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Strategic Management and Corporate Governance

SEMESTER - 3

MASTER OF COMMERCE

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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MASTER OF COMMERCE

STRATEGIC MANAGEMENT AND CORPORATE GOVERNANCE

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COURSE INTRODUCTION

This course “Strategic Management and Corporate Governance of M. Com. 3rd semester will focus on the different aspects of strategic management and corporate governance. The importance of strategic management has grown as the firms have been exposed to global markets, competition, and opportunities. The study of business policy derives from the administrative tradition focused on the systems for an efficient internal allocation of resoures and a balanced satisfaction of the stakeholders needs, while the field of strategic management is oriented externally towards smart and alert playing of competitive game and overall wealth creation. Strategic management as an integrated discipline , is intended to pull together the insights gained in introductory management courses

This course consists of fifteen units. This course offers an integrated perspective for strategic planning in both emerging and industrial market contexts. The course has 15 units and ithey deal with the strategic management, Strategic Intent, Enviornmental Analyis and Appraisal, Organisational Appraisal, Corporate Level Strategies, **s**tructural implementation, behavioural implementation and corporate governance.

Each unit of the course includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. You are making your learning more active and efficient. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check.

UNIT 1: INTRODUCTION TO STRATEGIC MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Historical development and Evolution of strategic management in India

1.4 Concept and definition of Strategy

1.5 Levels at which strategy operates

1.6 Strategic Decision Making

1.7 Process of strategic management

1.8 Strategists and their role in strategic management

1.9 Let Us Sum Up

1.10 Further Reading

1.11 Answer to check your progress

1.12 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe how strategies have evolved.
- describe the concept to strategy.
- explain the levels at which strategies operate.
- explain the role of strategy in decision making.
- discuss the role of strategist in strategy management

1.2 INTRODUCTION

In this unit we are going to discuss about strategic management. Most company recognises that strategy is central to business and management. It also recognize that, it is a strategy which make difference i.e. difference between success and failure of many businesses. The purpose of strategy is to secure the competitive advantage over the rivals

or the opponents. When an old established company which has been profitable in the past starts facing new threats in the environment, like the emergence of competitors it has to rethink the course of action it had been adopting. With such rethinking new ways are devised to counter the threats.

In this unit we will discuss different aspects of strategies like evolution of strategy, levels of strategies, strategic decision making and process of strategic management etc.

1.3 HISTORICAL DEVELOPMENT AND EVOLUTION OF STRATEGIC MANAGEMENT IN INDIA

The origin of business policy can be traced back to 1911 when Harvard Business School introduced an integrative course in management. This course was based on case studies which had been in use at the school for instructional purposes since 1908. In 1969 the American assembly of Collegiate School of Business made the course of business policy a mandatory requirement for the purpose of recognition. During the last two decades business policy has become an integral part of management curriculum.

The Indian Scenario:

Formal management started in India in the late fifties and gains an importance, impetus with the setting up of IIMs. IIM Ahmedabad based it's teaching mythology on the Harvard model of development, developing and using case studies as the major pedagogical tool. Today there are many management institute offering management education the content of the curriculum, teaching methodology for business policy course where is among institutions. Different nomenclature is used for the course title like corporate planning and strategic planning or strategic management etc.

Management institute in India lean heavily on American literature in business policy since borrowing concept and techniques inevitable in the absence of indigenous theory the dependence Indian Management education on American sources has been firmly established. Research carried out by Murthy, based on survey of research in business policy in India 1970 to 1982 concludes that research in business policy in India has yet to come to

grips with the job of General Manager. He point out that a lack of support Non-Cooperation from the top management In Indian industry however there are few desirable changes taking place in the Indian context.

1.4 CONCEPT AND DEFINITION OF STRATEGY

The term strategy is derived from a Greek word *strategos* which means generalship – the actual direction of military force as distinct from the policy governing its deployment. *Stratos* means the Army and *ago* means to lead. The concept and practice of strategy and planning started in the military and over time permeated to Business and Management.

Strategy is a term derived from military science. It means art of a general leading an army. It is an art of War, compelling the enemy fight on the opponent's chosen terms and condition, means a skill to move and deploy the Army in such a manner as to impose upon the enemy the terms and conditions regarding time and place of fighting a war. It is a technique of managing the war campaign. In corporate planning strategy is the ***"Grand Design"*** or an overall plan which an organization chooses in order to move or react towards the set objectives with available resources are their disposal. Strategy is the general program of action.

Anthony define strategy as " *resulting changes from the process of deciding on the objectives of the organisation, on changes in objective , on the resources used to attain these objectives on policies that are to govern the acquisition , use and disposition of these resources."*

Strategy includes:

1. Awareness of mission, and objectives. It provides the central concept for planning indicating what is our business, who are our customers, what goods and services we are to supply.
2. It also indicates economic, social, technological and political conditions which are the ingredients of business environment.
3. The need to take into account probable fear of others in general and of the rivals in particular. Strategies show unified direction and imply a deployment of emphasize and resources. It serves the useful purpose of guiding enterprise thinking and action. Strategies are then integrated

into the organization's major and minor supporting.

To understand the importance of the term strategy let us go through the following examples:



LET US KNOW

A leading brand name Pain Balm market Amrutanjan manufactured by Amrutanjan Limited with more than 60% of market share, the company is well entrenched in the market. The stiff competition from the companies like Zandu Balm force Amrutanjan to consider taking certain strategic decisions like expansion, introduction of new products etc.

Another good example is Camlin Limited, the brand camel is famous in the stationary material. The company visualise good opportunities in the pharmaceutical industry and to Grab these opportunities they planned to expand the company operation through its Pharmaceutical division which is now growing division within the company.

Definition:

According to Thompson *a company's strategies consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organizational objectives*

Chandler 1962 define strategy as *"the determination of the basic long term goals and objectives of Enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."*

Glueck (1972) *"a unified comprehensive and integrated plan is designed to assure that the basic objectives of the Enterprise are achieved."*

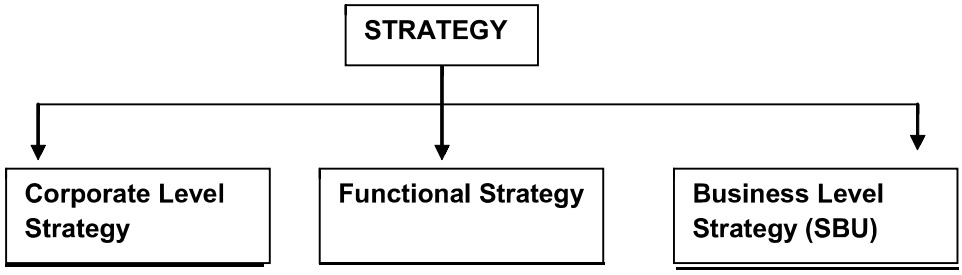
Ansoff 1984 *"a strategy is a set of decision making rules for the guidance organisational behavior."*

With the help of above definition we can say that the policies should follow from organizational objectives and should be formulated in line with objectives.

3.5 LEVELS AT WHICH STRATEGY OPERATES

Strategy refers to well defined growth path of a firm. Strategies are basically administrative course of decision which cannot be delegated. Strategy indicates how company is going to deploy its resources, objectives in the given environment. It is a master plan design of role and objectives. Company tries to overcome its weaknesses and grab the opportunities prevailing in the market. Strategy is the alternative course of action which is developed only because of the inability to forecast the future accurately. Strategy indicates path or direction in which a firm is leading. Thus strategy is concerned with long term development rather than day today operation. Strategies are framed only because future cannot be foreseen. If the organization had perfect foresight then they could produce a single plan to meet.

Strategies and policies are related to objectives. This is evident from the fact that change in objectives leads to change in policies as well as strategies. Efficiency of strategy is measured to the extent to which organization is able to meet objectives, to which they are relevant environment.



A strategy may be framed at different levels in an organization. There are three different level of strategies:

- strategy needed for the whole company called as corporate strategy.
- strategy needed for each business of the company known as business strategy
- strategy needed for each functional unit named as functional strategy

1. Corporate Level Strategies:

Corporate level strategies are concerned with overall objectives of the organization. For example, expansion, diversification through merger or acquisition.

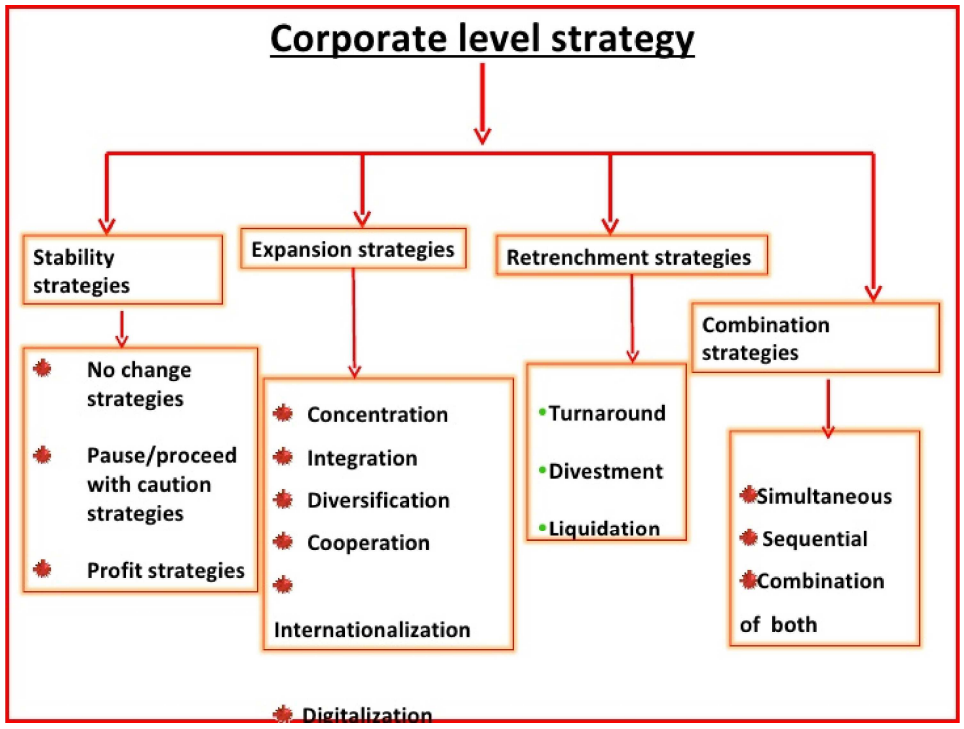
Business Unit level strategies addresses two issues related with product or business unit of organization. Example: product adoption or product development.

Functional strategies are also called as operational strategies which relates with different functions or operational areas like manufacturing, marketing, human resource etc.

For small organization corporate level and business unit level strategies may not be much different but those companies having man products or businesses may have unique business strategy for a particular product.

Before understanding different level of strategies it is important to highlight on the concept called as Strategic Window developed and introduced by Abell in 1978. It indicates that companies should constantly look for opportunities and seize or exploit opportunities at the right time. It emphasize on the fact that it should exploit opportunities at the right time. Businesses and market are never constant. They are continuously evolving because of development of new products or emergence of new technology etc. Strategic window is also important to determine when to come out of a particular product or market or to divert a business which company cannot operate profitably for a long time. In short, Strategic Window indicates that company should grab opportunity at the right time because if there is a mismatch between opportunities and time, then company may lose the chance of making better out of given opportunities.

It indicates the direction in which company tries to achieve growth target and how they are going to manage the various businesses under its purview. There are mainly 3 categories that is stability strategy, growth strategy and retrenchment strategy.



a. Stability Strategy:

When a company intent to hold its current position in the market then they go for stability strategy. Companies don't think of expanding the market. This strategy adopted by those firms who are satisfied with their present performance. It is less risky strategy. Firm may try to improve functional efficiency through better allocation and use of resources. This strategy is suitable when

- a firm serves a well defined market.
- Able achieve the desired targeted return

b. Expansion/Growth Strategy:

Company may go for expansion or growth strategy to compete in the market. Growth can be through internal or external ways. A company is said to be adopting growth strategy when it increases its level of objectives upward in significant manner. The company set for itself the targets which are much greater than its past performance. One can say that company is adopting growth strategy when its sales or profitability increased in greater manner. Internal growth strategies relates with growth with diversification or intensification strategy.

An external growth strategy includes merger, acquisitions and joint ventures.

Company need to adopt growth strategies due to the following:

- To survive and lead the market
- To take the advantage of large scale operations
- To go for innovation and invention
- To build corporate image

An expansion or growth strategy is adopted by way of introducing new products or adding new features to existing products. Sometimes, a small company may be forced to modify or increase its product line to keep up with competitors. If company doesn't improve its competitiveness in the market then, customers may start using the new technology of a competitive company. For example, cell phone companies are constantly adding new features or discovering new technology. Cell phone companies that do not keep up with consumer demand will not stay in business very long. A small company may also adopt a growth strategy by finding a new market for its products. Sometimes, companies find new markets for its products by accident.

c. Retrenchment Strategy:

When the firm feels that the current market or product is not giving the desired outcome, firm may decide to come out of that product or market. Such strategy to tackle the adverse market condition is known as retrenchment strategy. Such strategy is more suitable in the time recession or may at the time of economic crises. The firm may sell some of its brands/ products. The company may resort to divestment or liquidations

The decision relating to retrenchment depends on several factors such as

- Profitability
- Market access
- Concentrating on core products

d. Combination strategy:

Combination Strategy or Portfolio restructuring strategy is the **combination** of stability, growth & retrenchment **strategies** adopted by an organization, either at the same time in its different businesses, or at

different times in the same business with the aim of improving its performance and efficiency.

2. BUSINESS LEVEL STRATEGY:

Business or Strategic management is the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. Business-level strategies are the plans or methods companies use to conduct various functions in their business operations. Companies use business-level strategies to provide guidelines for managers and employees to follow when working in the business.

Strategy is not about being the best, but about being unique. Many leaders compare competition in business with the world of sports. There can only be one winner. But competing in business is more complex. There can be several winners. It does not have to be a zero sum game. Within a single industry, there may be several companies beating the industry average, each with a distinctive, different strategy. There can be several winners. While formulating business strategy one must be very clear with regards to choice of WHO you are going to serve and a clear choice of HOW you are going to serve those clients. It's nothing but connecting the outside world – the demand side – with our company – the supply side. For this purpose, company need to have better value proposition for a specific customer segment. Having value proposition is not enough but it should develop unique activities in the value chain to serve them. In business strategy, choosing what not to do is equally important. In the words of the founding father of modern strategy thinking, Michael Porter: ***"The essence of strategy is choosing what not to do".*** For having a good business strategy firm should have updates about competitors move, customers' needs and behaviors change, technology advancement etc. and should incorporate this thinking into the business strategy-building process. Otherwise survival becomes very difficult. Think about the smart phone and Nokia and you'll understand.

Business strategy usually occurs at the strategic business unit level or product level. Firm may not use same strategies or tactics to deal with different types of products. There are two types of strategies i.e. competitive strategy wherein firm or a business unit tries to compete with other firm or industry similar product by following innovative product development strategies and market development activities. Another is cooperative strategy where firm may resort to strategic alliance or joint ventures.

3. FUNCTIONAL STRATEGIES:

Organizational plans prepared for various functional areas like marketing, finance, production etc. Functional strategies can be part of overall corporate strategy or serve as separate plans of strategy. The functional strategy of a company is customized to a specific industry and is used to back up other corporate and business strategies. Functional strategies are derived from the tactical strategies. Each functional area or department is assigned the specific goals and objectives it must achieve to support the higher-level strategies and planning. Functional strategies specify outcomes to be achieved from the daily operations of specific departments or functions. Functional strategies reflect that strategic and tactical objectives require the involvement of multiple functional areas, such as departments, divisions, and branches. For example, the functional strategy for the marketing department in support of the business goal to increase market share may include identification of new market segments, brand identification etc. It may additionally highlights on the production department saying that production function may be assigned a reduced rejection rate for the product in question.

The functional areas that are assigned functional strategies depend on the plan itself and differs from industry to industry and organization, or size of the business unit. A functional strategy, for any business, focuses the achievement of a goal on the skills and abilities of individual departments and their employees. Functional strategy is a short-term plan for achieving one or more goals of a business by one or more functional areas or department.

Thus 'Functional Strategy' is the strategy or organizational plan adopted by each functional area, viz. marketing, production, finance, human resources and so on, in line with the overall business or corporate strategy, to achieve organisational level objectives. The firm may customize its functional strategy for a particular product or strategic business unit (SBU). It is used to back up other corporate and business strategies.

a. Production Strategies
b. Marketing Strategies
c. Financial Strategies
d. Personnel strategies

a. Production Strategies: Production is one of the important functions in an organization. The raw material is converted into finished products which creates certain values to the customer. Business strategies respect to production can be framed with regards to:

- Quality Control: Quality matters a lot. Such strategies relates with techniques of quality control.
- Research and Development: Amount of funds kept aside for R&D, the different areas of research and development to be given top most priority.
- Product Strategies: Different areas of product decision like branding, product line, product modification etc.
- Factory: where the plant to be expanded, process of manufacturing etc.

b. Marketing Strategies:Marketing is one of the most important functions of any organization. It is the only revenue generating department. Various strategies related to these areas are:

i. Pricing: This strategy includes in the areas like what price to be charged to the customer, what pricing techniques should be followed etc.
ii. Promotion: It is one of the techniques to promote product in the market. Unless and unless customers are perceived and convinced they will not buy companies offering. Promotion strategies may relate with IMC, PR etc.

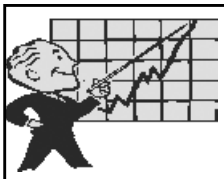
iii. Distribution: Logistics is one critical functional area of making goods available at the place of consumption. The strategy includes deciding on distribution channels, appointment and incentives to be given to dealers etc.

iv. Product: The strategies are framed in the area of product modification, development, packaging, brand and brand extension etc.

c. Personnel Strategies: The Human Resource is one of key resource for success and survival of the business firm. Unless and until workforce is highly dedicated and committed business will not progress. Therefore it is very important to frame appropriate personnel strategies as regards to:

i. Recruitment and Selection Strategies: Selection technique, sources of recruitment etc.

ii. Training and Development: What type of induction, orientation, training and development programmes should be followed.



CHECK YOUR PROGRESS

Q1. Define Strategy.

.....

.....

Q2. State different levels of strategy.

.....

.....

1.6 STRATEGIC DECISION MAKING

Decision making is one of the important functions of manager. Whatever manger does he does through decision making. Strategic decision making is the prominent task of senior management. Decision making requires at all levels but when it comes to strategic decision making, largely relates to the responsibilities of the senior management.

Decision making is the process of choosing an appropriate plan of

action amongst various available alternatives. It is a course of action. In the conventional methods of decision making the process involved was:

- Determination of objectives.
- Identifying the alternative ways of achieving objectives
- Evaluation of each available alternative
- Choosing the best alternative

The process looks very simple but in practice decision making is very complex and crucial process. The problems arises in decision making were which and how the alternatives to be chosen, how to reconcile each alternatives ability to achieve the desired objectives and so on.

Strategic Decision Making

The above stated problems are faced by all the managers irrespective of their departments. On the other hand the strategic task by their nature is very complex and varied. Decision making in performing strategic task is extremely difficult and intriguing process.

Example: Strategic Problems at Premier Automobiles

After the announcement of higher excise duty on passenger cars of above 1000 cc capacity in March 1986 and the introduction of Maruti 800 in the market in May 1986, Premier Automobiles Ltd faced the problem of price rise, fall in demand and inventory pile-up of its main product, Premier Padmini car. As a result of these problems, there was a sharp fall in sales in 1986. The company had to take decisions regarding indigenization, fuel efficiency and, above all coping with the fierce competition in the market. The company lowered its car prices, introduced new economy model and resorted to aggressive marketing strategy. All these plans company have implemented to survive in the market.

The basic thrust area of strategic decision making is the process of choosing right course of action. Thus the most aspects of strategy formulation rest on strategic decision making. Senior management has to make important strategic decisions. After proper SWOT analysis management has to decide its course of action. For implementing strategy, proper resource allocation is vital. With regards to resource allocation, the management faces a strategic choice from among a number of alternatives

that it would allocate resources to. Thus, strategic decision making forms the core of strategic management.

Strategy useful tool as it helps in many ways as mentioned below:

- Strategies are able to guide what to do in a complicated comma critical an uncertain risky situation.
- It helps in doing the best one can do with available resources and dealing effectively with risk and uncertainty which business faces on a regular basis
- Strategies help the organizations to establish a useful with and future environment this will reduce risk and uncertainty to some extent.
- Strategic decisions help the management to develop a fine art of dealing with unknown situation.
- Without a strategy, the organization is like a ship without radar. If the strategies are not implemented effectively then future is always dark and there are the chances of failure.

1.7 PROCESS OF STRATEGIC MANAGEMENT

There are different approaches to strategic management process. Different approaches lays down emphasis on different elements, this is because of variation in nature and forms of organization. The organization may differ as regards to :

- Degree of formalization in the management process.
- The environment within which organization is operating.
- The role of the strategists.

Mintzburg has classified these approaches into 3 three forms. He called it as three modes of the strategic management process. These are:

a. Entrepreneurial Approach
b. Adaptive Approach
c. Planning Approach

Let us discuss these approaches in the following ways:

a. **Entrepreneurial Approach:** Entrepreneurs are the creator and promoter of the organization. They play a role of an innovator and a risk taker. He focuses on exploiting opportunities within the given

environmental factors and forces. He fights against odds. In this approach the power remains with one person only i.e the owner or the chief executive. His main goal is to expand the business and market share. Many companies have used this approach successfully. This approach is useful only when the key personnel are visionaries. Eg. Dhirubhai Ambani, Chairman of Reliance Industries, Akio Morita, Chairman of Sony Corporation.

The entrepreneurs or the strategists should have the right vision which should be backed by the right strategy and resources.

b. **Adaptive Approach:** The adaptive approach is essentially a balancing strategy. They are more of reactive in nature. Decisions are made in line with the necessitated environmental changes. The main intention of this approach is to maintain flexibility as to adjust the pressing needs and circumstances. Companies adopting this approach do not set for themselves very high or ambitious targets. The targets with high risk are normally neglected. This approach suits to large public sector companies where they focus more on accountability rather than the growth. Eg. IOC, BHEL, ONGC. The degree of adaptability largely depend on progressiveness of the companies and the Ministry which control a particular organization.

c. **Planning Approach:** Here the strategic management process depends largely on the planning system. Planning is based on many internal factors like organizational objectives, values of the top management, companies strength and weaknesses and external environmental factors. The planning process is intended to render objectivity in the approach. The role of the planner is very much important in this approach. Most of the large companies, MNCs follow this approach. This approach is also called as formal structured approach. It deploys scientific tools of analysis which enable planner and decision makers to find solutions even in the complex and complicated situations.

Strategic Management is considered as either decision making and planning or the set of activities related to the formulation and implementation

of strategies to achieve desired organizational goals. According to Jauch and Glueck, *"Strategic management is a system of decisions and actions which leads to the development of effective strategy or strategies to achieve corporate objectives."*

Strategic Management Process is divided mainly into 4 phases:



Let us discuss the steps in the strategic mangement process in the following ways:

1. **STRATEGY FORMULATION / PLANNING:** Strategic formulation is also called as strategic planning. The following steps are involved in strategy formulation:

   i. **Defining Business and framing Mission statement:** These attributes are concerned with laying down the foundation for strategic management. For formulation of strategy the three major things to be considered are corporate mission, objectives, internal and external environment. The starting point of in formulation of any strategy is the mission statement of a company. The mission statement starts with definition of business. Corporate philosophy is closely related with mission. Form the mission and philosophy company decides its objectives, goals and also strategic intent. While deciding objectives the interest of the stakeholder needs to

be considered. Precise definition of business of a company should be based on four factors i.e. product, technology, customer segment and its market competitiveness. To define a company's business is the job or responsibility of the planners and strategists. It is the foundation for the mission statements, objectives. The top management has to play vital role in this regards. Eg. Business definition of Hindustan Uniliver : *To meet everyday needs of Indian people everywhere with branded products.*

The mission statement of a company states the philosophy and the purpose of the organization. The mission statement should be explicit or comprehensive. It declares the organizational purpose, attitude and outlook. It should have clear customer orientation. It should highlights on strategic thinking on shareholders, customers, suppliers, employees and the environment. The mission statement is more generalized whereas corporate objectives are more specific and focused. Objectives should follow from the mission statement. When a particular objective becomes more focused and directed towards specific target, the company is showing strategic intent. Strategic intent involves setting goals which demand stretching of the present resource base and capabilities of the firm for their fulfillment.

ii. **Analysis of the Internal Environment:** The management needs to analyze its internal environment. Internal environment analysis will enable the firm to know its strength and weaknesses. Internal environment includes machines, manpower, value system etc.

iii. **Analysis of External Environment:** The external factors include customers, suppliers, competitors, government, legal environment, social environment. This deals with finding our opportunities and threats prevailing in the environment. Company needs to match its strength in order to create good

match between them in such a way that opportunities could be availed through organizational strength.

iv. **Gap Analysis:** The management needs to conduct gap analysis. This is done by comparing the present performance with the desired future performance. Such comparison will enable to know the extent of gap prevails and according strategies will be framed to fill this gap.

