yet unanticipated information may be uncovered by a general monitoring of multiple information sources.
- Strategic surveillance must be kept as unfocused as possible.

Strategic surveillance provides an ongoing broad-based vigilance in all daily operations that may uncover information relevant to the firm's strategy. • —e.g. Citicorp benefited significantly from a Brazilian manager's strategic surveillance of political speeches Da Silva, Brazil's new president, who said Brazil would not pay interest on its debt as scheduled. Citicorp raised its annual default charges to 20 percent of its \$2.5 billion Brazilian exposure

Xerox could know from its surveillance that the photocopying market was shifting from black and white to color prints. This helped them to focus on earning higher revenues by selling color photocopying machines

Special Alert Control

- A special alert control is the thorough, and often rapid, reconsiderations of the firm's strategy because of a sudden, unexpected event. • –e.g. change in the firm's strategy in events like SARS, bombing of twin towers, etc

Such events should trigger an immediate and intense reassessment of the firm's strategy and its current strategic situation. • Crisis teams and contingency plans can handle the firm's initial response to unforeseen events that may have an immediate effect on its strategy

Implementation control

- Strategy implementation takes place as a series of steps, programs, and moves that occur over an extended time.
- Managers implement strategy by converting broad plans into concrete incremental actions and results of specific units and individuals.
- Implementation control is the type of strategic control that must be exercised as those events unfold

Implementation control is designed to assess whether the overall strategy should be changed in light of the results associated with the incremental actions that implement the overall strategy.

There are two basic types of implementation control:

1. Monitoring strategic thrusts
2. Milestone reviews

Monitoring strategic thrusts or projects

- As a means of implementing broad strategies, many small projects are undertaken which represent what needs to be done if the overall strategy is to be accomplished.
- These strategic thrusts provide managers with information that helps them determine whether the overall strategy is progressing as planned or needs to be adjusted.

One of the approaches to monitor strategic thrusts is to agree early in the planning process which thrusts or which phases of thrusts are critical factors in the success of the

strategy. • Managers responsible for these implementation controls will single them out from other activities and observe them frequently

Milestone reviews

- Milestones like critical events, allocation of a major resource or passage of a certain time can be used to monitor progress.
- The milestone reviews usually involves a full scale assessment of the strategy and of the advisability of continuing or refocusing the firm's direction.
- –e.g. Boeing had plans to develop supersonic transport airplanes. Initial investment was made considering the potential and because another competitor, Concorde, was doing it. But when another invest was to be made Boeing did a thorough analysis and found that the project would be very costly to develop, there would not be much demand to this service considering the cost and the reason why Concorde would be able to do would be because of the huge government subsidies. These factors led Boeing to abort this project even though millions of dollars were already invested.

Implementation control is also enabled through • operational control system like budgets, • schedules and key success factors. • They provide post-action evaluation and control over short periods. • To be effective, operational control systems must take four steps common to all post-action

controls: 1. Set standards of performance 2. Measure actual performance 3. Identify deviations from standards 4. Initiate corrective action

There are various kinds of strategists like managers, board of directors, chief executive officers, entrepreneurs, senior management, SBU-level executives, corporate planning staff, consultants, middle level managers, executive assistants.

- **Board of directors** are the owners of an organization such as shareholders, controlling agencies, government, financial institutions, etc. They are responsible for governance of an organization, technology collaboration, new product development and senior management appointments. They guide the senior management in setting and accomplishing objectives, review and evaluate organization performance.
- The **chief executive officer** is answerable for all aspects of strategic management from the formulation to the evaluation of strategy. They play a major role in strategic decision making and provide the direction for the organization so that it can achieve its purpose. They assist in setting the mission of the organization. They are responsible for deciding the objectives, formulating and implementing the strategy.
- **Entrepreneurs** are strategist who starts a new business, initiator, searches for change, respond to it and exploits its as an opportunity. By their nature, entrepreneurs play a proactive role. They are implementers and evaluators of strategies.
- **Senior management** or top management consists of managers at highest level managerial hierarchy. They look after renovation, technology up progression, diversification and

expansion and also focus on new product development. They assist the board and chief executives in formulating, implementing and evaluating the strategy.

- **SBU level executives** are profit center heads or divisional heads. They manage a diversified company as a portfolio of businesses, each business having a clearly defined product-market segment and an unique strategy. SBU executives maintain harmonization with other SBUs in the organizing, formulating and implementing the SBU level strategy.
- **Corporate planning staff** plays a supporting role. They put in order and communicate the strategic plans. They make available administrative support and fulfill the function of assisting the introduction, working and maintenance of strategic management system.
- **Consultants** may be individuals, academicians or consultancy companies who are specialized in strategic management activities. They will advise and assist managers to improve the performance and effectiveness of an organization. They provide services of corporate strategy and planning.
- **Middle level managers** look after operational matters, so they rarely play an active role in strategic management. They are the implementers of decision taken by top level and followers of policy guidelines. They contribute to generation of ideas and in development of strategic alternative. They also help in setting objectives at departmental level.
- An **executive assistant** will assist the chief executive in the performance of his duties in various ways. They assist the chief executive in data collection, analysis and in suggesting alternatives. Coordinating activities with internal staff and outsiders and acting as a filter for information are also performed by the executive assistant.