2. **STRATEGIC ALTERNATIVES AND CHOICE:** This steps calls for reframing of organization direction, corporate appraisal and formulation of strategies. Organization evaluates its external environment and identifies possible opportunities which can be grabbed by the organization with its existing capacity and capabilities. After screening the environment the best opportunities will be selected which will be supported by effective strategy/ ies. Alternative strategies are prepared to tackle change in the environment effectively. This is done as some strategies will be kept on hold and other strategies may be implemented.

For selecting best strategy company may undertake cost benefit analysis. The benefits are considered in terms of sales, profitability where as the cost is calculated in terms of production cost, operating and administration and distribution cost.

At a time management can't implement all the strategies. Therefore the firm has to select the best strategy which will suit the current market situation. The strategy which gives maximum benefits will be selected.

3. **STRATEGY IMPLEMENTATION:** For implementation of strategy, the strategic plan is put into action. For this proper resource allocation is done. To ensure success, the strategy must be implemented carefully. For this firm needs to come out with prior planning and relevant implementation of strategies based on environmental situations. Strategies are formulated for each and every functional areas like marketing, production etc. once the strategies are formulated its needs to effectively implement. Following steps are taken for implementing strategies:

i. **Formulation of Plans:** Strategy itself does not work or leads to action. There is need to frame plans for its implementation. If the company decides to go for expansion then it may plan it through market development plan or market penetration plan etc.

ii. **Identification of activities:** After deciding plan management need to identify various activities required to be carried out to implement the plan eg. for market development company need to carry out market research.

iii. **Organizing Resources:** For effective implementation of plan, management needs to make arrangement of resources. No plan will be effectively implemented unless and until all the resources like men, machine, money etc are made available. Implementation of strategy largely depends on resource availability.

iv. **Allocation of Resources:** The allocation of resources should be made on the basis of availability of resources, importance of a particular activity.

4. **STRATEGY EVALUATION:** After implementation of strategy, the strategy evaluation process begins. This process begins with monitoring, reviewing and evaluating the strategy. Evaluation enable the firm to know how much useful the strategy was to the organization in achieving its objectives. It is followed by strategic control. It is concerned with placing the strategy in the right position. It also detects the problems they faced in the implementation.

The strategies will be evaluated in terms of standard set and actual performance. The performance is measured in terms of quantity as well as qualitative terms. If there are any deviations corrective measures will be undertaken. After identifying the causes for deviations, the management needs to take corrective steps to correct the deviations. For this firm may reset plans or policies.

1.8 STRATEGISTS AND THEIR ROLE IN STRATEGIC MANAGEMENT

Strategists are either individuals or group. They are involved in the process of policy formulation, implementation and evaluation of strategy. There are some outside person who are also involved in strategy formulation. But in nutshell the major task is of the manager. There are number of people within the organization who are involved in strategy formulation. They are:

a. **Role of Board of Directors(BoDs):** BoDs are the representative of the shareholders, controlling agencies and holding companies. Board is responsible to them for the effective governance of the organization. Directors, the members of the board provide guidance and establish directives to the manager. The role of directors differs according to the organization structure and ownership. The role of board in strategic management is to guide the senior management in setting and achieving objectives, reviewing performance.

b. **Role of Chief Executives:** One of the most important strategists in the organization is CE. The major functions of chief executives are divided into two categories i.e. strategic and non-strategic. As a strategist they are responsible for setting goals and priorities. They are involved in short and long term planning. He is responsible in all the aspects of strategy right from the formulation to its implementation and evaluation. The designation of chief executive may be managing director, president or executive director in the organization. The functioning of the board depends on the relationship with the chief executive. CE's role in strategic management is most important. He is responsible for the execution of functions which are strategically important from the organization point of view. He is responsible for setting mission, goals and objectives and also in formulating and implementation of strategies. He needs to keep strict control on its execution. He is rightly called as chief architect of organizational purpose, chief administrator and communicator of organizational purpose, mentor and personal leader. T Thomas the former CEO of Hindustan Unilever identifies three major role of CE:

- Managing relationship with the environment
- Managing the board
- Long term planning

c. **Role of Entrepreneurs:** Entrepreneurs are the innovator of the business. They are the one who convert the opportunity into reality. As rightly said by the Peter Drucker the entrepreneur always searches for change, response to it and exploits it as an opportunity. He plays a proactive role in strategic management. Being initiators, they provide a sense of direction to the organization. They are the major implementers of strategies.

d. **Role of Senior Management:** The top management consists of managers working at the highest level of the managerial hierarchy. These managers are involved in various aspects of strategic management. Senior managers include SBU heads and also functional heads. Some of the members of the senior management act as directors on the board. Senior management looks after modernization, diversification, plan implementation and product development. They come together in the form of different committees assigned with different task and responsibilities. They work as member of committees, task forces, work groups, think tankers etc. to play an important role in strategic management. E.g. at Voltas, the implementation of strategies and plans is done through a corporate executive committee which is headed by the president. It consists of senior vice president and VP from different functional areas.

e. **Role of Corporate Planning Staff:** The corporate planning staff plays a supportive role in strategic management. They assist in the formulation, implementation and evaluation of the strategy. They prepare strategic plan with regards to strategic management. They provide administrative support; assist in introduction, working and maintenance of the strategic management system. Company may have special cell called as corporate planning cell (CPC) to disseminate the concept of corporate planning and make planning a way of life. The corporate planning division performs functions mostly of strategic nature which are:

i. Assisting the chief executive in developing and formulizing vision

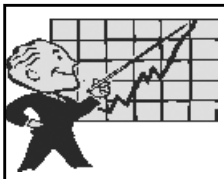
ii. Scanning the environment and identifying new business opportunities.

iii. Integrating SBU plans into corporate plans.

iv. Evaluating plan performance etc.

f. Role of Middle-level Managers: The major job of middle level manager relates to operational matter and hence they do not play an active role in strategic management. They are the followers of the policy guidelines and passive receivers of communication with regards to strategic plans. They are the implementer of the strategies.

g. Role of Consultants: Consultants plays very important role in the strategic management process. They help in strategic planning and management process. Where the company does not have separate planning division, they may take the help of consultant. They can undertake planning and strategies exercises as and when company needs it. Top strategist consultant like McKinsey & Company uses or develops latest tools and technique to tackle any strategic management problem faced by the company. The advantage of using consultancy is that they are having diversified knowledge, skill and experience from various companies which otherwise may not be available internally in a company. They uses their experience in designing strategies for expansion, diversification etc. for the company.



CHECK YOUR PROGRESS

Q3. State the Business strategies with respect to production.

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Q4. State the three modes of the strategic management process.

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1.9 LET US SUM UP

In this unit we have discussed the following:

- The origin of business policy can be traced back to 1911 when Harvard Business School introduced an integrative course in management.
- The term strategy is derived from a Greek word *strategos* which means generalship – the actual direction of military force as distinct from the policy governing its deployment. *Stratos* means the Army and *ago* means to lead. The concept and practice of strategy and planning started in the military and over time permeated to Business and Management.
- There are three different level of strategies:
  - o Corporate strategy
  - o business strategy and
  - o functional strategy
- In the conventional methods of decision making the process involved was: Determination of objectives, Identifying the alternative ways of achieving objectives, Evaluation of each available alternative, Choosing the best alternative
- Strategic Management Process is divided mainly into 4 phases, they are Startegy formulation, Strategic Alternatives and Choice, Strategy Implementation and Strategy Evaluation.



1.10 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.

4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House, New Delhi



1.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: In corporate planning strategy is the ***"Grand Design"*** or an overall plan which an organization chooses in order to move or react towards the set objectives with available resources are their disposal. Strategy is the general program of action.

Ans. to Q. No. 2: A strategy may be framed at different levels in an organization. There are three different level of strategies:

a. strategy for the whole company called as corporate

b. strategy needed for each business of the company known as business strategy

c. strategy needed for each functional unit named as functional strategy

Ans. to Q. No. 3: Business strategies respect to production can be framed with regards to:

- Quality Control
- Research and Development
- Product Strategies
- Factory

Ans. to Q. No. 4: Mintzburg has classified these approaches into 3 three forms. He called it as three modes of the strategic management process. These are:

- Entrepreneurial Mode
- Adaptive Mode
- Planning Mode



1.12 MODEL QUESTIONS

Q.1: Write a short note on evolution of strategic management in India.

Q.2: Explain briefly corporate level strategy.

Q.3: Discuss the concept of business strategy and functional strategy.

Q.4: Discuss briefly the strategic decision making process.

Q.5: Discuss briefly the process of strategy formulation.

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UNIT 2: STRATEGIC INTENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Concept of strategic intent, stretch, leverage and fit

- 2.3.1 Strategic Intent
- 2.3.2 Strategy as Stretch
- 2.3.3 Stretch
- 2.3.4 Leverage
- 2.3.5 Fit

2.4 Concept of Vision

- 2.4.1 The advantages / benefits of Vision

2.5 Defining Mission

- 2.5.1 Characteristics of Mission statement

2.6 Definition of Business

- 2.6.1 Dimensions of business definition

2.7 Business Models and their relationship with strategy

2.8 Let Us sum Up

2.9 Further Reading

2.10 Answers to check your Progress

2.11 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Explain the basic concept like strategic intent, vision, mission and business definition.
- describe the relevance of these concepts from the organization point of view.
- explain how these concepts' clarity makes the organization a successful entity.

2.2 INTRODUCTION

The vision of a company's long term goals and objectives is referred to as the strategic intent. It is the cornerstone of strategic architecture. Strategic intent involves a significant stretch for the organization as the existing skills, capabilities and resources are not considered sufficient for the task. In this unit we will discuss briefly about Concept of strategic intent, Concept of Vision, Defining Vision, Benefits of having Vision, Definition of Business and Business Models and their relationship with strategy.

2.3 CONCEPT OF STRATEGIC INTENT, STRETCH, LEVERAGE AND FIT

These strategic concepts are used to formulate, to lead, and to realize the ambitious enterprise performance. The concepts may be used to improve productivity. The intention is to have greater performance than that have at present. This can be achieved with the present knowledge and available resources at the disposal of the company.

The credit of development of the concept Strategic Intent goes to Hamel and Prahalad. Hamel and Prahalad (1994) conceptualize strategy formulation in terms of core competencies and in terms of resource stretch and leverage.

2.3.1 Strategic Intent

Strategic intent as defined by Hamel and Prahalad is used to define and to communicate a *sense of direction.* The direction is about the longer-term strategic position that the leaders of the organization wishes to achieve through its processes of objective setting and strategy formulation. Strategic intent comprises a *sense of direction*, *a sense of discovering* that will help in identifying opportunities to meet new challenges and *a sense of destiny* – that will create inspiration and commitment on the part of managers, employees, and the stakeholders. If a particular objective of a company becomes extremely focused and directed towards a

specific target, then it is said that company is showing a strategic intent.

In short strategic intent refers to the purposes for which the organization strives for. These could be in the form of vision, mission statement.

4.3.2 Strategy as Stretch

According to Hamel and Prahalad the strategic intent goes beyond the conventional model. It is not just restricted to matching internal competence and resources with company objectives. Strategic intent indicates *'stretch'* it means stretching of the present resources and capabilities to achieve the desired goals. The concept of strategic intent involves the use of *resource stretch.* It means that the enterprise will not be able to achieve strategic intent with the present management and use of resources and with the current operating capabilities of the enterprise. The resources and capability may be inadequate to meet the requirements of strategic intent. Hence for strategic intent both will need "stretching". Stretching is essential in order to meet the needs specified by strategic intent.

The stretch is essential as there is *gap* between the knowledge, resources and competence currently available to the enterprise. The degree of stretch that is required by the organization is defined by the strategic intent and the challenges the enterprise may face in achieving strategic intent. The gap between what enterprise wishes to achieve and what is the present performance and resource capabilities needs to be analysed.

2.3.3 Stretch

The gap between resources and aspirations is stretch. Stretch is misfit between the resources and aspirations. In order to meet the demands of the intent there is need to stretch present resources and capabilities which may be at the present position are likely to be inadequate to meet the requirements of strategic intent. They need stretching.

Hamel and Prahalad comment that '*we believe that it is essential for top management to set an aspiration that creates, by design, a chasm between ambition and resources ... managers must create a misfit between resources and ambitions. Medium term challenges should demand more of the organization than what it currently believes is possible' (p. 146)*.

Strategic intent is the strategy of challenging competitor and overtaking the market leader. *Eg. Cummins Vs Caterpillar; Jio Vs Vodaphone; Titan Vs HMT.* Strategic intent is clear about the end results which a firm wishes to attain but it is flexible as regards to means and there is scope for creativity and improvisation. Dhirubhai Ambani of the Reliance Group is credited with having strategic intent of being global leader by being the lowest cost producer of polyester products.

2.3.4 Leverage

Hamel and Prahalad also added the concept of leverage. Leverage refers to concentrating, accumulating, complementing, conserving and recovering resources in such a way that the meager resource base is stretched in such a way that the organization will be able to meet its aspirations.

2.3.5 Fit

The concept of stretch is diametrically opposite of idea of *'fit'*. In fit, company try to match its resources with its current environment. Firms use SWOT techniques to assess organizational capabilities with environmental opportunities. It helps to understand what the company can achieve with its resources within the given environmental factors.



LET US KNOW

HOW APPLE USED STRATEGIC INTENT TO DOMINATE ITS MARKETS

Apple is the best example of using a Strategic Intent to guide it to market leadership. In 1996, they were just a 4% market share player in the PC business. In 2000, Steve Jobs came back as CEO and set the intent for Apple Computer to become great by being "the hub of your digital life". He saw the future trends involving the internet, the computing power available in one pc and the new digital forms of media that were emerging for use by individuals – and Jobs wanted an Apple computer to be at the epicenter of everyone's digital universe. Following this intent, the company first focused on updating the iMac platform, but following that, iTunes and then iPods hit the market to transform personal digital music and the iPhone came later to allow mobile computing access on one device, and the rest is history.

Apple had to create many new competencies over the last 15 years in order to achieve this intent – hardware design, software, touchscreens, etc. The result of this obsession to win at achieving their strategic intent is that now they're the world's most valuable company and brand by 2X!

Accessed through: http://www.bobvintonconsulting.com/blogs/how-apple-used-strategic-intent-to-dominate-its-markets-2/

2.4 CONCEPT OF VISION

When the firm expresses its aspirations as strategic intent should give tangible results. Those results will be the realization of firm's vision. Vision indicates the ultimate purpose of being here. For instance some companies may want to become world leader in next 10 years. Therefore vision articulates the position which a firm would like to attain in the long run. It is the dream of the organization.

Sometimes vision and mission are used synonymously. But there is different between the two. Mission is concerned with the present and the

vision is more concerned with the future. The mission statement answers the questions what is our business? The vision statement gives the answers to this question. The answer may be "what do we want to be?" Vision statements charter the strategic path. It is powerful motivator to action. Often it is the action from which the vision is derived. Eg. Walt Disney wanted to make people happy.

Vision statement must be communicated to the members of the organization. They are the one who are going to help in bringing our dream to reality. Communication of vision to everyone is essential in order to achieve orgnisation's long term direction. The stakeholder will create confidence in their mind about the clarity of the purpose of the firm and knows where the company wants to progress.

Vision conveys the basic purpose. It creates a vivid image in the mind of the employees, shareholders and others. It instills positivity among the members. When the vision is clearly stated it indicates its direction in which the organization is heading. It creates enthusiasm among the employees.

According to Peter Senge, *" A vision provides shared pictures of the future that foster genuine commitment and enrollment rather than compliance"*

Accodring to Miller and Dess, Vision simply as the "Category of intentions that are broad, all inclusive and forward thinking".

2.4.1 The Advantages / Benefits of Vision

- Good vision are inspiring and exhilarating
- It clarifies the path where organization wants to proceeds.
- It helps the organization to prepare for future.
- It clearly indicates top management views about the firm's long range direction.
- It directs in decision making process.
- It provides base for lower level managers to set departmental mission and objectives.
- It creates common identity and a shared sense of purpose.

- Good vision foster risk taking.

For availing these advantages the vision should act as an organizational charter of core values and principles. There should be determination of what makes us unique. A vision statement should not be only a 'high concept' statement or an advertising slogan.

For Example:

International Business Machines Corporation (IBM) has a vision statement and mission statement strongly associated with the organization and its brand. A firm's corporate vision statement sets the desired future state of the business to guide strategic direction. IBM's corporate vision is *"to be the world's most successful and important information technology company. Successful in helping out customers apply technology to solve their problems. Successful in introducing this extraordinary technology to new customers. Important, because we will continue to be the basic resource of much of what is invested in this industry."* This vision statement depicts IBM's developmental path as it maintains its position as one of the top players in the global market. IBM's vision statement marks the importance of leadership of the business in the information technology industry.

2.5 DEFINING MISSION

Clarifying the mission statement and defining the business is the starting point of business planning. Organization defines the basic reason for their existence in terms of a mission statement. Mission statement defines the role of the organization in the society. It describes the organization reasons for being. For some companies the mission statement may be in the form of very long statement or may be a just paragraph. Mission statement includes a statement on organizational philosophy and purpose. It indicates the fundamental purpose of the organization. The mission statement also includes the firm's philosophy about how it does business and treats its employees. Some experts are of the opinion that mission statement

describes what the organization is now and a vision statement highlights on what the organization like to be in the near future.

According to Thompson (1997) mission is the *"Essential purpose of the organization, concentrating particularly why it is in existence, the nature of the businesses it is in and customers it seeks to serve and satisfy"*

In small organization the owner / founder establishes the mission of the enterprise. In some companies CEO frames the mission statement. However in the large organization a group of top managers is involved in the process of framing mission statement.

2.5.1 Characteristics of Mission Statement

Mission statement indicates the strategic thinking of the organization on its stakeholders namely shareholders, employees, customers, suppliers and the environment. It should answer the following questions:

1. What are the values, beliefs of the organization?
2. What is major competitive advantage of the company?
3. Who are the company's customers?
4. Are employees a valuable asset for the organization?

Mission statement framed should have following characteristics:

- It should clearly indicate the organizational purpose and outlook.
- It should have customer orientation
- It should also highlights on social objectives

1. **Clarity :**The mission statement should be clearly stated so that it leads to effective action. The dream must be presented in a positive way.
2. **Realistic:** It should be realistic and achievable.
3. **Broad:** The mission statement should be presented as the grand design of the firm's future.
4. **Specific**: Mission should be specific. It describes the scope within which the organization has to function.
5. **Dynamic**: The mission statement should be dynamic to balance between narrow and broad ways of doing things. It should bring balance between present requirements and future expectations.

6. Vision: The mission statement is the expansion of the vision of the company.

Example of Mission Statement:

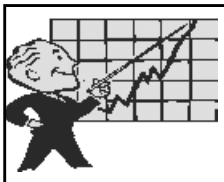
IBM's Mission Statement

IBM's mission is "to lead in the creation, development and manufacture of the industry's most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics. And our worldwide network of IBM solutions and services professionals translates these advanced technologies into business value for our customers. We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide."

The mission statement indicates what the business of IBM is. It detailed out company's aims and its activities on how to fulfill these aims. It also highlights on :

- To be the leader in the IT sector with most advanced technologies.
- Delivering better value to the customers.
- Providing professional solutions to the clients worldwide.

In nutshell the corporate mission statement highlights IBM's leadership in the information technology industry. IBM's corporate mission statement is very specific in providing bases for business processes. Mission statement is closely linked to the company's corporate vision statement.



CHECK YOUR PROGRESS

Q1. Define Strategic intent.

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Q2. State two advantages of vision.

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2.6 DEFINITION OF BUSINESS

Understanding business is vital to defining it and answering the question 'What is our Business?' The ideas generated while defining Business enable the framing of the mission and vision statement. The organizational purpose defines the activities that the organization performs or intends to perform and the kind of organization that it is or intends to be. The establishment of an organization's purpose is very much important. Unless and until there is clarity of purpose, the firm will not be able to develop clear objectives and strategies.

A good business definition or purpose includes a statement of products, markets, functions and objectives.

According to Peter Drucker "To know what a business is, we have to start with its purpose. Its purpose must be outside of the business itself….. There is only on definition of business purpose; to create a customer".

Business purpose of P&G:

"We will provide products of superior quality and value that improves the lives of the world's consumers".

The organization's purpose starts with defining its present and potential customers. It answers questions like:

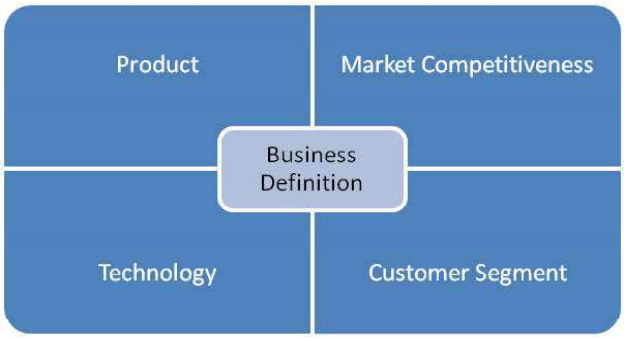
A. Who is the customer?

B. What does he buy?

C. What does customer look for when he / she buys the products (value).

Answers to these questions also indicate the nature and quality of the product, process or technology, market environment and / or competitiveness.

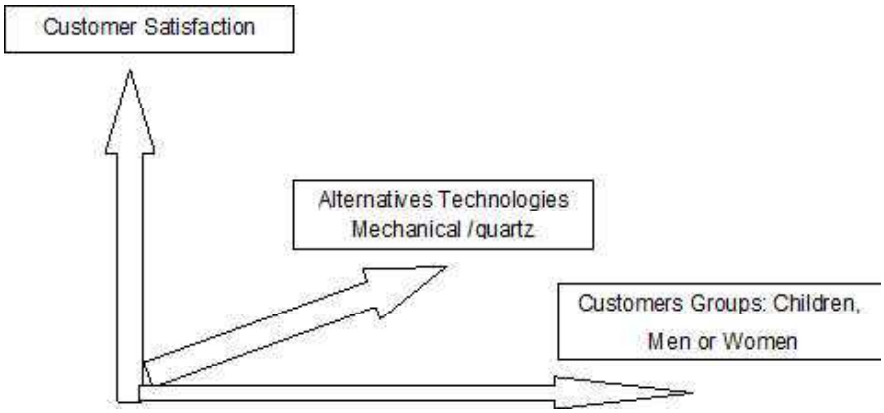
Many companies and managers are not clear about the exact nature of their business, nor are they always aware of the significance of this. The definitions of business should be based on four major factors;



Business definition of :

***Hindustan Uniliver**: To meet everyday needs of Indian people everywhere with branded products.*

2.6.1 Dimensions of Business Definition



Based on D. F. Abell, Defining the Business:The Strategic Point of Strategic Planning

Understanding definition of business is the alternative way of studying mission. Defining business is very vital. For example, Film producers wrongly perceive their business as producing films but their actual business is to entertain viewers.

The mobile handset when introduced, the basic purpose was to provide just a means of communication but now with the change of technology it has become an important gazette for the users for multipurpose.

Derek Abell in a path breaking analysis, suggest defining a business along the three dimensions of customer groups, customer functions and alternatives technologies.

Dimensions	**Relate to**
Customer Groups	Could be individual customer or industrial users.
Customer Functions	Finding time, recording time, e.g. Using watch as a fashionable accessory and as a gift item.
Alternative Technologies	Own production unit, Franchised Outlet or Undertaking distribution agency.

This kind of clarification helps in defining business explicitly. A clear definition is useful for strategic management in many ways. It helps in deciding objectives, alternative strategies, functional policy etc.

Like strategy, business can be defined at the corporate or SBU levels. When a firm operates in one area only then its definition might be comparatively simple than those firms who operates at many level and areas. At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions and alternative technologies. The significance of Abell's approach to defining business lies in it being marketing- and customers oriented approach rather than a product oriented approach.

2.7 BUSINESS MODELS AND THEIR RELATIONSHIP WITH STRATEGY

In short, strategic intent refers to the purposes for which the organization strives for. These could be in the form of vision, mission statement. At the business level it can be expressed in the form of business definition or business model. When it is expressed in the precise terms it becomes objectives or goals. Here, strategic intent lays down the framework within which firms would operate. It provides directions to achieve the goals.

In order to be successful in the market organization need to find out Critical Success Factors (CSFs). CSFs are strategic of key factors. CSFs

can be found out by asking simple question like What do we need to do in order be successful? Key factors are based on practical logic. These factors can be the result of long run experience which leads to development of intuition, judgment for use in strategic decision making.

Brainstorming can be used through which critical factors can be found out. CSFs are used to pinpoint key results areas, determining objectives in those areas.

Product / industry	**CSFs**
Maruti	Low cost with better quality
Courier Service	Speedy service, reliability and price.

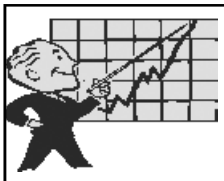
The term business model has become more popular after 1990s with the development of internet. It is used to express number of ideas. Ideas those create some value to the customers. Big giants like Wal-Mart, Google as a search engine, Amazon as a option for online buying have become successful only because of their business model.

Now, people are techno-savvy and they don't have time to read physical papers, so news papers have come with E-newspaper concept. They are able to offer this facility free of cost to the reader because they earn revenue through online advertisement.

Business model can be defined as *'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network'. (Shafer and others)*

There is intimate relationship between business models and strategy of an organization. Strategies are combinations different action plans to achieve desired goals and business model can be used to do analysis of these strategies choices and appropriate selection of a particular strategy. Companies operating in same industry may have different business models. There is difference in the business model used by TCs, Infosys and Wipro. Strategies doesn't specify how to earn money but business model does that perfectly.

The vision, mission, business definition and business models are helpful in determining the basic philosophy that organization might opt in long run.



CHECK YOUR PROGRESS

Q3. State the dimensions of business definition.

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Q4. Define business model.

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2.8 LET US SUM UP

In this unit we have discussed the following:

- Strategic intent comprises a *sense of direction*, *a sense of discovering* that will help in identifying opportunities to meet new challenges and *a sense of destiny* – that will create inspiration and commitment on the part of managers, employees, and the stakeholders.
- Strategic intent indicates *'stretch'* it means stretching of the present resources and capabilities to achieve the desired goals. The concept of strategic intent involves the use of *resource stretch.*
- Vision conveys the basic purpose. It creates a vivid image in the mind of the employees, shareholders and others. It instills positivity among the members. When the vision is clearly stated it indicates its direction in which the organization is heading. It creates enthusiasm among the employees.
- Business can be defined under three dimensions of customer groups, customer functions and alternatives technologies.
- Business model can be defined as 'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network'.



2.9 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



2.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. 1: Strategic intent as defined by Hamel and Prahalad is used to define and to communicate a *sense of direction.*

Ans. to Q. 2: Good vision are inspiring and exhilarating. It clarifies the path where organization wants to proceeds.

Ans. to Q. 3: Customer group, customer function, alternative technologies.

Ans. to Q.4: Business model can be defined as 'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network'.



2.11 MODEL QUESTIONS

Q.1: Discuss the concept of vision. Also state its advantages.

Q.2: Define mission and state its characteristics.

Q.3: Discuss the major factors which define business.

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UNIT 3: ENVIRONMENTAL APPRAISAL

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Concept of Environment

3.4 Nature of Environment

3.5 Internal and External Environment

- 3.5.1 Internal Environment
- 3.5.2 External environment

3.6 Classification of External Environment

3.7 Concept of Environmental Scanning

3.8 Approach of Environmental Scanning

3.9 Factors Affecting Environmental Analysis

3.10 Techniques of Environmental Scanning

3.11 Let Us sum Up

3.12 Further Reading

3.13 Answers to check your Progress

3.14 Model Questions

3.1 LEARNING OBJECTIVES

After going trough this unit, you will be able to:

- discuss the internal and external factors which affect business.
- learn the components of environment
- learn the importance of environmental scanning

3.2 INTRODUCTION

By establishing the hierarchy of strategic intent, an organization knows what it wants to achieve. Now it has to decide how it will achieve. This question can be answered by formulating strategies. The first stage in the process of strategy formulation is analysis and appraisal of the environment in which the organization will operate. In this unit we are going

to discuss the concept of environment: Internal and external environment, will learn the classification of external environment, concept of environmental Scanning, factors affecting environmental Scanning and at the end of the unit we will discuss the techniques and measures of environmental scanning.

3.3 CONCEPT OF ENVIRONMENT

The development of mission and objectives involves analysis and appraisal of environment. The results of internal and external appraisals will help managers determine what goals and mission they can or should adopt, and the strategic options that are available. Therefore, in formulating a strategy, the effective general manager makes strategic choices which are consistent with environmental factors. The biases or preferences for action shape the decision makers' view of the situation.

The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organisation.

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:

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

In formulating a strategy, the strategic decision makers must analyze conditions internal to the organization as well as conditions in the external environment, which are described in the following sections.

3.4 NATURE OF ENVIRONMENT

Strategic management sets the general direction of the business and ensures its survival in the face of external environmental challenges. Business environment includes all elements outside the organization that can potentially affect all or part of the organization. The external environment significantly influences the performance of small firms. Business environment is constantly changing in different ways; hence, managers need to be aware of and react to these changes.

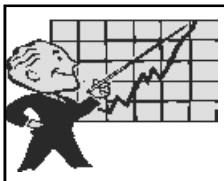
1. Complexity: the environment consists of several factors and forces which interacts with each others. Greater the number of diversity of environmental forces, higher is the degree of heir complexity. The range of environmental forces and their heterogeneity has increased since globalization. Today's business world operates in a highly complex environment.
2. Dynamism: The environment is dynamic as it is changing continuously. The rate of change in environment is fast and unpredictable. When the rate of change is high and variable, environment becomes volatile.

The main characteristics of business environment are as follows:

1. Totality of External forces: Business environment is the sum total of all things external to business firms and as such is aggregative in nature.
2. Specific and general forces: Business environment includes both specific and general forces. Specific forces affect individual enterprises directly and immediately in their day-to-day working. General forces have impact on all business enterprises and thus may affect an individual firm only indirectly
3. Dynamic nature: Business environment is dynamic in that it keeps on changing weather in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.
4. Environmental Uncertainty: In an environment characterized by uncertainty, information about environmental factors is scarce and predicting external changes is difficult. In such an environment, it is

difficult to calculate the costs of alternative decisions and the probability of their success. This increases the risk of failure.

5. Task Environment: The task environment of a business comprises the sectors of the market that are directly relevant to its operations, such as suppliers and competitors. In a dynamic environment, there are important changes in the task environment. For example, constant and unpredictable swings in fuel costs can increase raw material transportation costs. Moreover, competitors constantly threaten the market share of the company.
6. Societal Change: Demographic, social and cultural changes are altering the competitive landscape. The aging population means there will be an expansion in the health care sector. The rising new generation has fundamentally different tastes and reshapes the economy. For example, new industries such as computer gaming were formed to satisfy their distinct needs.
7. Technological Change: The pace of technological change is high, and presents both opportunities and threats. As a case in point, rapid expansion of information and communications technology has given rise to e-commerce. Businesses can source and sell to a global market, but this also means that their markets are constantly under threat from foreign companies.
8. Economic and Political Challenges: In the interconnected world economy, companies are affected by economic and political challenges from abroad. Political upheavals, recession and natural disasters thousands of miles away affect business outlook, stock market indexes, and prices of important commodities such as oil.
9. Regulatory Complexity: Businesses face an increasingly complex regulatory web. Compliance with regulations on hazardous material disposal, human resource practices, and taxes can be challenging for small companies. Small businesses are an important part of the economy, and governments try to stimulate their formation and growth. Making sense of these incentives is also vitally important for small-business managers.



CHECK YOUR PROGRESS

Q1: Define Environment.

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Q2: Write any four characteristics of Environment.

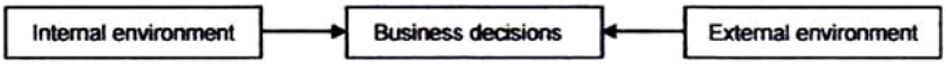
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3.5 INTERNAL AND EXTERNAL ENVIRONMENT

Internal consists of financial, physical, human and technological resources. Internal environment consists of controllable factors that can be modified according to needs of the external environment.

The external environment consists of legal, political, socio-cultural, demographic factors etc. These are uncontrollable factors and firms adapt to this environment. They adjust internal environment with the external environment to take advantage of the environmental opportunities and strive against environmental threats. Business decisions are affected by both internal and external environment.



3.5.1 Internal Environment

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factors as its personnel, physical facilities, and organization and functional means, like marketing, to suit the environment.

The important internal factors which have a bearing on the strategy and other decisionsof internal organization are discussed below.

1. **Value system:** The value system of the founders and those at the controls of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practices.
2. **Mission and vision and objectives:** Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organization. The mission is the medium through which the objectives are achieved.
3. **Management structure and nature:** The structure of the organization also influences the business decisions. The organizational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some other helps in making quick decisions.
4. **Internal power relationships:** The relationship among the three levels of the organization also influences on the business. The mutual co-ordination among those three is an important need for a business. The relationship among the people working in the three levels of the organization should be cordial.
5. **Human resource:** The human resource is the important factor for any organization as it contributes to the strength and weakness of any organization. The human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc. T he involvement and initiative of the people in an organization at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them.
6. **Company image and brand equity:** The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering

sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

7. **Miscellaneous factors:** The other factors that contribute to the business success or failure are as follows:
   a. **Physical assets and facilities:** Physical Assets and facilities like production capacity, technology is among the factors which influence the competitiveness of the firm. The proper working of the assets is indeed for free flow of working of the company.
   b. **Research and development:** Though Research and development department is basically done through external environment but it has a direct impact on the organization. These aspects mainly determine the company's ability to innovate and compete with the competitors.
   c. **Marketing resources:** In an organization the quality of the manpower in marketing, brand equity, and in distribution network has direct bearing on marketing efficiency of the company.
   d. **Financial factors:** Factors like financial policies, financial positions and capital structure are also important internal environment affecting business performances, strategies and decisions.

3.5.2 External Environment

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment. They are:

a. Micro Environment
b. Macro Environment

Let us discuss these in detail.

A. **MICRO ENVIRONMENT:** The micro environment is also known as the task environment and operating environment because the micro environmental forces have a direct bearing on the

operations of the firm. The micro environmental factors are more intimately linked with the company than the macro factors. "The micro environment consists of the actors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public".

i. **Suppliers:** An important force in the micro environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious

ii. **Customer:** The major task of a business is to create and sustain customers. A business exists only because of its customers. The choice of customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition. Competition not only include the other firms that produce same product but also those firms which compete for the income of the consumers the competition here among these products may be said as desire competition as the primary task here is to fulfill the desire of the customers. The competition that satisfies a particular category desire then it is called generic competition.

iii. **Marketing Intermediaries:** The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

iv. **Financiers:** The financiers are also important factors of internal environment. Along with financing capabilities of the company their policies and strategies, attitudes towards risk, ability to provide non-financial assistance etc. are very important.

v. **Public:** Public can be said as any group that has an actual or potential interest in or on an organization's ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

B. MACRO ENVIRONMENT: Macro environment is also known as General environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of company depends upon its adaptability to the environment. Some of the macro environment factors are discussed below:

i. **Economic Environment:** Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating, prospective market situations and makes suitable to get the maximum with minimize cost.

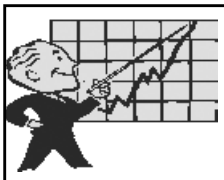
ii. **Social Environment:** The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, mobility of labor etc. have far-reaching impact on the business. These factors determine the work culture and mobility of labor, work groups etc.

iii. **Political Environment:** The political environment of a country is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary group's etc. The political environment of the country influences the business to a great extent.

iv. **Legal Environment:** Legal environment includes flexibility and adaptability of law and other legal rules governing the

business. It may include the exact rulings and decision of the courts. These affect the business and its managers to a great extent.

Technical Environment: The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets.



CHECK YOUR PROGRESS

Q3: What is Internal and External Environment?

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Q4: List any three factors of Macro Environment.

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3.6 CLASSIFICATION OF EXTERNAL ENVIRONMENT

A. ECONOMIC ENVIRONMENT: The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

(a) Economic Conditions: The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) Economic Policies: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

i. **Industrial policy**: The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.

ii. **Fiscal policy:** It includes government policy in respect of public expenditure, taxation and public debt.

iii. **Monetary policy**: It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.

iv. **Foreign investment policy:** This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.

v. **Export–Import policy** (Exim policy): It aims at increasing exports and bridge the gap between expert and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

c) Economic System: The world economy is primarily governed by three types of economic systems, for example :

(i) Capitalist economy

(ii) Socialist economy

(iii) Mixed economy.

India has adopted the mixed economy system which implies co-existence of public sector and private sector.

B. DEMOGRAPHIC ENVIRONMENT: This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, and then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

C. POLITICAL ENVIRONMENT: This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

D. LEGAL ENVIRONMENT: This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:

(i) Companies Act, 1956
(ii) Foreign Exchange Management Act, 1999
(iii) The Factories Act, 1948
(iv) Industrial Disputes Act, 1972
(v) Payment of Gratuity Act, 1972
(vi) Industries (Development and Regulation) Act, 1951
(vii) Prevention of Food Adulteration Act, 1954
(viii) Essential Commodities Act, 2002
(ix) The Standards of Weights and Measures Act, 1956
(x) Monopolies and Restrictive Trade Practices Act, 1969
(xi) Trade Marks Act, 1999
(xii) Bureau of Indian Standards Act, 1986
(xiii) Consumer Protection Act, 1986
(xiv) Environment Protection Act
(xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

(i) **Provisions of the Constitution:** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.

(ii) **Judicial Decisions**: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities

E. SOCIAL – CULTURAL ENVIRONMENT: The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

F. TECHNOLOGICAL ENVIRONMENT: Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a day's in fact, no firm can afford to persist with the outdated technologies. Technological environment thus create new markets and new business segments.

Its main elements are as follows:

i. Sources, cost and transfer of technology
ii. Stages of technological progress, rate of change in technology, research and development facilities

iii. Man – machine system, impact of technology on people and environment

iv. Restriction on transfer of technology, time taken in technology absorption, incentives and facilities for technological innovations.

G. NATURAL ENVIRONMENT: The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

H. INTERNATIONAL ENVIRONMENT: The international or global environment consists of all those factors that operate at the transnational and cross cultural levels. Its main elements are as follows:

i. The process, content and direction of globalization

ii. The process of and trends in global trade and forces

iii. Global economic organizations and forums; and regional economic blocks.

iv. Global financial system and international accounting standards

v. Global markets and international competitiveness

vi. Global demographic pattern an trends

vii. Global information systems and communication networks and media

viii. Global technological and quality systems and standards.

ix. Global legal and arbitration system

x. Global human resource trends and globalization of management

Large Indian firms are making attempts to align themselves to emerging global trends. They are adopting global business practices and international accounting and reporting standards. India's corporate sector

is taking greater interest in the World Trade Organisation (WTO), International Monetary Fund (IMF), World Economic forum (WEF) and other international agencies.

I. **SUPPLIER ENVIRONMENT:** They are the people and groups which supply inputs tot eh firms. An organization must acquire raw materials, labour, equipments etc. in order to produce products and services. In the case of raw materials, an organization must ensure a steady supply of high quality at the minimum possible price. The acquisition of human resources depends on variation in labour market, trade unions and labour laws.

Cost availability and reliability of raw materials, parts, components and sub assemblies have become increasingly important. Manufacturers are also more concerned about cost, availability and reliability of energy, human resources, plant and machinery, infrastructure and other inputs. Companies are paying increasing attention to supplier environment in strategy formulation. They complain that shortage and high cost of raw materials, power and capital are affecting their profitability and growth.

J. **MARKET ENVIRONMENT:** The marketing activities of the business are affected by several internal and external factors. While some of the factors are in the control of the business, most of these are not and the business has to adapt itself to avoid being affected by changes in these factors. These external and internal factors group together to form a marketing environment in which the business operates.

The marketing environment of a business consists of an internal and an external environment. The internal environment is company specific and includes owners, workers, machines, materials etc. The external environment is further divided into two components: micro & macro. The micro or the task environment is also specific to the business but external. It consists of factors engaged in producing, distributing, and promoting the offering. The macro or the broad environment includes larger societal forces which affect society as a whole. The broad environment is made up of six components: demographic,

economic, physical, technological, political-legal, and social-cultural environment.

3.7 CONCEPT OF ENVIRONMENTAL SCANNING

Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face. The main features of environmental scanning are as follows:

i. **Holistic:** Environmental analysis is a holistic exercise because it takes a total rather than piecemeal view of environmental forces. No doubt environment is divided into different components for the sake of comprehension but finally the analysis of these components is aggregated to have a total view of the environment.

ii. **Exploratory:** Environmental scanning is an exploratory or heuristic process. It attempts to estimate what could happen in future on the basis of present trends. Possible alternatives futures are identified on the basis of different assumptions. The probabilities of these alternatives futures are also estimated to arrive at more rational conclusion.

iii. **Continuous:** Environmental analysis is an ongoing rather than an intermittent exercise. Continuous scanning of the environment is necessary to identify the trends. More relevant trends are analyzed in details to understand their impact on the organization.

Environmental analysis plays a vital role in strategy formulation. In the absence of environmental analysis, no meaningful strategy can be formulated. Organisation which regularly monitor their environment outperform those which do not analyze their environment. For example, ITC, TCS, Reliance Industries Limited and other companies which give very high priority to the environmental scanning have achieved high growth rates over decades.

3.8 APPROACHES TO ENVIRONMENTAL SCANNING

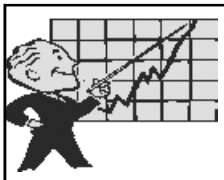
The following approaches can be suggested for scanning the environment:

1. **Systematic Approach**: Under this approach, a highly systematic and formal procedure is used to collect process and interpret information about the environment. In order to monitor the environment, information concerning markets, customers, government policies, and regulations and other environmental factors influencing the organization and its industry is collected on a continuous basis. Proactive organizations with a high degree of sensitivity too the environment use this approach. The anticipated changes in the environment and their data collection and processing are well structured.
2. **Adhoc Approach**: Under this approach, special surveys and studies are conducted about specific environmental issues. For example, an organization planning to undertake a special project may conduct a survey to develop new strategies. The impact of unforeseen changes in the environment may also be investigated. Reactive organizations which are less sensitive to the environment often adopt an adhoc and informal approach to environmental scanning.
3. **Processed–form Approach:** Under this approach, processed information available from different internal and external sources is used. For example, data contained in government publications (Census Report, etc.) may be used. This approach adopted by a particular organization depends on the nature of the environment (stable or dynamic), concern for environment (low or high concern), importance of environment (directly relevant or general environment), etc.

3.9 FACTORS AFFECTING ENVIRONMENTAL ANALYSIS

There are numerous factors in the environment but only some of them are relevant to an organization. Only those environmental factors are relevant which have an impact on the organization. The choice of environmental factors also depends upon the following factors:

1. **Organization – Related factor**: The nature, age, size, competitive power, complexity, etc. of the organization have an impact on environmental analysis. For example, new, large, and less powerful organizations require more information than old, small and more powerful organizations. Similarly, organizations operating in multiple products and /or unrelated products and with geographically dispersed operations need more information than single product and concentrated organizations.
2. **Strategist – Related factors**: Strategists plays a central role in strategy formulation. Therefore, their age, education, experience, motivation level, attitudes, sense of responsibilities and the ability to face time pressure have a major impact on environmental analysis. For example, forward looking and long term oriented managers seeks more information than those who believes in status and short term.
3. **Environment - related facto**r: How does an organization scan its environment also depends on the nature of environment. A more thorough scanning s required when the environment is complex, volatile, hostile and diverse.



CHECK YOUR PROGRESS

Q5: What are the fators affecting external environments?

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Q6: Define Environmental Scanning.

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Q7: Define Technological Environment.

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3.10 TECHNIQUES OF ENVIRONMENTAL SCANNING

Several techniques are used for scanning the environmental. Some of these are described below:

1. **Environmental Threat and Opportunity Profile (ETOP):** The ETOP is the most useful technique of structuring the results of environmental analysis. ETOP or environmental impact Matrix is a summary of the environmental factors and their impact on the organization.

The preparation of ETOP involves the following steps:

i. Selection of Environmental factor: First of all, relevant competent of the environment are selected. Each major factors are divided into economic policies, economic indices, market environment etc.

ii. Assessment of Importance: The importance of each selected factor/ sub factor is assessed in qualitative (high, medium, low) or quantitative (3, 2,1)terms.

iii. Measurement of impact: The positive and negative impact of each factor is measured as opportunities and threats respectively.

iv. Combinations of Importance and Impact: The importance and impact of each factor together indicate clearly the situation.

ETOP can be prepared in two forms: matrix form or descriptive form. In matrix form importance and impact of each environment factor are expressed in quantities. In descriptive forms the impact is expressed as being positive or negative. ETOP provides a clear picture of which the organization stands in relation to the environment. It indicates the opportunities and threats which the organization is likely to face. Such an understanding is very useful in formulating appropriate strategies which will help the organization to take advantage of the opportunities and to counter the threats in its environment.

2. **P.E.S.T. Analysis:** The acronym P.E.S.T. stands for Political, Economic, Social and Technological environment. These environmental factors create opportunities and threats for an organization. Some strategists rearrange these variables as social, Technological, Economic, and Political and use the acronym S.T.E.P.

analysis. Each categories of these factors contain innumerable elements. The more common elements are as follows :

i. **Political Analysis** : It involves analysis of
   - Political system and stability
   - Legal framework concerning business
   - Political parties and their ideology
   - Risk of military invasion
   - Foreign relations with other nations
   - Bureaucracy and red tape
   - Political corruption

ii. **Economic Analysis**: It involves analysis of
   - Economic System
   - Economic policies
   - Economic indices
   - Economic markets
   - Financial markets
   - Industrial infrastructure

iii. **Social Analysis** : It involves analysis of:
   - Demographics
   - Class structure
   - Family system
   - Education levels
   - Cultural Values, attitudes and interests
   - Entrepreneurial spirit

iv. **Technological Analysis** : It involves analysis of
   - Level of technological progress
   - Rate of technology diffusion
   - Transfer of foreign technology
   - Impact of technology on costs, quality and value chain.



3.11 LET US SUM UP

In this unit we discussed the following:

- The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organisation.
- In general terms, environment can be broken down into three areas:
  a. The macro environment, or general environment
  b. Operating environment
  c. The internal environment
- Business environment includes all elements outside the organization that can potentially affect all or part of the organization. The external environment significantly influences the performance of small firms.
- The main characteristics of business environment are as follows: Totality of External forces, Specific and general forces, Dynamic nature, Environmental Uncertainty, Task Environment, Societal Change, Technological Change, Economic and Political Challenges, Regulatory Complexity
- External environment can be classified according to :economic environment, demographic environment, political environment, legal environment, social – cultural environment, technological environment, natural environment, international environment, market environment
- Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face.
- The approaches for scanning the environment are :Systematic Approach, Adhoc Approach, Processed-form Approach.
- The techniques used for scanning the environmental are : Environmental Threat and Opportunity Profile (ETOP) and P.E.S.T. Analysis



3.12 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



3.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organization.

Ans to Q2: The main characteristics of business environment are: Totality of External forces, Specific and general forces, Dynamic nature and Environmental Uncertainty

Ans to Q3: The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors.

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment. They are:

a. Micro Environment
b. Macro Environment

Ans to Q4: Some of the Macro environment factors are: Economic Environment, Social Environment and Political Environment

Ans to Q5: The main factors that affect the economic environment are: Economic Conditions, Economic Policies and Economic System

Ans to Q6: Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face.

Ans to Q7: Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution.



3.14 MODEL QUESTIONS

Q.1: Define Environment

Q.2: Define Environmental Scanning.

Q.3: Write the nature and characteristics of Environment

Q.4: What is Internal and External Environment?

Q.5: Discuss the two types of External Environment.