A powerful strategist plays the major important roles like sooth sayer, sculptor, politician, guru and jail buster.

- A strategist must be a **soothsayer or seer** who helps his team to imagine the future world within which they will be competing. They begin by reading the palm of the organisation and also identify its competencies and unique strengths. They then use the crystal ball of scenarios, and imaginative thinking to help the team to visualize the future within which the business will operate.
- A strategist should also be a **sculptor** like an artist ‘who carves a form’ out of raw materials. The sculptor strategist creates a unique role or purpose for the organisation. They predict the reason why the organisation will be successful within the soothsayer’s imagined future. The sculptor begins by defining the organisation’s future target markets. They then provide the future shape of the organisation by defining why its future customers will choose to support it, rather than any future imagined competitor. So the strategist changes systems, structures, rewards, alliances, products and services to ensure that everything supports the organisational purpose.
- A **politician** is someone who is ‘skilled in the art of maneuvering and manipulation.’ The politician strategist knows the power players in the organisation. They know what drives each leader and they also know who is motivated by what external and internal factors.
- A **guru** is ‘a person who gives personal spiritual guidance to his disciples.’ The strategist guru, shows how each individual employee in the company, can contribute to the greater, noble goal. They help individual employees to discover their inimitable personal purpose. Then they show them how to channel their energy and talent towards living their purpose, whilst acting in ways that support the company’s goal.

- A strategist must also play a role of **jail buster**, while at work, many employees find that their talents, passions, creativity, imagination, and energy are locked behind bars of the company culture. Timid managers who want to 'be in control', and 'avoid making mistakes', often hide the keys to creativity, energy, passion, self-assurance, and innovation. The jail buster strategist shows employees how to break out from their prison of tediousness and fear without alerting their fearful managers. They provide the key to unlocking their talents, creativity, and energy.

STRATEGIC INFORMATION SYSTEM (SIS) is a system to manage information and assist in strategic decision making. A strategic information system has been defined as, "The information system to support or change enterprise's strategy." Simply says, a Strategic Information System is a type of Information System that is aligned with business strategy and structure.

The alignment increases the capability to respond faster to environmental changes and thus creates a competitive advantage

Importance Of Strategic Information System

Strategic information system provides a connection between demands of organization and latest information technology. This tactic helps an organization to get hold of the market by utilizing Information tech to meet its challenging requirements to the continuous variation in the corporate environment.

Information system strategy is a critical aspect of an organization for its growth and expansion. Within it, the integration of the data system and its function within the organization can be handled easily. Besides that, it also enables the classification of different opportunities for the use of information systems for different strategies. It gives the surety that only useful resources or the use of resources which are less are allocated to the applications and the use of scarce resources in a sustainable way. With the system information strategy, it ensures that the Information system functions accordingly and supports the business goals and objectives of the organization at the different levels.

There are several instances of strategically information systems which have helped the organizations to help create and sustain the resources in this competitive market over the past years and has allocated several effective benefits and simply continued to provide survival of the organizations which have used these systems. These systems are often termed as 'strategic concepts of the organization.' To give the maximum performance of the firms financially in a fluctuating market, the correlation between strategic management and information system is significant fundamentally.

Types of Information System strategies

1. Operations support system: In a firm, data execution is performed by the user end, which is later processed to generate useful data products and services like reports, which are utilized by different users. Such a strategy is called operation support. The primary purpose of this system is

to keep a check on transactions, operations, control, chain supply, and management. It also helps to facilitate internal and external talks, and it updates the central main database of the organization. The operation support system is further divided into three systems which are-

1. Transaction Processing System (TPS)
2. Process Control System
3. Enterprise Collaboration System

1. Management Support System

Firms require accurate data in a specific format to understand the decisions of the organizations. Management support system strategy enables the effective decision and task operation process more manageable for the managers. They are essentially divided into a different strategy like management, decision, accounting and expert information system.

These systems facilitate and provide precise information and data to the manager for easy routines, decision-making processes. Decision support system which helps to solve particular issues related problems.



Uses of Strategic information system

2. **Creating hurdles for the entry of a competitor:** In this, a firm uses information systems to supply products and services that are hard to duplicate or that are used primarily to aid highly specialized networks of business. This strategy stops the entry of competitors in the market as they find the cost of giving such services at a very high price.
3. **Improving marketing by generating database:** Information system also gives the firms and organization an edge over their competition by generating stronger databases to enhance their sales and marketing tactics. It treats existing information as a useful resource. For instance, a business firm may use its updated databases to monitor the purchase of the customers and to locate many segments of the market.