Q.6: Classify External Environment

Q.7: List the main features of Environmental Scanning

Q.8: Discuss the different approaches to Environmental Scanning

Q.9: Explain the factors affecting environmental analysis

Q.10: Describe the methods and techniques of environmental scanning

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UNIT 4: ORGANISATIONAL APPRAISAL

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Concept of Organisational Analysis

4.4 Characteristics of Organisational Analysis

4.5 Strategic or Competitive Advantage

4.6 Factors in Organizational Analysis

4.7 Methods and Techniques in Organization Analysis

4.8 Let Us Sum Up

4.9 Further Reading

4.10 Answers to check your progress

4.11 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the concept of Organisational Analysis
- outline the characteristics of Organisational Analysis
- learn about Strategic or Competitive Advantage
- describe the factors in Organizational Analysis:
- discuss the methods and techniques in Organization Analysis

4.2 INTRODUCTION

Essential components of carrying out an organizational analysis include evaluating external factors that can affect the organization's performance as well as strategically assessing the organization's own resources and potential. Internal strengths and weaknesses along with outside opportunities and threats are keys to an organization's success. SWOT analysis, which stands for strengths, weaknesses, opportunities and threats, is a strategic-planning method an organization's leaders often use to aid them in establishing business objectives or achieving the

organization's mission goals.Let us discuss the various aspects of orgnisational appraisal in the following sections

4.3 CONCEPT OF ORGANIZATIONAL ANALYSIS

Organizational Analysis is the process of evaluating systematically organizational capabilities which can give it competitive advantage in the market .The capabilities enable the organization to achieve strategic advantage for long term success. Organizational Analysis is also known as internal analysis, corporate appraisal, self approval, company analysis etc.

Organizational Analysis is the analysis of internal environment which refers to all factors within an organization that influence its capabilities to accomplish its strategic intent. The main purpose is to determine the capabilities of its strength and weakness of an organization. An organization may adopt an highly systematic approach to analyses. Proactive organization adopts a systematic approach on the other hand reactive organization use the ad hoc approach in response to the crisis. Both secondary and primary sources are used for collecting information needed for organizational analysis. Internal sources of information are employees opinion, company files and documents, financial statements and external sources includes newspapers, magazine, journals, government publications, trade and industry report etc.

4.4 CHARACTERISTICS OF ORGAINSATIONAL ANALYSIS

The important characteristic sor components of carrying out an organizational analysis includes evaluating external factors and Internal strenghts and weakness.The external factors are the organization's performance as well as strategically assessing the organization's own resources and potential and internal strengths, weaknesses along with outside opportunities and threats are keys to an organization's success.

A. Strengths: An organization's strengths are internal characteristics that can give it an advantage over competitors. Evaluating organizational strengths usually involves assessing current management, resources, manpower and marketing objectives. Generally, internal analysis examines an organization's available resources and core competencies. Determining the organization's capabilities helps its leaders make long-term plans and sound decisions. Other factors included in an internal analysis include taking a look at the organization's financial goals and strategic-planning initiatives, in addition to its exceptional strengths. Offering high quality products or services, building a solid reputation, maintaining strong financial health and investing in new technologies are some of the strong points an organization can focus on developing in order to improve its position within an industry. Efficient delivery of products or services and providing excellence of customer service are other positive factors.

B. Weaknesses: An organization's weaknesses are another example of internal characteristics that can affect its operations and level of performance. Identifying weaknesses helps organization to spot problems to make the necessary changes. This strategy allows decision makers to develop other more suitable alternatives in their strategic planning objectives when operations fail to perform as projected. Weaknesses may include poor leadership, low employee morale, weak financial, low cash flow, outdated technology and inefficient organizational functions or processes. One example of converting a weakness into strength might be how an organization that lacks adequate financial resources works to control costs in order to develop a more competitive advantage.

C. Opportunities: In general, external organizational analysis weighs the potential opportunities and threats that are present outside of the organization. External analysis may include market analysis, sizing up the competition and evaluating the impact of new technological advances. When assessing opportunities in the external environment, organizations must set out to identify current market and industry trends, potential niche markets and the weaknesses of major competitors. An organization should also consider recent developments in technology as vehicles of opportunity.

Innovation is a key to creating new opportunities; therefore, an organization that succeeds in setting itself apart from others has the chance to build up a strong competitive position in the industry. In order to accomplish this success, an organization must offer something different that its competitors are incapable to provide something better than the standard.

D. Threats: External risks are not always bad for an organization. For example, the labor market can pose either a potential threat or an opportunity depending on the state of the local, national and global economies. Legislation and government regulation are other factors that can have an effect on how well an organization performs. Whatever the case, the goal of an organization striving to succeed is to reduce the impact of external threats and work on improving its internal weaknesses. Organizations must be able to adapt and keep pace with the constant changes that occur in the environment outside of the organization.

4.5 STRATEGIC OR COMPETITIVE ADVANTAGE

The strategic advantage of an organization is developed through its resources, behavior strengths, weakness, synergistic effects, competencies and capability.Let us discuss these resources in the following points:

Organizational Resources: Organization resources contain all physical, human and financial resources. Plant and machinery, raw materials, geographical location and technology are the examples of physical resources. Human resources include intelligence, experience, training, judgment, relationship of members of an organization. Formal structures, systems and processes are also important resources. Valuable, scarce, inimitable, durable and non substitutable resources enable an organization to achieve strategic advantage and to achieve superior performance in the long run. Organisation which possesses superior resources can produce more efficiently, better satisfy customers, deliver better value for many and thereby earn higher returns on investment. An organization obtains resources and its success depends on the cost, quality and adequacy of these resources .An organization have in low cost, high quality, and abundant

resources has an enduring strength which can be used as strategic weapon against the competitors.

Organisatonal Behaviour: An organization does not become capable merely by acquiring resources. Its strength and success depends on an efficient utilization of these resources which in turn depends on the behavior of individuals and groups in an organization. Organizational behavior refers to the manifestation of various forces and influences operating within an organization that create the ability for, or place constraints on , the uses of resources. Several forces and influences such an management philosophy, organizational climate and culture, organizational politics and use of power shape organizational behavior. If resources are considered the hardware of an organization, behavior is its software. The two together create it strength and weaknesses.

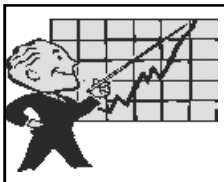
Strength and Weaknesses: Strength is an inbuilt capability which an organization can use to gain strategic advantage over its competitors. On the other hand, a weakness is an inherent limitation or constraint which creates a strategic disadvantage for the organization. For example, low cost of capital is strength and inexperienced management is a weakness. Strength and weaknesses do not exist in isolation but combined within a functional area, and also across different functional area, to create synergistic effects.

Synergistic Effects: Synergy occurs when two element complement each other. It is popularly known as 2 + 2 = 5 Effect. In other words synergy means the whole is more/ less than some of its parts. /synergistic effects occur in an organization in many ways. For example, when marketing and production departments support each other there is a operating synergy. Within a functional area eg. Marketing, when product, pricing, distribution and promotion support each other there is a marketing synergy. Synergetic effect can also be negative (2 + 2 = 3) . For example, conflict between marketing and production area leads to negative synergy. Synergistic effects influence the type and quality of the internal environment of an organization and many lead to development of competencies.

Competencies: An organization' competencies are its unique qualities that facilitate it's withstand its competitive pressure in market place. The ability of an organization to compete with its rival depends on its unique quality. Competencies may exist in a form of unique resources, core capabilities, surrounded knowledge, invisible asset, Etc.

Organizational Capability: The capability of an organization means its intrinsic capability or potential to develop its strength and to rise above its weaknesses so as to exploit its opportunities. And face the treats in its external environment. In the absence of capability, even exceptional and valuable resources may be worthless. According to several thinkers in strategic management, capabilities are the outcomes of an organization knowledge base or the skills and knowledge of its employees. Organizational capabilities are important for strategy making due to two reasons: First, it indicates an organization capacity to meet environmental challenges. Second, it reveals to potential that should be developed in the organization to achieve success.

Strategic and competitive Advantage: Strategic advantages are the shareholders value and market share and are the outcomes of organizational capabilities. On the other hand, strategic disadvantages are the shortcomings due to lack of organizational capabilities. Both can be measured in absolute terms. For example, higher the probability, greater is the strategic advantage. Comparative advantage is a special type of strategic advantage. It is a relative term and is compared with respect to rivals in the industry. For example, a company has a comparative advantage when its profitability is higher than that of its rivals. Thus strategic advantage is a broader concept and competitive advantage is one of its parts.



CHECK YOUR PROGRESS

Q1: Define Organisational Analysis.

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Q2: What is Organisational Resources?

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Q3: What is organizational capability?

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4.6 FACTORS IN ORGAISNATIONAL ANALYSIS

Organizational analysis involves the identification of factors which indicate organizational capabilities. These factors are known as organizational capability factors or competitive advantage factors or strategic factors. The following are the organizational capability factors that exist within an organization which are critical for the formulation and implementation of the strategy.The following are some of the factors in organisational analysis:

a. **Capability Factors in Finance**: Financial capability factors are concerned with the availability, usage and management of funds. Some of the important factors which influence an organization's financial capability are as under:

i. Sources of funds - related factors-financing pattern (capital structure), cost of funds, financial leverage, reserves and surplus, relationship with provider of funds, etc.

ii. Usage of funds - related factors - fixed assets, current assets, loans and advances, dividend distribution.

iii. Management of funds - related factors-accounting and budgeting systems, financial control system, tax planning return risk and management, etc.

b. **Capability Factors in Marketing:** The main factors that influence the marketing capability of an organization are as follows:

i. Product related factors-product mix, branding product positioning, differentiation, packaging, etc.

ii. Price related factors-pricing policies, price competitiveness, value for money pricing, price changes etc.

iii. Place related factors-distribution network, transportation and logistics, relations with intermediaries, etc

iv. Promotion related factors-promotion mix, promotion tools, customers relationship management etc.

v. Integration and control related factors-market standing, company image, marketing information system, marketing organization, etc.



LET US KNOW

Marketing strengths and weaknesses of some companies are given below:

- Hindustan Unilever is known for its marketing capability. It has a countrywide distribution network with a large number of clearing and forwarding (C&F) agents , wholesalers and retailers. It has prominent brands in its kitty, most of them provided by its parent company.
- Parle enjoys a strong image and appeal among Indian consumers. Several of its biscuits and confectionery brands are market leaders in their category. The company enjoys a high market share with its biscuits brands such as Parle-G, Monaco and krackjack and confectionery brands such as Kismi, mangobite, Malady and Poppins.
- Philips India adopted premium pricing strategy for its colour televisions on the premise of popularity of its brands in electrical and electronic segments, But customers could not relate quality of Philips TV sets with higher price due to several quality-price-performance offerings from its competitors like L.G. , Samsung, Sony. Etc.
- Several studies reveal that ineffective marketing is prone of the major causes of industrial sickness in the small scale sector.

c. **Capability factors in Operation:** Operations capability factors relate to the production of products and services. Major factor influencing an organization operation capability are as under :

i. Production system : Factors related production system are plant location, capacity and its utilization , plant layout, product design,

material supply system, degree of automation , extent of vertical integration etc.

ii. Operations and control system: factors related to operation and control system are production planning, inventory management, cost and quality control, maintenance system and procedures, etc.

iii. Research and Development : Factors related research and development are product development , R & D staff, technical collaboration and support, patent right, level of technology used etc.



LET US KNOW

Strength and Weaknesses in the area of operations of some companies are given below :

- Reliance Industries got access to global technology for its pertochemicla plant through technical collaboration with Dupont (USA), ICI (UK), Navocor (Cananda), and Crest (Netherland).Its high level of vertical integration serves as an entry barrier to new entrants in petrochemicals.
- ICICI Bank has used information technology to offer value to its customers. In its operating process, more than 20 per cent transactions take place on the Internet , about 65 percent through ATM and less than 15 percent in branches . As a result ICICI Bank is narrowing the gap between itself and the largest bank, State Bank Of India, though the latter has much more number of branches than ICICI Bank.

d. Capability factors in Human Resources: In any organization human resources make use of non-human resources. Human resource capabilities relate to the acquisition and use of human resources, skills and all connected aspects that pressure strategy formulation and implementation. Some of the important factors which determine human resource capability are given below.

i. Factors related to the human resource system - Human resource planning recruitment and selection, training and development, human resource mobility, appraisal and compensation management, etc.

ii. Factors related to employee retention - Company's image as an employer, career development opportunities for employees, working conditions, employee benefits, employee motivation and morale, etc.

iii. Factors related to industrial relations - Union management relationship, collective bargaining, grievance handling system, employee participation in management, etc.



LET US KNOW

Some examples of human resources capability and their impact are as under:

- Infosys Technologies is considered a good employer and employees are its greatest strength. It recruits people with good academic record; attitudes for teamwork and high learn ability. The company spends about 3 percent of its resources on training and development and has a very attractive employee stock option scheme.
- Steel Authority of India Limited (SAIL) recruited 1.7 lakh employees, much more than what it actually required due to faulty human resource planning. This resulted in heavy losses to SAIL due to huge wage/salary bill. Moreover, availability of ample idle time created complacency among employees. On the advice of its consultants (Mc Kinsey & Co), SAIL pruned its workforce to one lakh employees and paid heavy compensation under the Voluntary Retirement Scheme (VRS).

e. **Capability Factors in Information Management:** Information is valuable resource and can provide a competitive advantage to the organization. Information system is concerned with collection, processing, storage and dissemination of Information relevant for

decision- making. Some of the factors that influence information management capability are as follows:

i. Factors related to acquisition and retention of information - sources, quality, quality, timeliness and cost of information, capacity to retain and protect information.

ii. Factors related to processing and synthesis of information - computer systems, software capability, database management, synthesizing capability.

iii. Factors related to retrieval and usage of information - availability of right information in the right format, a capacity to assimilate and use information.

iv. Factors related to transmission and dissemination of information - speed of transmission, willingness to accept information etc.

v. Factors related to integration and support – availability of appropriate IT infrastructure, investment in state-of-the-art system, competence of computer professionals, top management, support, etc.



LET US KNOW

Some examples of companies with information system capability are given below:

- Infosys Technologies has linked its various software development centers, located at different places in India and abroad, through computerized networks, It has similar networking with its clients too. As a result, its staff can share relevant information among themselves as well as with the clients.
- All branches of ICICI Bank spread throughout the country are interlinked through computerized networks. This creates value for a customer as he can operate his account from any place even if he does not have an account in the branch located at that place.

f. Capability Factors In General Management: General Management involves integration and direction of the functional capabilities. Some

of the major factors that influence general management capability are as under:

i. Strategic management system related factors - Processes relating to developing strategic intent,-strategy formulation and implementation, strategy evaluation, rewards and incentives for top managers, etc.

ii. Top management related factors - Values, norms, personal goals, competence, experience, orientation and risk propensity of general managers.

iii. External relationships related factors - Public image as corporate citizen, sense of social responsibility, rapport of government and regulatory agencies, public relations, etc.

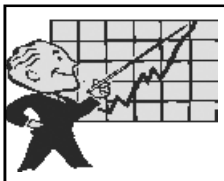
iv. Organizational climate related factors - Organizational culture, powers and politics management of change, balance of vested interests, etc.



LET US KNOW

Some examples of companies with or without general management capability are given below:

- Hindustan Unilever limited had exceptional capability in general management. It is considered a leadership laboratory. As a result, it has produced a large number of chief executives both for itself and its parent company, Unilever.
- Amul is a household name in India. Gujarat Cooperative Milk Marketing Federation (GCMMF), the producer of Amul brand milk and milk products, is a success story in the cooperative sector. It is legendary founder, Verghese Kurien, is called the father of White Revolution in India. His vision and the top management team of GCMMF have made it.



CHECK YOUR PROGRESS

Q4: Write any two factors that influence the marketing capability of an organization.

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Q5: Write any two factors that influence the marketing capability of an organization.

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4.6 METHODS AND TECHNIQUES IN ORGAINATION ANALYSIS

Methods and Techniques used in Organization Analysis and appraisal may be classified as follows:

A. INTERNAL ANALYSIS: The internal analysis of an organization involves investigation into its strengths and weaknesses by focusing on factors which are relevant to it :

1. **VRIO Framework:** The VRIO stands for Valuable, Rare, Inimitable and Organized for usage. The terms are explained as follows :
   - **a. Valuable**: These are the capabilities that enable the organization to generate revenues by capitalizing on opportunities and / or to reduce costs by neutralizing threats. The ability to provide high quality after sale services to customers and the ability to develop rapport with the government.
   - **b. Rare:** These are the capabilities that one or a few firms in the industry exclusively possess. A unique location and a highly motivated workforce are example rare capabilities.
   - **c. Inimitable:** these are the capabilities which competitors either cannot duplicate or can duplicate only at a very high cost. Excellent corporate image and the ability to acquire new business are example of inimitable capabilities.

d. Organized for usage: These are the capabilities which an organization can use through its appropriate structure business processes, control and reward system. The availability of competent R & D personnel and research laboratory to continually strong out innovative products is an example of organized for usage capability.

2. Value Chain Analysis: Every organization performs several activities. These activities are interrelated and form a chain. Each activity in the chain creates some value and involves cost. Thus, a value chain analysis is a set of interlinked and value – creating activities performed by an organization.

a. Primary Activities: These activities are directly related to the creation of product or service. Primary activities consist of the following.

i. Inbound logistics: All the activities used for receiving, storing and transporting inputs into the production process are known as inbound logistics.

ii. Operations: All activities involved in the transformation of inputs into outputs are called operations.

iii. Outbound logistics: All the activities used for receiving, storing and transporting finished products are known as outbound logistics.

iv. Marketing and sales: These consist of activities used to market and sell products services to customers.

v. Service: These are the activities used for enhancing and maintaining a product's value.

b. Support Activities: These activities provide support to the primary activities. Support activities consist of:

i. Firm infrastructure: All activities for general management of the organization to achieve its objective are called firm infrastructure.

ii. Human resource management: These comprise recruitment, selection, and training, deploying and retaining the human resources of an organization.

iii. Technology development: Typical activities in this category are research and development, product and process design, equipment design etc.

iv. Procurement: Obtaining raw materials, parts, supplies, machinery, equipment and other purchased items are included in procurement.

3. Quantitative analysis: In quantitative analysis both financial and non financial aspects are covered.

i. Financial Analysis: In order to judge strength and weaknesses in different functional areas, ratio analysis and economic value added analysis are used.

ii. Non-Financial Analysis: There are several aspects of an organization which cannot be measured in financial terms. Non-financial analysis is used to assess these aspects .Employee absenteeism and turnover, advertising recall rate, production cycle time, service call rates, number of patents registered per annum, inventory turnover rate, etc. are such aspects.

4. Qualitative Analysis: Those aspects of an organization which cannot be expressed in quantitative terms are assessed through qualitative analysis. Corporate image, corporate culture, learning ability, employment morale, etc. are examples of these aspects. Qualitative analysis can be used to support and strengthen quantitative analysis.

B. COMPARATIVE ANALYSIS: Strengths and weaknesses provide a competitive advantage to the organization when these are unique and exclusive. Therefore, an organization should compare its capabilities with those of its competitors. Comparative analysis can be over a time period, on the basis of industry norms and through bench marking.

Historical Analysis: In historical analysis an organizations strengths and weaknesses are compared over different time periods. Its reveals whether the strengths are improving or declining. Areas which show

continuous improvement are durable strengths. Hofer and Schendel have developed a functional-area profile and resource deployment matrix for historical analysis.

Industry Norms: Every industry has certain norms or standards for key parameters of performance. The performance levels of a firm can be compared with the norms of the industry in which the firm operated. For example, cost levels of Maruti Suzuki may be compared against cost standards in the car industry. A more selective approach can be to compare with firms that follow similar strategies. These firms are known as strategic group .According to Miller and Dess, a strategic group is "a cluster of competitors that share similar strategies and, therefore , compete more directly with one another than with other firms in the same industry."

Benchmarking: A benchmark means a reference point for the purpose of measurement and comparison." Benchmarking is the process of identifying, understanding and adapting outstanding practices from within the same industry or from other businesses to help improve performance." The basic purpose of benchmarking is to match and even surpass the best performer. The key question is benchmarking are: What to benchmark and whom to benchmark. These questions can be answered by knowing the types of bench marking . On the basis of what to benchmark, benchmarking is to following types:

i. Performance benchmarking
ii. Process benchmarking
iii. Strategic benchmarking
iv. Competitive benchmarking
v. Functional benchmarking
vi. Generic benchmarking

C. COMPREHENSIVE ANALYSIS: Each of the techniques has its own benefits but fails to offer a comprehensive representation of organizational strengths and weaknesses. Comprehensive analysis is required to defeat this limitation. The techniques used in comprehensive analysis are given below:

Key factor rating: In this technique the key factors as discussed under are analyzed to judge their positive and negative impact on the functioning of the organization.

Balanced Scorecard: Balanced scorecard is the most comprehensive method of analyzing an organization's strengths and weaknesses. It integrates different perspectives with vision and strategy to present a comprehensive and balanced picture of organizational performance.

The four key performance actions identified in balanced scorecard are as under

i. Financial perspective'
ii. Customer perspective
iii. Internal Business Processes Perspective
iv. Learning and innovative perspectives

Business Intelligence Systems: Data from a range of internal and external sources are used to estimate the company strategic directions and operational performance. Data mining, data warehouse and analytical reports are used.

D. SWOT ANALYSIS: The SWOT stands for the following:

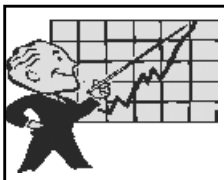
1. **Strength(S)**: Strength is a competency which facilitates an organization to gain an advantage over its competitors.
2. **Weakness (W):** A weaknesses is a limitation or constraint which creates a competitive drawback for the organization.
3. **Opportunity (O):** An opportunity is an encouraging condition in the environment.
4. **Threat (T):** A threat is an adverse condition in the environment.

Strength and weaknesses can be identified through organizational appraisal or analysis of the internal environment. Environmental appraisal or analysis of the external environment reveals opportunities and threats.

SWOT analysis is also known as WOTS and TOWS analysis. It helps in understanding the internal and external environment. It is very useful in strategy as the organizations strengths and weaknesses can be matched with the opportunities and threats. An effective strategy makes use of strengths to capitalize on the opportunities and minimize the impact of

weaknesses to neutralize the threats. After SWOT analysis, an organization had to decide how to maximize its strengths and minimize its weaknesses. It can also decide how to exploit the opportunities and to cover the threats. Main advantages of SWOT analysis are as follows:

i. It is simple to use
ii. It is inexpensive
iii. It provides a comprehensive picture of environment
iv. It is flexible and can be adapted to different types of organizations
It serves as the basis for strategic analysis.



CHECK YOUR PROGRESS

Q6: Define Benchmarking.

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Q7: What is SWOT analysis?

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4.7 LET US SUM UP

In this unit we discussed the following :

- Organizational Analysis is the analysis of internal environment which refers to all factors within an organization that influence its capabilities to accomplish its strategic intent. The main purpose is to determine the capabilities of its strength and weakness of an organization.
- The strategic advantage of an organization is developed through its resources, behavior strengths, weakness, synergistic effects, competencies and capability.
  a. Organizational Resources
  b. Organisatonal Behaviour
  c. Strength and Weaknesses
  d. Synergistic Effects

e. Competencies

f. Organizational Capability

g. Strategic and competitive Advantage

- The organizational capability factors that exists within an organization which are: Capability Factors in Finance, Capability Factors in Marketing, Capability factors in Operation, Capability factors in Human Resources, Capability Factors in Information Management
- Methods and Techniques used in Organization Analysis and appraisal may be classified as : internal analysis, comparative analysis, comprehensive analysis and SWOT analysis



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4.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Organizational Analysis is the process of evaluating systematically organizational capabilities which can give it competitive advantage in the market .

Ans to Q2: Organization resources contain all physical, human and financial resources. Plant and machinery, raw materials, geographical location and technology are the examples of physical resources. Human resources include intelligence, experience, training, judgment, relationship of members of an organization.

Ans top Q3: The capability of an organization means its intrinsic capability or potential to develop its strength and to rise above its weaknesses so as to exploit its opportunities.

Ans to Q4: The factors that influence the marketing capability of an organization are:

a. Product related factors-product mix, branding product positioning, differentiation, packaging, etc.

b. Price related factors-pricing policies, price competitiveness, value for money pricing, price changes etc.

Ans to Q5: The important factors which determine human resource capability are:

a. Factors related to the human resource system - Human resource planning recruitment and selection, training and development, human resource mobility etc

b. Factors related to employee retention - Company's image as an employer, career development opportunities for employees, working conditions, employee benefits, employee motivation and morale, etc.

Ans to Q6: Benchmarking is the process of identifying, understanding and adapting outstanding practices from within the same industry or from other businesses to help improve performance.

Ans to Q7: The SWOT stands for the following:

1. Strength(S): Strength is a competency which facilitates an organization to gain an advantage over its competitors.
2. Weakness (W): A weaknesses is a limitation or constraint which creates a competitive drawback for the organization.
3. Opportunity (O): An opportunity is an encouraging condition in the environment.
4. Threat (T): A threat is an adverse condition in the environment.



4.10 MODEL QUESTIONS

Q.1: Define Organisational Analysis.

Q.2: What are the characteristics of Organisational Analysis.

Q.3: Outline the factors for Strategic advantage of an organization.

Q.4: Describe the organisational capacity factors that exists within an organization.

Q.5: Explain the methods and techniques in organisational Analysis.

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UNIT 5: CORPORATE LEVEL STRATEGIES

UNIT STRUCTURE:

5.1 Learning Objectives

5.2 Introduction

5.3 Corporate Level Strategies

- 5.3.1 Expansion Strategies
- 5.3.2 Stability Strategies
- 5.3.3 Retrenchment Strategies
- 5.3.4 Combination Strategies
- 5.3.5 Concentration strategies

5.4 Integration strategies

- 5.4.1 Horizontal Integration
- 5.4.2 Vertical Integration

5.5 Diversification strategies

- 5.5.1 Concentric Diversification
- 5.5.2 Conglomerate Diversification
- 5.5.3 Need for Diversification Strategies
- 5.5.4 Risk of Diversification

5.6 Successful Diversification Stories

5.7 Let Us Sum Up

5.8 Further Reading

5.9 Answers to check your Progress

5.10 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the different level of strategies
- learn the ways in which company can expand its business
- describe the different strategies company may opt for diversification

5.2 INTRODUCTION

In this unit we are going to discuss Corporate Level Strategies like Expansion Strategies, Stability Strategies, Retrenchment Strategies, Combination Strategies, Concentration strategies, Integration strategies, Horizontal Integration and Vertical Integration. We will also get some idea on the concept of diversification strategies and need for Diversification Strategies.

5.3 CORPORATE LEVEL STRATEGIES

Environmental analysis and organizational appraisal leads to strategy formulation. There are wide variety of strategies and its selection depends on how organization is able to appraise its strength and weaknesses and relates it's to the external opportunities and threats.

Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other. Such decisions are taken in such a way that organizational objectives are achieved. These strategies give overall guidance to run the business. It describes a company's overall direction in terms of its general attitude towards growth and the management of its variety of businesses and product lines. An analysis based on business definition shall provide a set of strategic alternatives that can be adopted by the firm. According to Glueck, there are four strategic alternatives i.e. expansion, stability, retrenchment and combination.These alternatives can be classified as:

Classification of Corporate Strategy

A. Strategy for Change

i. Restructuring

ii. Turnaround

   a. Surgical

   b. Non-surgical

iii. Divestment

iv. Liquidation

B. Stability Strategy

i. Generic / Portfolio Strategies

ii. Strategy for Follower

iii. Strategy for Leader

iv. Concentration

v. Simulation

C. Expansion Strategy

i. Penetration

ii. Diversification

a. Merger

b. Takeover

c. Joint Venture

d. Strategic Alliance

iii. Integration

a. Vertical

b. Horizontal

5.3.1 Expansion Strategies

Expansion is one of the best ways to achieve the desired growth. The scope of the business can be expanded by increasing customer base or by using alternative technologies to enhance the performance. Expansion strategy is also known as growth or intensification strategies.

E.g. Fair and Lovely initially concentrated on female gender but now it also attracts male gender by introducing cream for this gender. (Fair and Handsome) (Increasing customer base)

Banks now gives more importance to expand its retail business base by providing personalized service.

The basic reasons for adopting expansion strategies are :

a. Change in the environmental factors

b. To gain the economy of large scale operations and experience curve

c. The strategists expectations

5.3.2 Stability Strategies

Stability doesn't means 'static'. This strategy is adopted by the firm when they expect incremental improvements of its performance. This strategy aims at stability by causing the companies to marginally improve its performance. The major intention is to sustaining moderate growth in line with the existing trends. Under this strategy company will concentrate on those areas or product where they are more comfortable and create competitive advantage for itself. This strategy implies that organization will remain in the same or similar business.

Stability strategy implies that an organization will continue in the same or similar business. Firms using stability strategy try to hold on the their current position in the market. The firms concentrate on the same products and the same products. This strategy is adopted by those firms who are satisfied with their present performance and position. The firms try to improve functional efficiency through better allocation of resources.

The major feature of stability strategy are:

- There is no major change in the product, market or services.
- The intention is to maintain the present level of performance and it also ensure that the rate of improvement achieved in the past is also maintained.
- It tries to maintain its competitive advantage in consistent with present resources and as per the market requirements.

Under stability strategy company doesnot go for major internal changes or restructuring. Companies need to regularly review their competence and react timely to market developments.

The firms using this strategy concentrate on the current products and markets. This strategy is followed by those firms which are satisfied with their present market position. For example, If the firm is getting 10% growth in sales in Nashik market, it may be satisfied with the same. Here the intention of the firm is to achieve moderate growth and profits.

Stability strategy is:

a. comparatively less risky and involves minimal changes and people may feel comfortable with the things as they are.
b. when expansion is treated as threatening firms adopts for stability.
c. there is no much changes in the environmental factors.
d. after rapid expansion firm may sought to consolidation.

e.g. A company provides special service to its valued institutional buyers in order to induce them to remain with the company.

Reasons for adopting Stability Strategy:The following are some of the reasons for adoption of stability stratgey:

1. Management may be satisfied with the present level of performance and they are interested to continue with the same.
2. The firms may be satisfied with the current level of profit.
3. Firms resorting to stability strategy may not require additional resources for product and market development. The reason behind this is firm concentrate on current markets with current products.
4. The changes in the environmental factors are less and infrequent.
5. When a firm serves a well-defined market or market segment in a stable environment.

5.3.3 Retrenchment Strategies

When the organization intends to contracts its activities, it may adopt retrenchment as a strategy. Company will come out of one or more of its business by reduction in customer groups or alternative technologies. This strategy involves dropping some of the activities in a particular business or totally getting out of some business. The firm may drop some of its functions, products or markets. Retrenchment strategy is followed when the corporate sustainability reduces the scope of either its customer groups, customer functions or alternate technologies singly or jointly- in order to improve its performance. Eg. Ruby Hall Hospital of Pune decides

to pull out from all types of surgeries and to concentrate only on cardiac surgeries. Retrenchment strategy is adopted because the management no longer wishes to remain in business, change in the environment is threatening and stability can be generated by reallocation of resources from unprofitable to profitable businesses.

The retrenchment strategy may be adopted in different forms like Turnaround, Divestment and Liquidation.

Reasons for adopting retrenchment strategy:This strategy is adopted because of the following reasons:

- There is drastic change in the environmental factors and firms feel such change as threat.
- Management wishes of not to remain in the existing business as the business becomes unviable.
- Firm is not able to generate enough amount of returns.
- The firm may like to get out of certain business which are not profitable.
- The firm may like to concentrate on its core products.
- Some of the products might have become obsolete and there is no sense of continuing the same product.

Retrenchment involves total or partial withdrawal from a customer group, customer function or technology from one or more of its businesses. Retrenchment is an attempt to 'trim the fat' and results in a 'slimmer'.

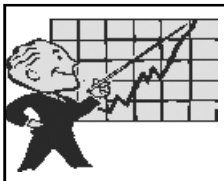
5.3.4 Combination Strategies

Combination strategy is mixture of stability, expansion and retrenchment strategy. Depending upon the situations, strategist uses combination and mixture of either of the strategy. Combination strategy is reply for that to fight with the situations of challenges. Combination strategy is adopted because the organization is large and faces complex environment. Corporate is comprise of different businesses each of which lies in a different industry requiring different responses. It may adopt a stability strategy in case of few businesses

or products or growth strategy in case of other products. Eg. Asian Paints who initially started with manufacturing household paints enter into offering industrial paints (growth); simultaneously it decide to close done jobbing painting work (retrenchment).

Combination as strategic choice is chosen when:

- Business Environment becomes more complex
- When the firms involves in different business which requires different responses.



CHECK YOUR PROGRESS

Q1: What is corporate level strategy?

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Q2: List any two reasons for adopting Stability Strategy.

……

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5.3.5 Concentration strategies

Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies. The firms tend to rely on doing what they know they are best at doing.

Resources are invested after careful investigation of the market. The Ansoff Product Matrix uses three types of concentration strategies.

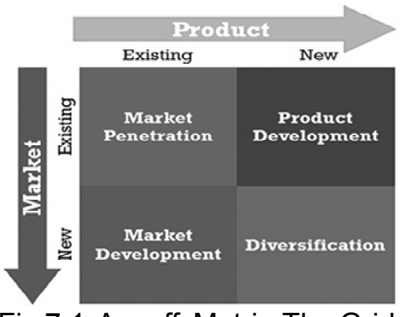


Fig 7.1 Ansoff Matrix-The Grid

The above matrix best illustrate various intensification alternatives before the firm. It show how the success of the firm relies on its existing and potential market and products. The product and market are two dimensions of the grid, which when combined, gives birth to four growth strategies i.e. Market Penetration, Market Development, Product Development and Diversification.

1. **Market Penetration:** It involves selling more product in the same market. It focuses more on existing market with existing product. The intention is to increase the market share for the present product. It is a growth strategy in which firm seeks to sell existing product into existing market, with the aim of increasing overall market share. The firm tries to discover new customers within the established market, without much changes in the products. **This strategy demands huge expense on advertising and personal selling**. It focuses more on aggressive promotional campaign, backed by a pricing strategy that attracts more and more customers. E.g. Aviation industry.
2. **Market Development:** The second quadrant in the Ansoff Matrix is market development. It involves selling the same product to the new users. Firm may adopt a strategy of selling the same product to the different segment of customers with different pricing strategy. Selling the same product is the thrust idea in the market development strategy. E.g. Johnson & Johnson. The strategy is adopted by the firms when they decide to sell their existing product in the new markets. It is a growth strategy. Here firms identifies and develop new markets for its current products. This strategy is more risky compared to market penetration strategy as the company is entering to a new market, of which managers do not have sound knowledge. Firm may reach to the new market in two ways:
   - The company pushes its product to new geographical market by increasing sales force, sales agents.

- Firm may bring in minor change in the product like new packaging or product dimensions to attract new customers.

Product Development: Product Development involves selling new product to the existing market. It is strategy in which firm intends to grow by introducing a new product in the established market. In the existing market wide **range of products are offered by the company**, for further growth and expansion. This enables the firm to expand its market in the form of additional sales and increased market share. For innovating new products firm spends huge amount of fund on R & D of a different product or may acquires rights to manufacture someone else's product, in order to appeal the present market and to be leader in the market.

Diversification: Diversification, as the name suggest, it is a business strategy in which the company enters the new market with new product. In this strategy, the company either start a new business of its own or acquires a business. The acquire business may not be necessarily related to the existing product and market. Diversification may in related or unrelated field. Company enters into that business where they may not be having that much experience hence it is the riskiest growth strategy as it neither depends on firm's successful product nor its position in the market. The environmental forces may give an opportunity to the firm to create a competitive position in the new market. Company tries to adjust its product offering as the change in the market condition.

Advantages of Concentration Strategies:

- It involves minimal organizational changes hence less risky.
- It helps the firm to develop competitive advantage

The situations are known hence manager face less problems.

5.4 INTEGRATION STRATEGIES

Integration means combining activities related to the present activity of the firm. Integration is an expansion strategy as it results into widening of the business operations. It widens the scope and function of the business.

Normally such kind of integration is found in case of many petrochemicals, hydrocarbons, textiles or steel industries. These firms deal with products having a value chain extending from basic raw materials to the ultimate consumer. Firm try to move up or down in this value chain process and try to integrates its activities adjacent to their present activities.

Forward, backward and horizontal integration can be used as a strategy for growth. Many factors are considered before adopting this strategy. From the economics perspective transaction cost is considered. The decision of 'make or buy' largely depends on the cost savings. There are some factors to be considered before integration like :

- Improvement in supply chain management
- Can have better control over the material supply
- Diversifying product portfolio
- Direct access to customers.

Companies have gained benefits through both backward and forward integrators. Hewlet-Packard lost vital time in supplying workstations to the market because a key supplier of chips delayed deliver by six months. On the contrary IBM with integrated sources was on time, and therefore enjoyed competitive advantage.

5.4.1 Horizontal Integration

In concentration strategy as discussed earlier focuses on the existing businesses or products. The firm doesn't move beyond its boundaries. But when a firm moves beyond its boundaries it is operating in, it goes over to the adoption of horizontal integration. When a particular firm takes up the same type of products, it is said to follow a strategy of horizontal integration. According to Business dictionary horizontal integration involves the merger of companies of at the same stage of production in the same or different industries. When the products are similar it is merger of competitors. Horizontal integration is a company's acquisition of a similar or a competitive business. It may do so by acquiring or merging or with takeover. The purpose is to strengthen itself to grow in size or capacity and to

gain the benefit of economies of scale or product uniqueness. It also helps to reduce competition and risks, to increase markets, or to enter new markets easily. For example :

1. Standard Oil's acquisition of about 40 other refineries
2. Acquisition of Arcelor by Mittal Steel and that of Compaq by HP.

Horizontal Integration is advisable when:

- There is growth in a particular industry.
- A company has strategic advantage over the rivals.
- Company may get the benefit of economies of large scale operations.

Benefits of Horizontal Integration:

The following are the benefits of Horizontal Integration-

- Economies of scale: With the integration the size of the firm becomes bigger and company can achieve a higher production at a lower cost.
- Increased differentiation: The company will be able to offer more product features to customers or they may innovate the new product or service in the market.
- Easy entry in the new markets: Merger or acquisition leads to easy entry without any hassle. If the merger is with an organisation abroad, the new company will have an additional foreign market along with local market. It strengthening its capacity.

Limitations of Horizontal Integration:

The following are the disadvantages of Horizontal Integration-

- The firm should be able to handle the increased operations. If it fails to do so it may lose the image in the market.
- Each country has its own rules and regulations which need to be understood before taking such decisions of integration.
- When company becomes bigger, it may be rigid and may not accept the change holistically. This may prove dangerous in long run.

Horizontal integration is quite similar to merger and acquisitions. They are one of the means of integrating horizontally. In terms of value chain terminology, a horizontal integration keeps the organization at the same level. This means that if the company was manufacturing equipments and it adopts the horizontal integration strategy, it becomes a bigger equipments manufacturer.

In February 2017, Telecom major Bharti Airtel acquired Telenor (India) Communications Private Limited. After the acquisition, Airtel owns and manages Telenor's spectrum, operations, licenses including its employees and customer base of 44 million.

5.4.2 Vertical Integration

When the firms engaged at different level of value chain come together, then it is called as vertical integration. The organization starts making a new product to serve its own needs. Any activity which involves supply of inputs (raw material) or serving customer for output (marketing) is vertical integration. The integration may be backward or forward integration. Backward is coming closer to the supplier side and forward means going closer towards the customers. Many textile industries are adopting vertical integration strategy.

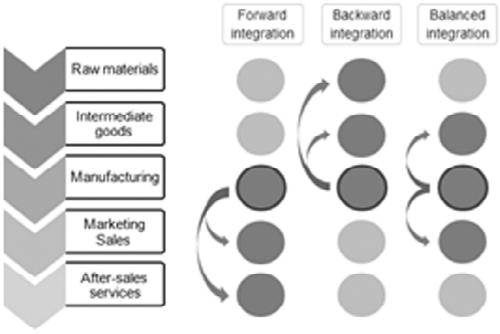


Fig 7.2 Vertical Integration

In this form of combination the company tries to merge with other where there are some links with the existing business line. In order enjoy dominance in the market a single entity governs the

production and distribution of a product or service. Eg. Reliance Fresh. A supermarket may acquire control of farms to ensure supply of fresh vegetable in the market. It is backward integration. The said supermarket may also buy its own vehicle for speedy deliver of the products to the customer (forward integration). Balanced integration is mix of backward and forward integration. With the integration the company may get the advantageous reduced cost or eliminate markup at every stage which makes it competitive in the market.

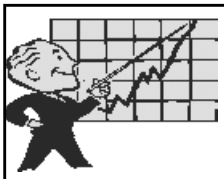
Advantages of Vertical Integration:

Vertical integration is more beneficial when:

- Firms feels that the current suppliers in the value chain are not reliable.
- The profit margin of the suppliers or intermediaries is on higher side.
- There is no stability in the price charged by the suppliers.
- Company has enough resource capability to manage the value chain.
- Freeing up assets for more productive use.

Limitations of Vertical integration:

- Increased cost of coordination due to multiple value chain.
- Loss of strategic flexibility owing to dependence on outsiders
- Lack of information and feedback from suppliers and distributors.



CHECK YOUR PROGRESS

Q3: What is concentration strategy?

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.....……

Q4: List any three limitations of vertical integration

.....……

.....……

5.5 DIVERSIFICATION STRATEGIES

Diversification involves a substantial change in business definition in terms of customer functions or alternative technologies of one or more of a firm's businesses. According to Ansoff Matrix when new product is developed for new market it is diversification. The diversification relates to either new product or market or both. Diversification involves company entering into new product which may be related or not at all related with the present business. When company involves in unrelated business it requires unique management expertise, which includes different end customers or should be able to provide different services. The major advantage of diversification is that it buffers a company from dramatic fluctuations in any one sector.

Diversification is the success of expanding the business activities into new areas. Diversification serves to create additional value for the actual owners of the company – the shareholders.

Diversification is possible through the route of merger or acquisitions. The major challenge before the diversified company is the need to maintain a strong strategic focus to produce better returns to the investors. E.g. A car manufacturer may enter into manufacturing of machinery or a Ice cream making company entering into soap products.

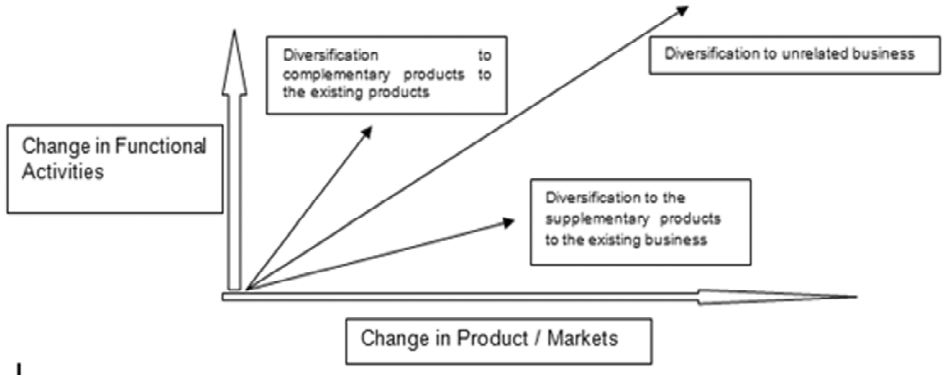


Fig 7.3 Diversification Strategy

Diversification as a strategy may generate growth in number of ways. Product development and market development are two different methods to diversify. Diversification can also take place through both new products and new markets.

Diversification is one of the grand strategies, which basically is a growth strategy. Basically diversification involves a substantial change the business definition in terms of product range, customers or alternative technologies. Diversification strategies have been adopted a number of business groups and individual companies both in the public and private sectors.

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

1. Organizations in slow-growth industries may purchase firms in faster-growing industries to increase their overall growth rate.
2. Organizations with excess cash often find investment in another industry (particularly a fast-growing one) a profitable strategy.
3. Organizations may diversify in order to spread their risks across several industries.
4. The acquiring organization may have management talent, financial and technical resources, or marketing skills that it can apply to a weak firm in another industry in the hope of making it highly profitable.

The following are the types of diversification strategies

5.5.1 Concentric Diversification

When an organization takes up an activity which is closely related to the existing business then it is termed as concentric diversification. A process that takes place when a business expands its activities into product line that are similar to what company is offering at present. The activity may be related to the existing customer function, customer group or in terms of technologies. If the new business is related to the original business in terms of these any of the three aspects it is termed as concentric diversification or related diversification. The diversification may be of following types:

a. Marketing-related concentric diversification: It is possible when a company offers similar kind of product with the help of unrelated technologies. Eg. Johnson and Johnson engages in the research and development, manufacture, and sale of various products in

the health care field worldwide into Consumer Segment Products for baby care, skin care, oral care, wound care, and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. It uses same channel of distribution or sold through a chain of retail shop.

b. Technology Related Concentric Diversification: Here company provides new type of product or service with the help of related technology. Bank offering Loan for Housing Loan and purchase of equipment on hire purchase system or starts consumer financing for purchase of durable to individual customer.

Companies should normally decide to go for related / concentric diversification because this is more like an extension of the present business. Existing brand image, manufacturing and marketing skills, distribution network can be used. Even a joint venture can exploit the existing skills and strengths of two companies to promote growth. A ***Joint Venture*** between Coca-Cola and Nestle for the canned business successfully combined Coke's distribution strength and the product knowledge and name of Nestle.



Joint Venture : A venture by partnership designed to share risk or expertise

Related or conentric diversification is an attractive corporate strategy as it offers more benefits. Larsen & Toubro the largest private sector company in the engineering and construction industry in India is the best example of diversification strategy. There is evidence to suggest that related diversification performs better than unrelated ones.

Related or concentric diversification when the acquired firm has production technology, products, channels of distribution, and / or markets similar to those of the firm purchasing it, the strategy is called concentric diversification. This strategy is useful when the organization can acquire greater efficiency or market impact through the use of shared resources.

A case of related or concentric diversification is Mahindra & Mahindra selling Cars, Tractors and two wheelers.

5.5.2 Conglomerate Diversification

When an organization adopts a strategy which is unrelated to the existing business definition of any of its businesses either in terms of their customer groups, customer functions or alternative technologies, it is called as conglomerate or unrelated diversification. When the business introduce new or unrelated product lines and enters into new market, it is termed as conglomerate diversification. E.g. Shoe producer enters into the Clothing business. In this case there is no direct connection to the existing business. The unrelated diversification is based on the concept that any new business or company, which can be acquired under favorable financial conditions and has the potential for high revenues, is suitable for diversification. Unrelated diversification is a completely new field which would bring comparatively higher revenues compared to the related diversification on the basis of similar products, services, markets or complementing strategies. A good example of this kind of diversification is that during recent years of growth many companies entered the construction market despite their significantly different field of main business activity. Sometimes the unrelated diversification is based on the available expertise and experience of the human resources that can be utilized in completely unrelated fields. For example, if the owner of a Garment trading company is competent in the field of computer design, they can open an internet store to sell goods and also expand activity by adding web page design services etc.

Offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. In formulating unrelated diversification strategies, strategists act as portfolio managers. They always look for undervalued companies that might be acquired at low price and can be quickly turned into profit making and can be sold at profit. Almost all private sector

business groups are majority diversified entities. The Aditya Brila Group is in a variety of unrelated business such as aluminium, carbon black, cement, chemicals, copper and so on. ITC have diversified into the Hotel Industry.

The unrelated diversification can be in the following ways:

- Using the existing basic competences of the company and expanding from existing markets into new ones and starting new lines of production.
- Penetrating completely new markets. For example a car dealer may start offering financial services by developing a car leasing scheme and selling cars through leasing.
- Developing new competences to use new market opportunities.

Thus, conglomerate diversification involves diversifying into businesses with No strategic fit, No meaningful value chain relationships, No unifying strategic theme. The Approach is to venture into any business which company thinks they can make a profit in. Firms pursuing unrelated diversification are often referred to as conglomerates. For example: W. R. Grace involved in Chemicals, Coal Mining, Oil and Gas Extraction, Food Manufacturing, Paper Products, Health Services

A Case Study: When almost 20 years ago one of the largest Bulgarian state-owned companies for manufacturing of disk drives collapsed, 10 engineers left and started their own business. Specialized in the field of telecommunication software, they made a successful start by subcontracting a number of projects for the regional office of the Bulgarian Telecommunication Company (BTC).

A couple of years later, because of BTC restructuring, the number of projects for subcontracting greatly decreased. The owners undertook market research, analysed the external environment and the company resources and expertise and identified another niche ; manufacturing different types of poultry-farming incubators.

After working for a long time for the agricultural sector, the company became familiar with it and diversified again its activities by starting dairy production. Although today the company is better known as one of the producers of high quality dairy products, it still implements telecommunication software projects and manufactures poultry incubators.(source: http://st.merig.eu)

The major factors responsible for related / concentric diversification and unrelated / conglomerate diversification are as below:

Related / concentric diversification	Unrelated / conglomerate diversification
Strong brand image	High profitability or ROI
Economies of scale	First mover price advantage
Strength of R & D	Multiple products / markets for risk diffusion
Distribution network	Defence against takeover

Expansion or diversification, related or unrelated (concentrate or conglomerate), into new products or business may be internal or external. In US external diversification is common feature of corporate strategy. In countries like India such diversification is taking place. Expansion or diversification which involves another company as a part of the expansion or diversification programme can be carried out in four ways i.e. Strategic Alliance, Joint Venture (JV), Takeover / Acquisition or through Merger.