4. **Locking customers and suppliers.:** It is an essential way of getting the advantage of competition by making the customers and suppliers permanent. In this information systems strategy are implemented to provide benefits to the customer and the suppliers so

that it may change their mind and it becomes hard for them to switch over to the other competitor so that they continue to provide the services.

Lowering the costs of the products: It may help the firms lower their costs and allowing them to give products and services at a much smaller cost than their competitors. Thus such a strategy can provide the expansion and growth of the firm.

5. **Leveraging technology in the value chain:** In this way, the organizations pinpoint the particular activities in the business, where competitive market strategies can be applied and where the strategical information systems can be more effective.

GUIDELINES FOR PROPER CONTROL

- Link to objectives and strategies
- Do not exercise control
- Focus on meaningful activities and results
- Avoid rewards for inefficiency
- Encourage employees participation
- Develop verification procedure
- Attempt to pinpoint exception
- Accelerate, De accelerate and make adequate

Control should involve only the minimum amount of information necessary (80-20 rule: Monitor those 20% of the factors that determine 80% of the results. It is because too many information create confusion.)

- ♣ Monitor only meaningful activities and results
- ♣ Control should be timely (Correct before it is too late)
- ♣ Balance Long and short-term orientation
- ♣ Pinpointing exceptions (Take action only if goes beyond tolerance limits)
- ♣ Use reward to meeting/exceeding standards (avoid punishment)

STRATEGIC SURVEILLANCE is the observation of events and situations that may affect a company's bottom line. **Strategic surveillance** aims at a more generalized overreaching control designed to monitor “a broad range of events inside and outside the company that are likely to

threaten the course of firm's strategy". The **goal** of this **surveillance** is to keep ahead of competitors and changes in the business climate.

A **STRATEGIC AUDIT** is an in-depth review to determine whether a company is meeting its organizational objectives in the most efficient way. Additionally, it examines whether the company is utilizing its resources fully. A successful **strategic audit** is beneficial to any company

The process of conducting a strategic audit can be summarized into the following stages:

(1) Resource Audit:

The resource audit identifies the resources available to a business. Some of these can be owned (e.g. plant and machinery, trademarks, retail outlets) whereas other resources can be obtained through partnerships, joint ventures or simply supplier arrangements with other businesses.

(2) Value Chain Analysis:

Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michael Porter suggested that the activities of a business could be grouped under two headings:

- Primary Activities - those that are directly concerned with creating and delivering a product (e.g. component assembly)
- Support Activities, which whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g. human resource management). It is rare for a business to undertake all primary and support activities

Value Chain Analysis is one way of identifying which activities are best undertaken by a business and which are best provided by others ("outsourced").

(3) Core Competence Analysis:

Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power.

Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really affect competitive advantage.

(4) Performance Analysis

The resource audit, value chain analysis and core competence analysis help to define the strategic capabilities of a business. After completing such analysis, questions that can be asked that evaluate the overall performance of the business. These questions include:

- How have the resources deployed in the business changed over time? This is *historical analysis*
- How do the resources and capabilities of the business compare with others in the industry? This is *industry norm analysis*

- How do the resources and capabilities of the business compare with "best-in-class" - wherever that is to be found? This is **benchmarking**
- How has the financial performance of the business changed over time, and how does it compare with key competitors and the industry as a whole? This is **ratio analysis**

(5) Portfolio Analysis:

Portfolio Analysis analyses the overall **balance** of the strategic business units of a business. Most large businesses have operations in more than one market segment, and often in different geographical markets. Larger, diversified groups often have several divisions (each containing many business units) operating in quite distinct industries.

An important objective of a strategic audit is to ensure that the business portfolio is strong and that business units requiring investment and management attention are highlighted. This is important - a business should always consider which markets are most attractive and which business units have the potential to achieve advantage in the most attractive markets.

Traditionally, two analytical models have been widely used to undertake portfolio analysis:

- ✚ The Boston Consulting Group Portfolio Matrix (the "Boston Box")
- ✚ The McKinsey/General Electric Growth Share Matrix

(6) SWOT Analysis:

SWOT analysis is an important tool for auditing the overall strategic position of a business and its environment.

STRATEGY AND CORPORATE EVALUATION

Each organization has its own approach to evaluation. There are not absolute answers as to the proper evaluation standards. However, there are three basic questions to ask in strategy evaluation:

1. Is the existing strategy any good?
2. Will the existing strategy be good in the future?
3. Is there a need to change a strategy?

Is your strategy right for you?

There are six criteria on which to base an answer. These are:

1. Internal consistency.
2. Consistency with the environment.
3. Appropriateness in the light of available resources.
4. Satisfactory degree of risk.
5. Appropriate time horizon.
6. Workability.