5.5.3 Need for Diversification Strategies

Diversification involves introduction of completely new product into new market. This strategy requires a lot of investment and lot of human resource capability. But in the long run, diversification strategy is one of the best growth strategies. Following are the major advantages of diversification strategy:

- Diversification strategies are helpful in minimizing risk by spreading it over several businesses.

- Company will able to introducing more variety and options of products in hand to capture the new market. With more product variety, it can increase customer base which in turn will increase profitability of the organization.
- More markets are tapped which increases overall turnover of the firm. Although penetrating the markets involve a lot of cost and expenditure, once penetrated, the new market will bring regular profits, which is the goal of any business oriented company. Thus, the diversification strategy is a good market penetration strategy.
- Companies gain more technological capability : Company spend huge amount of money on R&D expenditure, which helps the company to develop technological capabilities. R&D will bring technological advancement which in turn leads to introduction of new and better products in the market.
- Economies of scale: With the diversification, with the same fixed cost company will able to generate more output. Firm uses same factory to manufacture more number of products, naturally with advantage of economies of scale.
- Cross selling becomes more possible with the diversification strategy. Through diversification company can introduce older products in the new market or introduce the new products in older and more mature market. An example in this case is LG which gives a large variety of products to end consumers and hence cross sells its own products.
- Brand Equity: With the more variety of brand and presence in the more market company will be able to generate brand equity. This results in long term benefits for the brand. E.g. Samsung smart phones have created a tremendous boost for the Samsung brand, which has resulted in all of its products receiving a positive vibe because its Samsung.

In this competitive market, business which does not keep adding new customers is bound to fail in the long run. At the same

time, a company which does not expand at the right time is bound to lose a lot of its customers and market share. This strategy helps the company to expand in the right direction and manages risk for the company. Thus, Diversification strategy is very beneficial for the company in the long run.

5.5.4 Risk of Diversification

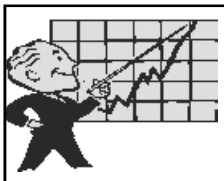
Diversification if not done in proper manner may prove to be risky. The risk arises due to the following conditions:

1. Unrelated diversification is a very complex strategy, not only to formulate but also to implement. It requires high level of managerial skill, competencies and financial strength.
2. Diversification increases the administrative costs of managing, integrating and controlling wide portfolio businesses.
3. It demands wide variety of skills.
4. Diversification will not always give the positive results. Many companies get attracted with the benefits of diversification but in practice are not able to reap the benefits of synergies and strategic advantage.



LET US KNOW

Hewlett-Packard started out in high-tech measurement machines that require a lot of engineering design and implementation capabilities. When the PC revolution occurred, HP realized that desktop printers were a natural extension of those capabilities—and printers became a hugely successful business for the company. But other adjacencies, such as enterprise computer services, have not been as successful because HP's capabilities were ill matched to their requirements.



CHECK YOUR PROGRESS

Q5: What is concentric diversification?

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Q6: What is conglomerate diversification?

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5.6 SUCCESSFUL DIVERSIFICATION STORIES

General Electric is one of the greatest diversified company. It began as an 1892 merger between two electric companies is now an international, multi-billion-dollar company and the world's 26th largest firm in the United States. GE successfully branched out into a wide variety of industries including power and water, transportation, oil and gas, aviation, healthcare, and more. In short: GE is a world-class diversifier.

The most well-known American diversified companies are 3M, Sara Lee and Motorola. European diversified companies include Siemens and Bayer; diversified Asian companies include Hitachi, Toshiba, and Sanyo Electric.

Examples of companies that have diversified into related business concentric diversification

GILLETTE:

- Blades and razors
- Toiletries (Right Guard, Foamy, Dry Idea, Soft & Dry , White Rain)
- Oral-B toothbrushes
- Braun shavers, coffeemakers, alarm clocks, mixers, hair dryers, and electric toothbrushes

JOHNSON & JOHNSON

- Baby products (powder, shampoo, oil, lotion)
- Band-Aids and other first-aid products
- Women's health and personal care products (Stay free, Carefree, Sure & Natural)

- Neutrogena and Aveeno skin care products
- Nonprescription drugs (Tylenol, Motrin, pepcid AC, Mylanta, Monistat)
- Prescription drugs
- Prosthetic and other medical devices
- Surgical and hospital products
- Accuvue contact lenses

Examples of companies that have diversified into unrelated business.

THE WALT DISNEY COMPANY

- Theme parks
- Disney Cruise Line
- Resort properties
- Move, video, and theatrical productions (for both children and adults)
- Television broadcasting (ABC, Disney Channel, Toon Disney, Classic Sports, Network, EPSN and EPSN2, E!, Lifetime, and A&E networks)
- Radio broadcasting (Disney Radio)
- Musical recordings and sales of animation art

THE TVS GROUP

- Auto & auto parts
- Coach body building
- Transport
- Fasteners
- Brake linings & clutch facings
- A citation systems for commercial vehicles
- Hire purchase
- Wheel structure & parts
- Foundation brakes
- Two wheelers
- Automobile electrical parts
- Tyres & tubes.



5.7 LET US SUM UP

In this unit we discussed the following:

- Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other.
- There are four strategic alternatives i.e. expansion, stability, retrenchment and combination.
- Expansion is one of the best ways to achieve the desire growth. The scope of the business can be expanded by increasing customer base or by using alternative technologies to enhance the performance. Expansion strategy is also known as growth or intensification strategies.
- Stability strategy implies that an organization will continue in the same or similar business. Firms using stability strategy try to hold on the their current position in the market. The firms concentrate on the same products and the same products. This strategy is adopted by those firms who are satisfied with their present performance and position.
- When the organization intends to contracts its activities, it may adopt retrenchment as a strategy. Company will come out of one or more of its business by reduction in customer groups or alternative technologies. This strategy involves dropping some of the activities in a particular business or totally getting out of some business.
- Combination strategy is mixture of stability, expansion and retrenchment strategy.
- Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies.
- Integration is an expansion strategy as it results into widening of the business operations. There are two types of integration strategy: horizontal integration and vertical integration

- Diversification involves a substantial change in business definition in terms of customer functions or alternative technologies of one or more of a firm's businesses.



5.8 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



5.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other.

Ans to Q2: Reasons for adopting Stability Strategy:

a. Management may be satisfied with the present level of performance and they are interested to continue with the same.

b. The firms may be satisfied with the current level of profit.

Ans to Q3: Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies. The firms tend to rely on doing what they know they are best at doing.

Ans to Q4: Limitations of Vertical Integration are :

- Increased cost of coordination (multiple value chain)
- Loss of strategic flexibility owing to dependence on outsiders

- Lack of information and feedback from suppliers and distributors.

Ans to Q5: When an organization takes up an activity which is closely related to the existing business then it is termed as concentric diversification.

Ans to Q6: When an organization adopts a strategy which is unrelated to the existing business definition of any of its businesses either in terms of their customer groups, customer functions or alternative technologies, it is called as conglomerate or unrelated diversification.



5.10 MODEL QUESTIONS

Q.1: What is Corporate level strategies

Q.2: Write a note on expansion and stability strategies

Q.3: What is a retrenchment strategy? Why this strategy is adopted.

Q.4: Describe concentration strategies. Outline the advantages of concentration strategies

Q.5: What is Horizontal Integration

Q.6: Discuss the benefits and limitations of horizontal strategies.

Q.7: Define diversification strategies.

Q.8: Write short note on :

a. Concentric diversification

b. Conglomerate diversification

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UNIT 6: BUSINESS LEVEL STRATEGIES

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Foundation of Business Level Strategies

6.4 Industry Structure and Positioning of Firm in Industry

6.5 Generic Business Strategies

6.6 Tactics for Business Strategies

6.7 Business Strategies for Different Industry Conditions

6.8 Let Us Sum Up

6.9 Further Reading

6.10 Answers to Check Your Progress

6.11 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- learn how business strategies are framed
- discuss various factors contributing framing of business strategy.
- discuss the meaning of generic business strategies
- outline the stages of industry life cycle

6.2 INTRODUCTION

In this unit we are going to discuss the various concepts of Foundation of business level strategies, Industry structure, positioning of firm in industry, generic business strategies.

We will also discuss the tactics for business strategies like Timing Tactics and Market Location tactics. At the end of the unit you will be able to know about the business strategies for different industry conditions.

6.3 FOUNDATION OF BUSINESS LEVEL STRATEGIES

It is well known fact that corporation or companies operate through their business like a human being functions through his limbs. Corporate level strategies provide the broad direction to the organisation. At the individual business level most competitive interaction occurs. Company either gain or lost its competitive advantage. Business level strategies are an important levels at which corporate set their strategies. After corporate strategies firms frames business level strategies. Corporate level strategies laid down the framework in which business strategies have to operate. Strategies like stabilise, expand or retrench are decided at corporate level. These strategies are then applied at business level. Individual businesses need to frame their own strategies in order to contribute to the achievement of the overall corporate objectives.

Corporate level strategies are related with decision regarding allocation of resources among different businesses of an organisation and nurturing a portfolio of businesses such that the overall corporate objectives are achieved.

Each business in a company can be defined along three dimensions of customer needs, customer groups and alternative technologies. Business definition is at the core of business strategies. Business definition try to provide the direction in which action has to be taken (defining what, who and how). The 'what' of the business definition deals with the customer needs. The 'who' refers to the customer groups that are targeted by a business and the 'how' of the business definition refers to the alternative technologies used to provide the product and services that satisfy the perceived needs of the particular customer group targeted.

Business strategy occurs at the strategic business unit level or product level. It emphasises on improvement of the competitive position of a firm's products or services in a specific industry or market segment served by that business unit. There can be two types of business strategy – competitive strategy or cooperative strategy. Businesses need a set of

strategies to secure its competitive advantage. Michael E Porter is credited with extensive pioneering work in the area of business strategies or what he calls competitive strategies. The dynamic factors that determine the choice of a competitive strategy, according to Porter, are two namely the industry structure and the positioning of the firm in the industry.

6.4 INDUSTRY STRUCTURE AND POSITIONING OF FIRM IN INDUSTRY

- **Industry Structure:**

According to Porter's there are five forces which determine the industry structure. These forces are :the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; the bargaining power of buyers; and the rivalry among the existing competitors in an industry.For every industry these factors differs. As every industry has its unique structure and these factors determine the long term profitability of the organisation in that industry.

- **Positioning of Firm in Industry:**

The second factor that determines the choice of a competitive strategy of a firm is its positioning within the industry. Porter considers positioning as the overall approach of the firm towards competing. It is designed to gain competitive advantage. It is based on two variables: the competitive advantage and the competitive scope. Competitive advantage is possible due to two factors; lower cost and differentiation. Competitive scope can be in terms of two factors; broad target and narrow target.

i. **Competitive Advantage:** Firm can gain competitive advantage in the market through various approaches and can set positioning for its products or services. One way to position its products is to offers mass produced products, distribute it through mass marketing which will results in lower cost per unit. The other approach may be offering high priced products of a limited variety but to select group of customers who are willing to pay higher prices. According to Porter, lower-cost is based on the competence of an organisation to design, produce and market compatible product, more effectively and efficiently than

the competitors. Differentiation will provide a firm competitive advantage.

ii. **Competitive Scope:** The second factor is competitive scope which is defined by Porter as the breadth of an organisation's target within its industry. Breadth indicates the number of products, channel of distribution used, geographical area covered etc. and the array of related industries in which the firm would also operate and compete. Scope is important as industries are segmented having different needs. Firm needs to have different approaches, competencies and strategies to satisfy the varied nature of need of the customers. Depending upon the scale of operations firm may adopt wider range of approach or a narrow target approach. Under broad range firm may offer wide variety range of products in large scattered area. Under narrow targeting the firm can offer limited range of products or services to a few customers groups in a restricted geographical area.

6.5 GENERIC BUSINESS STRATEGIES

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: *cost leadership*, *differentiation*, and *focus*. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. The following table illustrates Porter's generic strategies:

Target/Market Scope	Advantage	
	Low Cost	Product/Service Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Fig 9.1 Porter's Generic Strategies

A. **Cost Leadership Strategy:** This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.

- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

B. Differentiation Strategy: A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

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

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

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

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

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

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

Porter used the car industry as an example of generic strategies in practice.

Toyota is (or was at the time) the low cost producer in the industry. Toyota achieves its cost leadership strategy by adopting lean production, careful choice and control of suppliers, efficient distribution, and low servicing costs from a quality product. Note how the cost leadership must be in all aspects of the business (or value chain).

BMW is an example of a differentiation strategy. BMW still serves a relatively wide range of the total market but its cars are differentiated in the eyes of the customer who is prepared to pay a higher price for a BMW than for a Toyota, for instance, of similar specification.

Morgan is an example of a Focus strategy. It only addresses a very small part of the market—(i.e. those who enjoy getting wet and like the sound of an engine more than conversation!). Each of these three companies has been successful by pushing a particularly generic strategy successfully.

A Combination of Generic Strategies - Stuck in the Middle?

The firm can get “stuck in the middle” between low cost providers and differentiated cost leaders and hence firms of this kind should pursue a hybrid strategy. E.g.: Premium Padmini; Nike cheapest shoe starts at 599 up to 3999.

Typically a firm can obtain a competitive advantage by two ways : Either a cost advantage (meaning selling a product at a lower cost) or by a differentiation strategy (meaning having features and capabilities that are unique and can therefore be charged at a slightly higher price) . A firm stuck in the middle is one that tries to implement both strategies i.e a low cost and a unique feature.

An organisation can elect not to have a deliberate competitive strategy by employing none of the three generic strategies outlined by Michael Porter. Porter’s three generic strategies are; cost leadership strategy, differentiation strategy and the focus strategy.

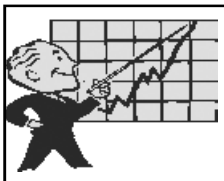
Instead of employing any of Porter three generic strategies a firm can elect to be stuck in the middle. An organisation employing a “stuck in the middle” strategy is neither deliberately pursuing a cost leadership strategy nor a differentiation strategy nor a focus strategy?

The airline industry is an example of an industry where most of its players employ the “stuck in the middle” strategy. These firms do not pursue a deliberate cost leadership strategy or a differentiation strategy but they simultaneously employ the cost leadership strategy and a differentiation strategy. This is evidenced by their implied twin objectives of wanting to be perceived as charging the lowest fares than competition and also at the same time wanting to be viewed as offering superior quality service than their competitors.

This argument is further strengthened by the fact that most of the long haul airlines offer economy class service, business class service and first class service simultaneously in the same plane during the same journey and this can neither be described as employing a cost leadership or differentiation strategy. This is in contrast to a strategy employed by Ryanair and Easyjet.

Porter argued that being stuck in the middle does not usually lead to achievement of competitive advantage because firms employing a stuck in the middle strategy will struggle to compete with companies in the same industry which employ one of his three generic strategies. This is because very few firms have the ability to be the best in all areas. In other words a jack of all trades will struggle to compete when competing with a master in a specific trade.

In concluding it is also worth mention that Porter also argued that being struck in the middle may work sometimes especially when a firm is lucky enough to be competing with competitors employing the stuck in the middle strategy. This could be one of the reason why the stuck in the middle strategy seems to be working for firms in the long haul airline business because all airlines seem to be using the same business model.



CHECK YOUR PROGRESS

Q1: What forces determine the industry structure?

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Q2: Define Competitive Scope.

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Q3: What is Cost Leadership Strategy?

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6.6 TACTICS FOR BUSINESS STRATEGIES

A Tactics is a sub-strategy. It is a specific operating plan. It gives details about how a strategy is to be implemented. It tells us when and where it is to be put into action. Tactics are narrower in a scope and shorter in their time horizon as compared to strategy. Let us discuss the two types of tactics: Timing Tactics and Market Location Tactics

1. **Timing Tactics:** Timing of tactics is an important factor. When to make a business strategy move is as equally important as what move

to make. A business strategy either low-cost, differentiation or focus may become right move only it is done at the right time.

The first company tp manufacture and sell a new product or service in the market is called the pioneer or the first mover organization. Eg.Parle , mineral water industry in India.

The other organizations that enter the industry subsequently are late mover organization. Eg. Delhi based Vishal Retail Ltd that introduced its mineral water plant in 2007. It adopted low-cost strategy offering product at the half of the market price.

2. **Market Location Tactics:** This is the second important aspect of business tactics. This aspects deal with where to compete. It is about deciding the target market. Industry consists of number of organization who offers similar products or services. The entire market share is distributed the organization. Somebody may get big share where other may get low market share. Market location could be classified according to the role that organization plays in the target market. On the basis of role played the market location tactics could be of four types; leader, challenger, follower and nichers.

   a. Market Leaders: These are the organization who have large market share. They get big share because they lead in the industry as regards to technology, product or service attributes, pricing or distribution network.

   b. Market Challenger: These are the organization who have second or lower ranking in the industry. They can either adopt a strategy to challenge the market leader or choose to blindly follow them. When they challenge their intention is to gain more market share. Market challenger may use Frontal attack, Flank Attack, Encirclement attack, Bypass attack or Guerrilla attack strategy.

   c. **Market Followers**: These are the organization that initiate the market leaders but do not upset the balance of competitive power in the industry. They prefer to avoid direct attack. They try to reap the benefits of innovation by imitation. They may adopt approaches like Counterfeiter strategy, Cloner strategy, Imitator strategy or Adapter strategy.

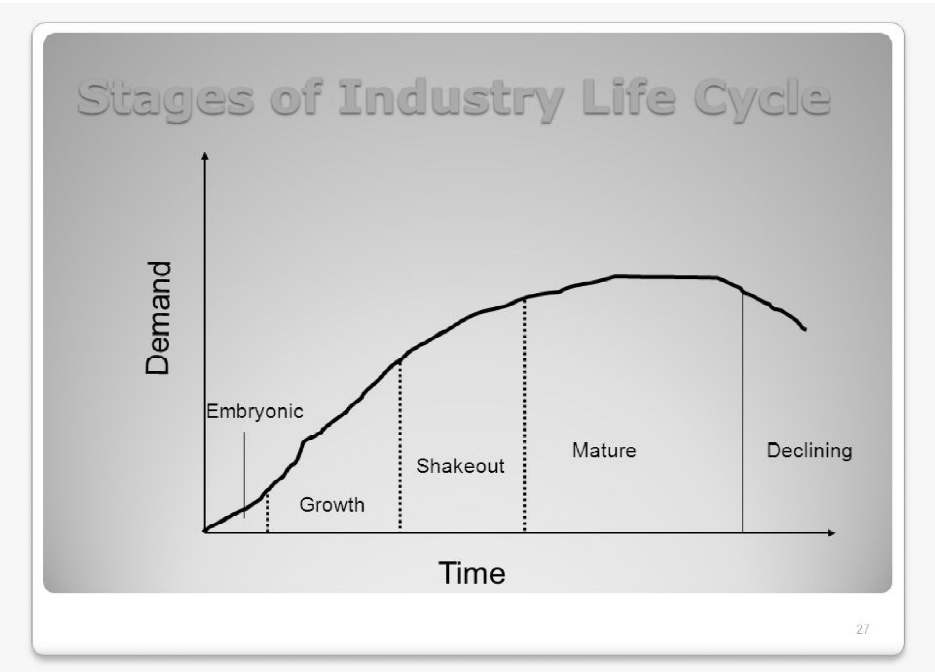
6.7 BUSINESS STRATEGIES FOR DIFFERENT INDUSTRY CONDITIONS

Business strategies are addressed to a particular industry and markets. Industries like products pass through different stages of growth.

Life cycle models are not just a phenomenon of the life sciences. Industries experience a similar cycle of life. Just as a person is born, grows, matures, and eventually experiences decline and ultimately death, so too do industries and product lines. The stages are the same for all industries, yet every industry will experience these stages differently, they will last longer for some and pass quickly for others. Even within the same industry, various firms may be at different life cycle stages. A firms strategic plan is likely to be greatly influenced by the stage in the life cycle at which the firm finds itself. Some companies or even industries find new uses for declining products, thus extending their life cycle.

Industry Life-cycle Analysis is a useful tool for analysing the effects of industry.Evolution on competitive forces is the “Industry life cycle” model, which identifies five sequential stages in the evolution of an industry, viz., embryonic, growth, shakeout, maturity and decline. The strength and nature of each of Porter’s five competitive forces (particularly, those of ‘risk of entry by potential competitors’ and ‘rivalry among existing firms’) change as an industry evolves and managers have to anticipate these changes and formulate appropriate strategies. Embryonic Growth Shakeout Sales & Profits Time Maturity Decline

Note: This discussion is regarding Industry Life-cycle analysis, In the light of Porter’s Five-forces model. It is not to be confused with Product Life-Cycle strategies.



Stage v/s Strategy

1. **EMBRYONIC STATE:** In the introduction stage of the life cycle, an industry is in its infancy. Perhaps a new, unique product offering has been developed and patented, thus beginning a new industry. Some analysts even add an embryonic stage before introduction. At the introduction stage, the firm may be alone in the industry. It may be a small entrepreneurial company or a proven company which used research and development funds and expertise to develop something new. Marketing refers to new product offerings in a new industry as "question marks" because the success of the product and the life of the industry is unproven and unknown.

A firm will use a focused strategy at this stage to stress the uniqueness of the new product or service to a small group of customers. These customers are typically referred to in the marketing literature as the "innovators" and "early adopters." Marketing tactics during this stage are intended to explain the product and its uses to consumers and thus create awareness for the product and the industry. According to research by Hitt, Ireland, and Hoskisson, firms establish a niche for dominance within an industry during this phase. For example, they often attempt to establish early perceptions of product quality, technological superiority, or

advantageous relationships with vendors within the supply chain to develop a competitive advantage.

Because it costs money to create a new product offering, develop and test prototypes, and market the product, the firm's and the industry's profits are usually negative at this stage. Any profits generated are typically reinvested into the company to solidify its position and help fund continued growth. Introduction requires a significant cash outlay to continue to promote and differentiate the offering and expand the production flow from a job shop to possibly a batch flow. Market demand will grow from the introduction, and as the life cycle curve experiences growth at an increasing rate, the industry is said to be entering the growth stage. Firms may also cluster together in close proximity during the early stages of the industry life cycle to have access to key materials or technological expertise, as in the case of the U.S. Silicon Valley computer chip manufacturers.

Industry is just beginning to develop (eg., personal computers in 1976). Growth at this stage is slow due to factors such as: Buyers' unfamiliarity with the industry's products, High prices due to poor economies of scale, and poorly developed distribution channels. Barriers to entry tend to be based on access to key technological know-how. Higher the complexity, higher the barrier for new entrants. Rivalry is based not so much on price as on educating customers, opening up distribution channels, and perfecting the design of the product. The company that is first to solve design problems or employ innovative efforts is often able to build up a significant market share, eg. Personal computers (Apple), vacuum cleaners (Hoover) and photocopiers (Xerox – the ultimate proof of the success of a brand). The company has major opportunity to capitalize on the lack of rivalry and build up a strong market presence.

2. **Growth stage:** The growth stage also requires a significant amount of capital. The goal of marketing efforts at this stage is to differentiate a firm's offerings from other competitors within the industry. Thus the growth stage requires funds to launch a newly focused marketing campaign as well as funds for continued investment in property, plant, and equipment to facilitate the growth required by the market demands.

However, the industry is experiencing more product standardization at this stage, which may encourage economies of scale and facilitate development of a line-flow layout for production efficiency.

Research and development funds will be needed to make changes to the product or services to better reflect customers' needs and suggestions. In this stage, if the firm is successful in the market, growing demand will create sales growth. Earnings and accompanying assets will also grow and profits will be positive for the firms. Marketing often refers to products at the growth stage as "stars." These products have high growth and market share. The key issue in this stage is market rivalry. Because there is industry-wide acceptance of the product, more new entrants join the industry and more intense competition results.

The duration of the growth stage, as all the other stages, depends on the particular industry or product line under study. Some items—like fad clothing, for example—may experience a very short growth stage and move almost immediately into the next stages of maturity and decline. A hot toy this holiday season may be nonexistent or relegated to the back shelves of a deep-discounter the following year. Because many new product introductions fail, the growth stage may be short or nonexistent for some products. However, for other products the growth stage may be longer due to frequent product upgrades and enhancements that forestall movement into maturity. The computer industry today is an example of an industry with a long growth stage due to upgrades in hardware, services, and add-on products and features.

During the growth stage, the life cycle curve is very steep, indicating fast growth. Firms tend to spread out geographically during this stage of the life cycle and continue to disperse during the maturity and decline stages. As an example, the automobile industry in the United States was initially concentrated in the Detroit area and surrounding cities. Today, as the industry has matured, automobile manufacturers are spread throughout the country and internationally. In this stage, demand is expanding rapidly and the industry's products take off because Customers have become familiar with the product, Prices fall because experience and economies of

scale have been attained, and Distribution channels have developed. The U.S. cell-phone industry was in the growth stage most of the 1990s. In 1990 there were only 5 million cellular subscribers in the nation. By 2002, this figure had increased to 88 million and demand was growing @ more than 25% per year.

Entry barriers: Control over technological knowledge has diminished by this time, also few companies have yet achieved significant scale of economies or built brand loyalty. Thus, threat from potential competitors is generally highest at this point. Rivalry: High growth rate usually means new entrants can be absorbed into an industry without marked increase in intensity of rivalry. Thus, rivalry tends to relatively low. A strategically aware company takes advantage of this relatively benign environment to prepare itself for the forthcoming intense competition in the shakeout stage.

3. **Industry Shakeout:** Explosive growth cannot be maintained indefinitely. Sooner or later, rate of growth slows, demand approaches saturation levels and most of the demand is limited to replacement because there are few potential first-time buyers left (eg., U.S. personal computer industry – Dell Computers case). As an industry enters the shakeout stage, rivalry between companies become intense. Companies accustomed to rapid growth had in the past installed large production facilities. However, demand is no longer growing at historical rates, resulting today in excess capacity.

Rivalry: In an attempt to utilize this capacity, companies often cut prices. The result can be a price war, which drives many of the most inefficient companies to bankruptcy. New entrants: Not a significant factor at this stage. It is now a case of “survival of the fittest” which is enough to deter any new entry.

4. **Maturity stage:** As the industry approaches maturity, the industry life cycle curve becomes noticeably flatter, indicating slowing growth. Some experts have labeled an additional stage, called expansion, between growth and maturity. While sales are expanding and earnings are growing from these “cash cow” products, the rate has slowed from the growth stage. In fact, the rate of sales expansion is typically equal to the growth rate of the economy.

Some competition from late entrants will be apparent, and these new entrants will try to steal market share from existing products. Thus, the marketing effort must remain strong and must stress the unique features of the product or the firm to continue to differentiate a firm's offerings from industry competitors. Firms may compete on quality to separate their product from other lower-cost offerings, or conversely the firm may try a low-cost/ low-price strategy to increase the volume of sales and make profits from inventory turnover. A firm at this stage may have excess cash to pay dividends to shareholders. But in mature industries, there are usually fewer firms, and those that survive will be larger and more dominant. While innovations continue they are not as radical as before and may be only a change in color or formulation to stress "new" or "improved" to consumers.

The companies that survive the shakeout enter the mature stage of the industry: the market is totally saturated, demand is limited to replacement demand, and growth is low or zero. Whatever growth there is comes from population expansion or from increase in replacement demand. Barriers to entry increase and the threat of entry from potential competitors decrease. Competition for market share drives down prices, often resulting in a price war (eg. Airline and PC industries). To survive the shakeout, companies begin to focus on cost minimization and building brand loyalty (eg, low-cost airlines and 'frequent flyer' programs, excellent after-sales service by PC companies). Only those with brand loyalty and low-cost operations will survive. At the same time, high entry barriers in mature industries give companies the opportunity to increase prices and profits. The end result will be a more consolidated industry structure.

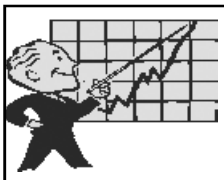
Rivalry: In mature industries, companies tend to recognize their interdependence. They try to avoid price wars and enter into cartels/price leadership/market segment agreements (eg, the domestic pressure cooker industry), thereby allowing greater profitability. However, an economic slump can depress industry demand, reduce profits, break down agreements, increase rivalry and result in renewed price wars.

5. **Decline stage:** Declines are almost inevitable in an industry. If product innovation has not kept pace with other competing products and/or

service, or if new innovations or technological changes have caused the industry to become obsolete, sales suffer and the life cycle experiences a decline. In this phase, sales are decreasing at an accelerating rate. This is often accompanied by another, larger shake-out in the industry as competitors who did not leave during the maturity stage now exit the industry. Yet some firms will remain to compete in the smaller market. Mergers and consolidations will also be the norm as firms try other strategies to continue to be competitive or grow through acquisition and/or diversification.

Eventually, most industries enter a decline stage: growth becomes negative for a variety of reasons, including Technological substitution (eg, air travel for rail travel); Social changes (eg, greater health consciousness hitting tobacco sales); Demographics (declining birthrate hurting the babycare and child products market); and International competition (cheap Chinese imports flooding many world markets). The main problem is once again that of excess capacity and, in such a scenario, rivalry among established companies usually increases. Exit barriers play a part in adjusting excess capacity. The greater the exit barriers, the harder it is for companies to reduce capacity and greater is the threat of severe price competition. (However, there is always the scope for 'end-game strategy' at this stage).

To conclude, Strategic managers have to tailor their strategies to changing industry conditions. They have to learn to recognize the crucial points in an industry's development so that they can forecast when the shakeout stage might begin or when the industry might move into decline.



CHECK YOUR PROGRESS

Q4: What is Tactics ?

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Q5: What is Industry Life Cycle?

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6.8 LET US SUM UP

In this unit we have discussed the following:

- Business strategy occurs at the strategic business unit level or product level. It emphasises on improvement of the competitive position of a firm's products or services in a specific industry or market segment served by that business unit.
- There can by two types of business strategy – competitive strategy or cooperative strategy.
- According to Porter's there are five forces which determine the industry structure. These forces are: the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; the bargaining power of buyers; and the rivalry among the existing competitors in an industry.
- Michael Porter has argued that a firm's strengths fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies came out namely: *cost leadership*, *differentiation*, and *focus*.
- A Tactics is a sub-strategy,it is a specific operating plan and gives details about how a strategy is to be implemented. It tells us when and where it is to be put into action.
- Tactics are narrower in a scope and shorter in their time horizon as compared to strategy.
- There are two types of tactics: Timing Tactics and Market Location Tactics.
- Industry Life-cycle Analysis is a useful tool for analysing the effects of industry. Evolution on competitive forces is the "Industry life cycle" model, which identifies five sequential stages in the evolution of an industry, viz., embryonic, growth, shakeout, maturity and decline.



6.9 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P;Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



9.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No.1: According to Porter's there are five forces which determine the industry structure. These forces are :the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; the bargaining power of buyers; and the rivalry among the existing competitors in an industry

Ans. to Q. No.2: Competitive Scope is a factor which is defined by Porter as the breadth of an organisation's target within its industry. Breadth indicates the number of products, channel of distribution used, geographical area covered etc. and the array of related industries in which the firm would also operate and compete.

Ans. to Q. No.3: Cost Leadership Strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share.

Ans. to Q. No.4: A Tactics is a sub-strategy. It is a specific operating plan. It gives details about how a strategy is to be implemented. It tells us when and where it is to be put into action. Tactics are narrower in a scope and shorter in their time horizon as compared to strategy.

Ans to Q. No.5: Industry Life-cycle Analysis is a useful tool for analysing the effects of industry. Evolution on competitive forces is the "Industry life cycle" model, which identifies five sequential stages in the evolution of an industry, viz., embryonic, growth, shakeout, maturity and decline.



6.11 MODEL QUESTIONS

Q.1: State the Porters five forces which determine the industry structure

Q.2: What is meant by generic strategies?

Q.3: Explain Porter's generic strategies with illustration

Q.4: What is tactics for business strategies

Q.5: Explain Industry Life cycle.

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UNIT 7: STRATEGIC ANALYSIS AND CHOICE

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Strategic Analysis and its Importance

7.3.1 Importance of Strategic Choice

7.4 Process of Strategic Choice

7.5 Tools and Techniques for Strategic Analysis

7.5.1 Corporate Portfolio Analysis

7.5.2 SWOT Analysis

7.5.3 Experience curve Analysis

7.5.4 Life cycle Analysis

7.5.5 Industry Analysis

7.5.6 Strategic Groups Analysis

7.5.7 Competitors Analysis

7.5.8 Contingency Strategies

7.6 Let Us Sum Up

7.7 Further Reading

7.8 Answer to check your progress

7.9 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain meaning and importance of strategy analysis.
- describe different tools and techniques used by the firm for Strategy analysis.
- explain Corporate Portfolio analysis
- discuss Strategic Groups Analysis

7.2 INTRODUCTION

Strategic analysis refers to the evaluation of alternative strategies i.e. analysis of costs and benefits of each and every alternative strategy.

After identifying the pros and cons of the alternative strategies, the best suitable strategies are selected. Organizations continually face the challenge of exercising choice among the alternatives. While deciding on the strategic alternatives firm needs to take into account its strength and weaknesses. They should try to grab the opportunity and overcome the environmental challenges. In this unit we will discuss these in brief.

7.3 STRATEGIC ANALYSIS AND ITS IMPORTANCE

There are various internal and external factors which influence strategic choice. External factors include the competitors, suppliers, dealers and customer. Internal factors consist of organization mission, objectives and policies, availability of resources and management-labour relationship. The personal preference of the dominant strategists such as the chief executive affects the choice of the strategy. The past strategies of the firm also affect the present strategies as well. The strategy of the firm also depends upon the value system of the top management. The attitude of the top management towards risks is one of the important factors affecting selection of strategy. In many organizations, there is some sort of internal politics, which directly affects the choice of the strategy. The time element can have a considerable influence on the choice of strategy.

7.3.1 Importance of Strategic Choice

Strategic choice is one of the critical aspects in the organization. Once the strategy is selected firm makes all the arrangement to implement it. The resources are gathered for its implementation. But if the strategy itself is defective then organization has to pay for it hence strategy choice becomes one of the important decision areas. When the right strategy is chosen its give many benefits to the organization like:

a. **Competitive Advantage:** Right choice helps in gaining competitive advantage in the market. Firm can introduce innovative products, improve quality and reduce cost.

b. **Coordination:** Strategies facilitate coordination throughout the organization. While deciding the choice of the strategy, the overall corporate and departmental strategies are considered.

c. **Corporate image:** Proper strategy selection and implementation improves the performance of the organization. Therefore the corporate image of the firm improves in the minds of various stakeholders.

d. **Organizational efficiency:** Right choice of a strategy leads to effective implementation, which in turn leads to higher performance and profits.

e. **Optimum use of resources:** Effective strategic choice enable optimum use of available resources.

7.4 PROCESS OF STRATEGIC CHOICE

The following flow chart will explain briefly the process of strategic choice.

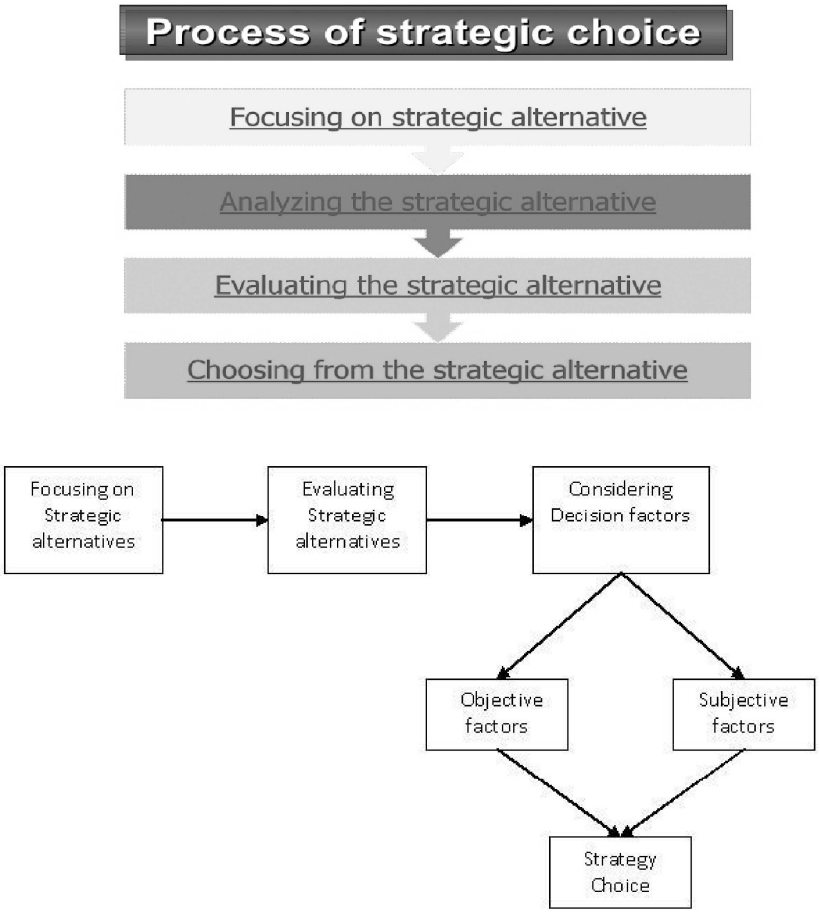


Figure 10.1: Process of Strategic Choice

i) **Focusing on strategic alternatives:** It involves identification of all alternatives and selecting the best out of it. At a time, it is really impossible to implement all the strategies hence choice becomes essential. The strategist examines what the organization wants to achieve (desired performance) and what it has really achieved (actual performance). The gap between the two positions constitutes the background for various alternatives and diagnosis. This is gap analysis. The gap between what is desired and what is achieved widens as the time passes if no strategy is adopted.

At the business level, organization needs to think of alternative ways of competing. The choice is essentially between positioning the business as being low-cost, differentiated or focused. While focusing on the strategy, firm needs to understand the prevailing condition in the industry.

ii) **Analyzing Strategic Alternatives:** With due care firm can narrow down the strategies to be adopted. The alternatives are chosen after careful investigation and analysis of the market. Certain parameters or factors are considered for analyzing a particular strategy. The selection of factors can be divided into two groups: the objective and subjective factors. Analytical techniques are used in objective factors whereas subjective factors are based on one's own perception or judgment. Eg.objective factors is tentative market share of the company and subjective factor can be perception of the top management. The alternatives chosen in the first stage are analyzed on the basis of these two factors. An indicative list is stated below:

Objective factors:-

¨ Environmental factors

– Volatility of environment

– Input supply from environment

– Powerful stakeholders

¨ Organizational factors

– Organization's mission

– Strategic intent

– Business definition
– Strengths and weaknesses

Subjective factors:-

– Strategies adopted in the previous period;
– Personal preferences of decision- makers; Management's attitude toward risk;
– Pressure from stakeholders;
– Pressure from corporate culture; and
– Needs and desires of key managers

iii) **Evaluating the Strategic Alternatives:** Here the final selection of the strategy is done on the basis of selection factors. The choice is narrowed down which leads to selection of few alternatives. Every alternative is properly evaluated for its capability to help the organization to achieve its objectives. Assessment of the pros and cons of various alternatives and their suitability is done. The tools which may be used are Portfolio Analysis, GE Business Screen and Corporate Parenting. Corporate scenario is constructed for every strategic alternative considering both environmental factors and market conditions. It provides sufficient information for a strategist to make final decision.

After evaluation the alternatives, it is considered for final decision.

7.5 TOOLS AND TECHNIQUES FOR STRATEGIC ANALYSIS

Strategic analysis is a dynamic area of strategic management. Always new ways and techniques are developed which replaces older techniques. Thanks to the technology which has provided readymade strategic planning software that provides templates, spreadsheets and various types of report format. Strategic analysis is done at corporate and business level. Corporate analysis is concerned with overall analysis of the businesses of the firm whereas business level analysis is concentrated on a particular business only.

7.5.1 Corporate Portfolio Analysis

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

Portfolio analysis can be performed by an outside firm or by company management. There are various tools used for a portfolio analysis with some that look at market share and others that evaluate a company's product line against the competition. These techniques enable firm about the decision for spending for future growth on a particular portfolio or product. It also be used to identify products or services which may become obsolete in short term. It helps firm to decide which product they should come out and where they should spend more.

Corporate portfolio analysis helps management in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is mainly used for competitive analysis and corporate strategic planning in multi-product and multi-business firms. There are several techniques of portfolio analysis that can be used by the business organizations. Some important techniques are:

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

In short Corporate Portfolio Analysis is set of techniques that helps strategists in taking strategic decision with regard to a particular products or businesses in firm's portfolio. It is used for

competitive analysis and strategic planning in various small to large organization including multiproduct and multi business firms. This kind of analysis helps to create competitive advantage to the firm.

7.5.2 SWOT Analysis

Every organization is a part of an industry. Competition is an integral aspect of industry. No industry is without competition. The intensity of competition differs from industry to industry. Industry creates the boundary within which firm has to operate. Hence strategic choice is made after due consideration of industry and competition. Both internal and external factors need to be evaluated by the firm which in other word is called as SWOT analysis.

A SWOT analysis is a four elements in a 2 x 2 matrix.SWOT analysis (or SWOT matrix) is a strategic planning technique used to help a person or organization identify the Strengths, Weaknesses, Opportunities, and Threats related to business competition or project planning. It is intended to specify the objectives of the business venture or project and identify the internal and external factors that are favorable and unfavorable to achieving those objectives. SWOT analysis helps to generate meaningful information for each category to make the tool useful and identify their competitive advantage.

Strengths and Weakness are frequently internally-related, while Opportunities and Threats commonly focus on environmental placement.

Strengths: characteristics of the business or project that give it an advantage over others.

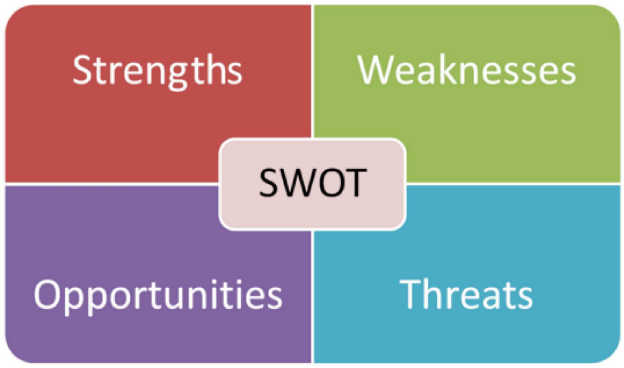
Weaknesses: characteristics of the business that place the business or project at a disadvantage relative to others.

Opportunities: elements in the environment that the business or project could exploit to its advantage.

Threats: elements in the environment that could cause trouble for the business or project.

The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit. SWOT is important because it aids to planning to achieve the objective. First, decision-makers should consider whether the objective is attainable, given the SWOTs. If the objective is not attainable, they must select a different objective and repeat the process.

SWOT analysis is a framework used to evaluate a company's competitive position by identifying its strengths, weaknesses, opportunities and threats. SWOT analysis is a foundational assessment model that measures what an organization can and cannot do, and its potential opportunities and threats.



Strengths describe what an organization excels at and separates it from the competition: examples include a strong brand, loyal customer base, a strong balance sheet, unique technology and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: example include higher-than-industry-average turnover, high levels of debt, an inadequate supply chain or lack of capital.

Opportunities refer to favorable external factors that an organization can use to give it a competitive advantage. For example,

a car manufacturer can export its cars into a new market, increasing sales and market share, if a country cuts tariffs.

Threats refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for inputs, increasing competition, tight labor supply and so on.

Usefulness of SWOT Analysis:

The usefulness of SWOT analysis is not limited to profit-making organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) is defined. Examples include non-profit organizations, governmental units, and individuals. SWOT analysis may also be used in creating a recommendation during a viability study/survey. Some of the uses are as follows:

Strategy building

SWOT analysis can be used effectively to build organizational or personal strategy. The main steps involved in executing strategy-oriented analysis involve identification of internal and external factors (using the popular 2x2 matrix), selection and evaluation of the most important factors, and identification of relations existing between internal and external features.

Matching and converting

One way of using SWOT is matching and converting. Matching is used to find competitive advantage by matching the strengths to opportunities. Another tactic is to convert weaknesses or threats into strengths or opportunities.

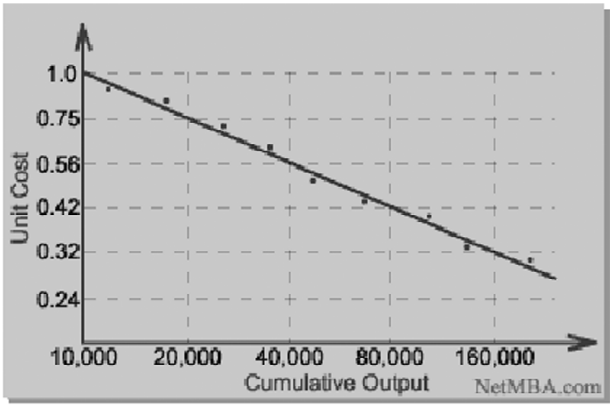
Corporate planning

As part of the development of strategies and plans to enable the organization to achieve its objectives. SWOT can be used as a basis for the analysis of business and environmental factors.

7.5.3 Experience Curve Analysis

The concept behind the Experience Curve is that the more experience a business has in producing a particular product, the

lower its costs. The Experience Curve concept was devised by the Boston Consulting Group. From BCG's research into a major manufacturer of semiconductors, they found that the unit cost of manufacturing fell by about 25% for each doubling of the volume that it produced.BCG concluded that the more experience a firm has in producing a particular product, the lower are its costs.



The **logic** behind the Experience Curve is as follows:

As businesses grow, they gain experience. This experience may provide an advantage over the competition. The "experience effect" of lower unit costs is likely to be particularly strong for large, successful businesses (market leaders). If the Experience Curve concept is valid, then it has some significant implications for growth strategy:

Business with the most experience should have a significant cost advantage. Business with the highest market share is likely to have the best experience. Therefore experience is a key barrier to entry. Firms should try to maximise market share. Firms may resort to external growth (e.g. takeovers) as though takeovers business can acquire firms with strong experience.

Criticisms of the Experience Curve concept

Market leaders often become complacent – perhaps because of their "experience". Experience may cause resistance to change and innovation. The Experience Curve concept is a relatively old theory that is less relevant in a competitive environment that changes so rapidly

Uses of Experience curve: There are three general areas for the application and use of experience curves; strategic, internal, and external to the organization. Strategic uses include determining volume-cost changes, estimating new product start-up costs, and pricing of new products. Internal applications include developing labor standards, scheduling, budgeting, and make-or-buy decisions. External uses are supplier scheduling, cash flow budgeting, and estimating purchase costs.

7.5.4 Life Cycle Analysis

We are well versed with product life cycle; likewise life cycles are found in market, businesses or industries. Life cycle is the conceptual model will suggests that products market or businesses and industries go through sequential stages of introduction, growth, maturity and decline. From the strategic analysis point of view it is important to note that as life cycle changes/ moves from one stage to the next the, strategic considerations too change.

Product life cycle is an S shaped curve which indicates relationship between sales with respect to time for a particular product that passes from 4 successive stages of introduction, growth, maturity and decline. The main advantage of the life cycle concept is that it can be used to diagnose a portfolio of products or markets, businesses or industries in order to know the stage at which each of them exist.

The product or the market or the businesses that are in the decline stage needs careful attention. Depending on the diagnosis, the appropriate strategic choice can be made. For example firm may use expansion strategy at the introduction or growth stage. Strategies like harvesting or retrenchment may be used for declining businesses. The main intention is to create balanced portfolio of businesses by exercising a strategic choice based on the life cycle concept. The life cycle analysis is useful for formation of business level strategies. It is important to note that the life cycle concept is

not to be used as a guide when a change occurs in the life cycle. Rather, it is useful guide to what changes might occur over a period of time with regard to the market or industry conditions.

7.5.5 Industry Analysis

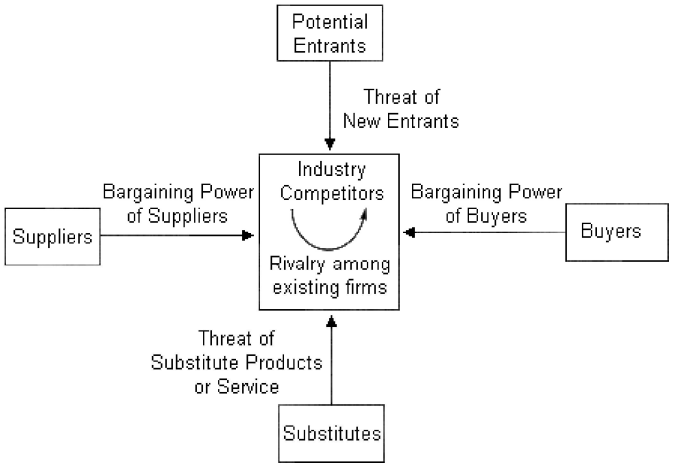
Industry is defined as a group of companies offering products or service that are close or similar substitute of each other. These products satisfy the same basic needs of the customer. Industry analysis is important because it allows business owners to estimate how much profit they can generate from business operations. Business owners also assess the number of competitors currently selling consumer goods or services in their industry. An industry analysis is a business function completed by business owners and other individuals to assess the current business environment. This analysis helps businesses understand the market conditions and how these various conditions may be used to gain a competitive advantage.

To formulate effective strategies, managers in an organization need to be aware of realities in the business environment. Strategy formulation thus begins with a scanning of the external as well as internal environment. Analysis of external environment helps to identify the possible threats and opportunities while analysis of internal environment help to identify strengths, weaknesses and the key people within the organisation.

Michael Porter has made immense contribution in the development of the ideas of industry and competitor analysis and their relevance to the formulation of competitive strategies. He is of the opinion that a structural analysis of industries be made so that a firm is in a better position to identify its strengths and weaknesses. He proposed a model by considering five competitive forces – threat of new entrants, rivalry among competitors, bargaining power of suppliers, bargaining power of buyers and threat of substitute products. These forces determine the intensity of industry competition and profitability.

PORTER'S FIVE FORCES MODEL:

Porter argues that there are five forces that determine the profitability of an industry. They are shown below:



According to Porter "The collective strengths of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long run return on investment capital".

If the firm can manage all 5 forces, they can have Sustainable Corporate Advantage (SCA). SCA is

a) Industry dominance/market leader

b) Above industry average profit

Let us see each of them in detail:

Threat of new entrants:

New entrants to an industry typically brings to it new capacity and desire to gain market size and substantial sources. They are therefore threats to established corporations. Threat of entry depends on the entry barriers and the reaction that can be expected from the existing companies. An entry barrier is an obstruction that makes it difficult for a company to enter into an industry. Major entry barriers include:

Economies of scale:

These exist whenever large volume firms enjoy significantly lower production cost per unit than smaller volumes operator do. This

discourages firms, which have less volume and high production cost from entering into the market.

Cost disadvantage independent of scale:

Established competitors may have cost advantage even when the new entrant has comparable economies of scale. This advantage may include proprietary product knowledge such as patents, favourable access to raw materials, favourable locations, government subsidies etc.

Product differentiation:

Differences in physical or perceived characteristics must make incumbent's product unique in the eyes of customer and force customers to overcome existing brand loyalty.

Capital requirement:

If the amount of investment required to enter into an industry is high, the number of entrants who could afford it would be less. High cost creates entry barriers.

Switching cost:

Sometimes the cost that would be incurred by the customers to switch from one supplier to another supplier makes it difficult for the new entrants to gain market share.

Bargaining power of suppliers:

Suppliers can affect the industry through their ability to raise price or to reduce the quality of the purchased product and services.

Following are the conditions that make suppliers powerful:

Dominance by few players and lack of substitutes:

A few players might become strong enough to dominate the suppliers industry. Substitutes might not be readily available as well. These two factors limit customer's option and increase the supplier's power.

Greater concentration among suppliers than among buyers:

A concentrated industry is one in which only a few large firms dominate.

Firms in highly concentrated industry, that supply material to highly fragmented industry, can exert power over the buyer.

Relative lack of importance of the buyer to the supplier group:

Some customers are more important than others because of their size of their purchase or the prestige that comes from supplying them.

High differentiation by the supplier and high switching cost:

A buyer could be tied to a particular supplier if other suppliers can't meet his requirements. Any switching that might be incurred by the buyer will strengthen the position of the suppliers.

Bargaining power of buyers:

Buyers can exert bargaining power over a supplier industry by forcing its prices down, by reducing the amount of goods they purchase from the industry or by demanding better quality for the same price.

Price sensitivity:

Buyers are likely to be more price-sensitive if

a) Suppliers represent the significant fraction of the total cost incurred by the buyers
b) The supplier product is unimportant to the overall quality or cost of the buyer's final product and
c) The buyers already earn a low profit.

A growing trend among small businesses is to augment their bargaining power as customers prefer joining or forming buying groups.

Threat of substitute products:

Substitute products are those products that appear to be different but can satisfy the same need as another product. The availability of substitutes places a ceiling on price limit of an industry product. When the price of the product rises above that of the substitute product customers tend to switch over to the substitutes. Deregulation and technology revolution has given rise to a lot of substitutes.

The intensity of rivalry among existing players:

In most industries individual firms are mutually dependent. Competitive moves by one firm can be expected to have noticeable

effects on its competitors and cause retaliation or counter efforts. Competition can be in the form of pricing, product differentiation, product innovation etc.

Factors that increase competitive rivalry are:

Equally balanced competitors:

The most intense competition results from well-matched rivals in a situation that doesn't allow any particular firm to dominate.

Slow industry growth:

In slow growth markets, growth has to come by taking market share from rivals.

High fixed cost:

Additional sales volume can help to offset high fixed cost. Hence competitors might be willing to fight for any possible sales.

Lack of differentiation or lack of switching cost:

These two factors ensure that customers can easily switch over to a rival product and to retain them is a constant struggle.

The outcome of industry and external environment analysis results in identifying the relevant and important opportunities and threats the organisation has to face in the future.

The purpose of an industry analysis with regard to strategic choice is to determine the industry attractiveness and to understand the structure and dynamics of the industry. Firm may use five forces model to analyse its critical strengths and weaknesses, its position within the industry, the areas where strategic changes may yield maximum profit.

7.5.6 Strategic Groups Analysis

According to Miller and Dess strategic groups are clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. These groups are conceptual as they are not formed formally. These groups are based on technological leadership, the degree of quality of product, distribution channel etc. These strategic

dimensions define a firm's business strategy in an industry. In some industries, firm follow homogenous strategies and business models and these firms or industry could be grouped into one strategic group. Some industries may tend to be heterogeneous as they consist of multiple strategic groups. Here each group follows similar strategies.

A strategic group is a concept used in strategic management that groups companies within an industry that have similar business models or similar combinations of strategies. For example, the restaurant industry can be divided into several strategic groups including fast-food and fine-dining based on variables such as preparation time, pricing, and presentation. The number of groups within an industry and their composition depends on the dimensions used to define the groups. Strategic management professors and consultants often make use of a two dimensional grid to position firms along an industry's two most important dimensions in order to distinguish direct rivals (those with similar strategies or business models) from indirect rivals. Strategy is the direction and scope of an organization over the long term which achieves advantages for the organization while business model refers to how the firm will generate revenues or make money.

Strategic Group Analysis looks at players' positions in the competitive environment and the underlying factors that determine a company's profitability, as well as the competitive dynamics of an industry. It attempts to characterize the strategies of all significant competitors along broad strategic dimensions. These dimensions differentiating players into strategic groups must be chosen with respect to industry structure, profitability factors, and the project issues being addressed.

Strategic groups can be created based on many dimensions: Specialization, Brand identification, Push vs pull, Channel selection, Product quality, Technological position or Vertical integration.

Strategic group analysis serves the useful purpose of identifying and classifying the firms on the basis that really matters

them. Industry and competitor analysis become more meaningful when it is done on the basis of strategy groups' identification.

7.5.7 Competitors' Analysis

As we have discussed, industry analysis and strategic group analysis focus on the industry as a whole. On the contrary competitor analysis focuses on each company within which a firm competes directly. It deals with the action taken by each company / firm within the industry. According to Porter, the purpose of conducting a competitor analysis is to:

- Determine each competitor's probable reaction to the industry and environmental changes,
- Ascertain reaction of the competitors or strategic move by the other firms;
- Understand possible strategic changes each competitor might undertake.

The major four components of competitors analysis are ; future goals of competitor, its current strategy, the key assumptions that the competitors make about itself and about the industry in terms of strengths and weaknesses.

Firms need to understand their competitors by placing them in strategic groups according to how directly they compete for a share in the market.For each competitor or strategic group, firm have to list their competitors' product or service, its profitability, growth pattern, marketing objectives and assumptions, current and past strategies, organizational and cost structure, strengths and weaknesses, and size (in sales) of the competitor's business. Firms try to answer questions such as:

Who are our competitors?

What products or services do they sell?

What is each competitor's market share?

What were their past strategies?

What are their current strategies?

What type of promotion tools are used to market their products or services?

How many hours per week do they purchase to advertise through the media used in this market?

What are each competitor's strengths and weaknesses?

What potential threats do your competitors pose?

What potential opportunities do they make available for the firm?

7.5.8 Contingency Strategies

When firms prepare their strategies, they are based on certain assumptions, conditions and premises. These conditions or premises are not stable. They go on changing from time to time. As these conditions or premises changes, the strategies prepared on the basis of these becomes irrelevant. The strategies need to be modified with changing situations. If the changes are very little then small modification in the existing strategies will suffice the requirement. But if the changes are drastic then strategies need to be changed. Contingency strategies are formulated in advance to deal with uncertainties that are a natural part of the business. Contingency strategies have received a fair amount of attention from the policy researchers as they are of immense value to strategists who have to deal with dynamic business environment.



LET US KNOW

VMOST: This stands for Vision, Mission, Objectives, Strategy, and Tactical.

Success in an organization happens with top-down or bottom-up alignment. Connection of techniques with firms vision, mission is must or else strategy will fail. VMOST analysis is meant to help make that connection.

PEST: This is a great tool to use in tandem with SWOT. The acronym stands for Political, Economic, Social and Technology.

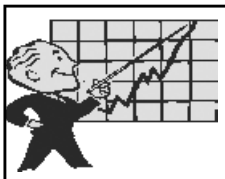
SOAR: This stands for Strengths, Opportunities, Aspirations, and Results. This is a great tool if the firm hasa strategic plan completed, but firm need to focus on a specific impact zone.

Boston Matrix (product and service portfolio): This tool requires organization to analyze their business product or service and determine if it is a cash cow, sick dog, questionable, or a flying star.

BCG MATRIX •

Stars: ITC Ltd has a very strong market position in the sectors such as Hotels, Paperboard/packaging and agricultural business. They are very famous for Hotels and Agri business.ITC is very strong in these positions as these sectors are considered as stars in BCG matrix which means these sectors generates a huge amount of profit because of the market shares.

- **Question Marks**: ITC Ltd FMCG sectors such as automotive companies, furniture companies, financial companies, tobacco companies, food companies are in the stage of question mark in the BCG matrix which means these sectors growing rapidly fast and consumes a large sum of cash because of low market shares. But there is a chance that these sectors may become stars.
- **Dogs**: ITC InfoTech are now the Dogs in the BCG matrix as they have very low market share and doesn't produce lot sum amount of cash which indicates the weakest sector of ITC Ltd.
- **Cashcows**: ITC Ltd FMCG-Cigarettes are now in the position of Cash Cows in the market as they produce a stable cash flow which makes a good growth rate in the market shares. As there is a good profit, it is a hope that this sector may move to the position of Stars or Question marks in the near future.



CHECK YOUR PROGRESS

Q1. State two tools for strategic analysis.

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.....

Q2. State some of the important techniques of Corporate Portfolio analysis.

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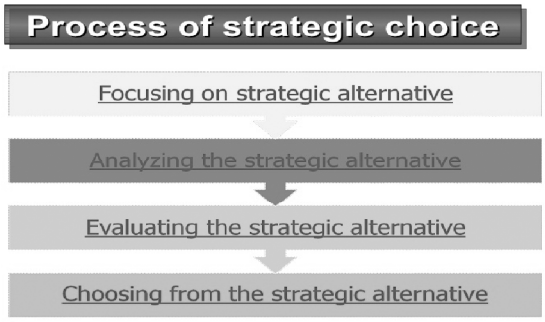
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7.6 LET US SUM UP

In this unit we have discussed the following:

- Strategy analysis refers to the evaluation of alternative strategies i.e. analysis of costs and benefits of each and every alternative strategies.
- There are various internal and external factors which influence strategic choice. External factors include the competitors, suppliers, dealers and customer. Internal factors consist of organization mission, objectives and policies, resources availability and management-labour relationship.
- The process of strategic choice include:



Some important techniques for strategic analysis are:

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

According to Porter, the purpose of conducting a competitor analysis is to:

- Determine each competitor's probable reaction to the industry and environmental changes,

- Likely reaction of the competitors or strategic move by the other firms;
- Possible strategic changes each competitor might undertake



7.7 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P;Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



7.8 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Corporate Portfolio analysis and SWOT analysis.

Ans. to Q. No. 2: Some important techniques are:

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



7.9 MODEL QUESTIONS

Q1: Explain briefly Porter's five force model.

Q2: Write a brief note on importance of strategic choice.

Q3: Explain briefly Life Cycle Analysis.

*****

UNIT 8: STRATEGY IMPLEMENTATION

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Concept of Strategy Implementation

8.3.1 Nature of strategy Implementation

8.3.2 Barriers to strategy Implementation

8.4 Model of Strategy implementation

8.5 Project Implementation: Project management and Strategy Implementation

8.6 Procedural Implementation: Regulatory Mechanism in India

8.7 Resource Allocation

8.8 Let Us Sum Up

8.9 Further Reading

8.10 Answer to check Your Progress

8.11 Model Question

8.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the nature and concept of strategy implementation.
- describe the interrelationship between strategy formulation and implementation.
- learn the role of project management in strategy implementation.
- describe the various factors that affects resource allocation.

8.2 INTRODUCTION

In the earlier units we have discussed about the various strategies at corporate level and business level. In this unit we will go through the implementation phase of the strategies, *Implementation* is the process that turns *strategies* and plans into actions in order to accomplish *strategic* objectives and goals. In this unit we are going to discuss the strategy

implementation and its various aspects. Strategy implementation is the transformation of chosen strategy into organizational action so as to achieve strategic goals and objectives.

Let us now discuss the nature and barriers to strategy implementation, model of strategy implementation, project implementation, procedural implementation and resource allocation in the following sections.

8.3 CONCEPT OF STRATEGY IMPLEMENTATION

Strategy Implementation is described as a process or activity that ensures the strategic planning. It is a dynamic , iterative and complex process which comprises a series of decisions and activities by the mangers and employees –affected by a number of interrelated internal and external factors to turn strategic plans into reality in order to achieve strategic objectives.

Strategy implementation is a term used to describe the activities within an organization to manage the execution of a strategic plan. Strategy implementation is 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.

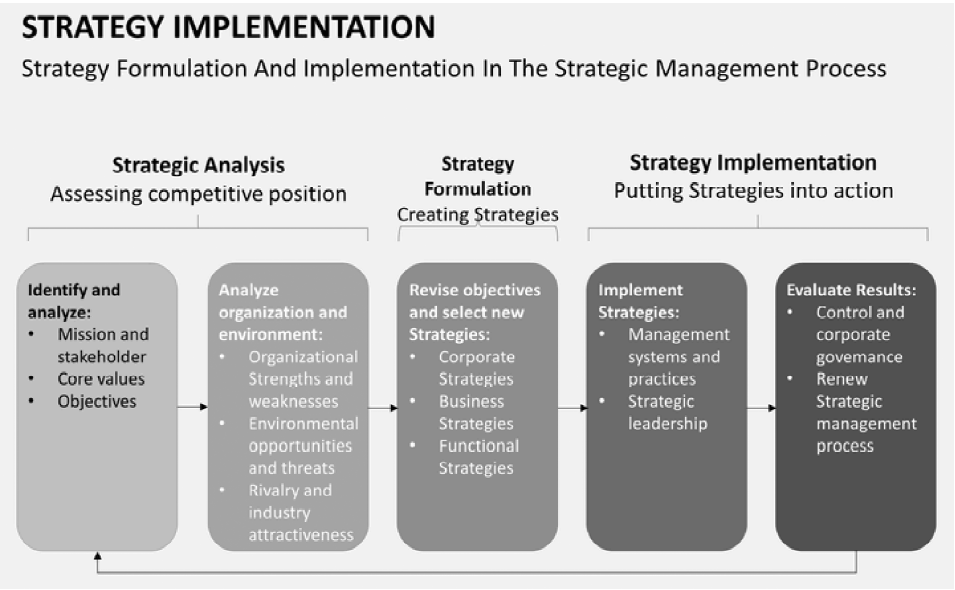


Fig : 11.1 Strategy Implementation Process

8.3.1 Nature of Strategy Implementation

Once the strategy is formulated the next practical stage is its implementation. All the efforts of strategy formulation bear the fruits in this phase.

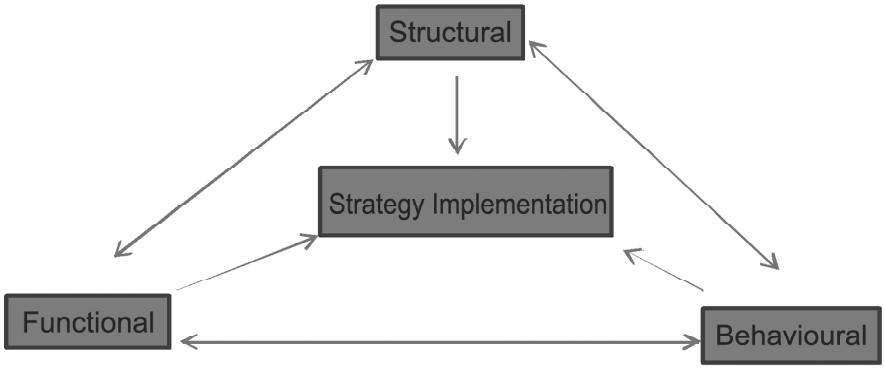


Fig : 11.2 Strategy Implementation Setting

The real test of strategy is in its implementation. Only implementation can determine the success or failure of a strategy. A perfect strategy or plan may fail if it is not properly implemented. It is rightly said that imperfect plan implemented effectively may deliver better results. But there is close connection between strategy formulation and its implementation.

Strategy formulation	Strategy implementation
Strategy formulation to strategy implementation is forward linkage	Whereas strategy implementation to strategy formulation is backward linkage.
It is an intellectual process	It requires more practical and field skills.
It involves organizing before action	It involves managing during the action
It emphasizes on effectiveness	It focuses on efficiency.

Strategy implementation depends on three sets of organizational factors, namely, the structure of the organization, various functional areas and operations and behavioural aspects. Strategic analysts distinguish three types of implementation; structural implementation, functional or operational implementation and behavioural implementation.

Strategy implementation is concerned with the managerial exercise of putting a freshly chosen strategy into place. The characteristics listed below highlights the nature of strategy implementation:

- *Action Orientation:* Strategy implementation is essentially an action oriented process. It involves putting the strategy into actual use. While implementing strategy manager uses their skills, intellectuals and knowledge and techniques of management process.
- *Comprehensive:* Implementation is wide in scope as it involves everything that is included in the discipline of management.
- *Demands skills:* As implementation involves a wide range of activities, a strategists has to have knowledge, skills, attitudes and abilities of different kinds.
- *Involvement:* Strategy formulation involves top management on the contrary strategy implementation requires the involvement of middle level managers. For effective implementation of strategy the plan must be properly communicated to and understood by the middle level managers.
- *Integrated Process:* Implementation is not a process in isolation. It requires a holistic approach. Each task and activity performed is related to another, which creates interconnected network.

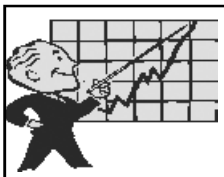
8.3.2 Barriers to Strategy Implementation

Research studies found that it is much difficult to implement strategy than to formulate it. Majority of the time a good strategy fails. Why it fails? There are many reasons behind it which can be treated as barriers in effective strategy implementation.

A good strategy without proper implementation is like a poor strategy or no strategy at all, however having a good strategic plan is half the battle won, and the other half is won through effective strategy implementation. Effective implementation of strategies is important to the success of every entity. In many of the studies, it is

stated that strategy implementation is much more difficult than strategy formulation. A study in the Indian context done with 145 mangers working in companies in and around Delhi attempted to uncover the reasons why strategy implementation in unsuccessful. This study listed 11 most frequently cited reasons of which the major ones are : inadequate management skills, poor comprehension of roles, inadequate leadership, ill defined tasks and lack of employee commitment. Hrebiniak's finding suggested that there are some general and overarching issues that impede strategy implementation. He stated that mangers are trained to plan and not to execute strategies, thus the top mangers are reluctant to interfere in the task of implementation .As formulation and implementation of strategies are interdependent , they are being done by two other groups of people in an organization. this makes the implementation phase takes a longer time than formulation thus putting more pressure on the mangers to show results. His findings pointed out the following major barriers :

- An inability to manage change
- Poor or vague strategy
- Not having proper guidelines
- Poor or inadequate information sharing
- Unclear responsibility and accountability
- Working against the organizational structure



CHECK YOUR PROGRESS

Q1: Define Strategy Implementation.

……..……..……..……

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Q2: Write the nature of strategy implementation.

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8.4 MODEL OF STRATEGY IMPLEMENTATION

The following figure presents a model of strategy implementation that attempts to capture the major themes in strategy implementation and the activities that make each theme (discussed in the following paragraph). The forward linkage from strategic plan guides the implementation process and connects it to the proceeding phase of strategy formulation. The feedback flowing in the reverse from the following step of strategy evaluation and control moves through the implementation phase and goes back to strategy formulation establishing the backward linkage.

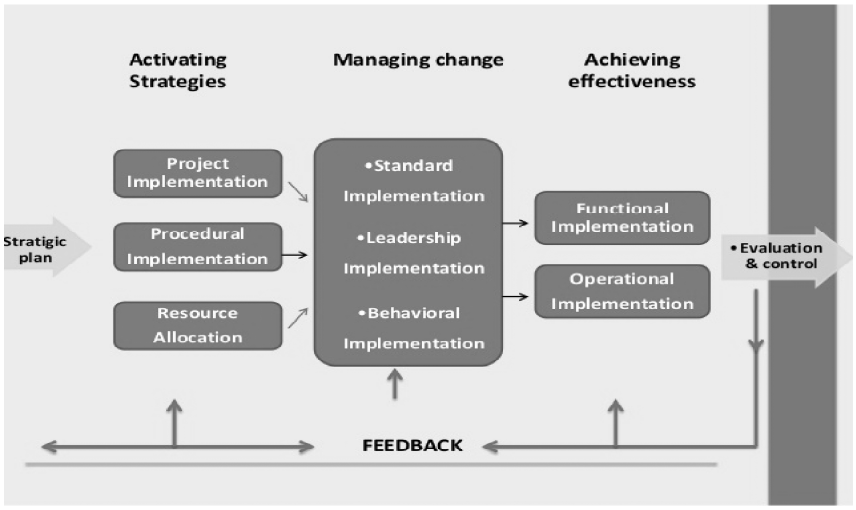


Fig : 11.3 A model of strategy implementation

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. Such implementation leads to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees. It also indicates 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.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

The major themes in strategy formulation are:

1. Activating Strategies: It serves to prepare the ground for managerial tasks and activities of strategy implementation.
2. Managing change: Managing change is one of the core activity in the strategy implementation. It deals with managing change in complex situation.
3. Achieving effectiveness: The last theme in strategy implementation is the outcome of the process. It covers functional and operational implementation.

8.5 PROJECT IMPLEMENTATION: PROJECT MANAGEMENT AND STRATEGY IMPLEMENTATION

To implement a project means to carry out activities proposed in the application form with the aim toachieve project objectives and deliver results and outputs. Its success depends on many internal andexternal factors. Some of the most important factors are ; well organised project team and effective monitoring of project progress and related expenditures.Overall management has to be taken over by the project manager, who is oftenemployed or engaged by the lead partner. The project management has to have an efficient managementsystem and always has to be flexible to current needs and changed situations, as the project is rarelyimplemented exactly according to the initial plan.

Strategic planning is the act of creating short- and long-term plans to guide an organization to continued and increasing success in the marketplace. Project managers oversee specific projects ultimately designed to make progress toward strategic planning objectives. Implementing projects — putting planned projects into action — is important to both strategic planning efforts and project managers in a number of ways. All managers can benefit from understanding the importance of project implementation to strategic planning and the project manager.

Project planning and implementation are two important aspects. Many managers put all of their energy and efforts into ambitious planning. But they do give enough thought to how goals actually will be achieved. Strategic planning efforts essentially take place in a laboratory devoid of the range of uncontrollable variables present in the real world. Certain things are beyond control and everything will not go as per what organization thought it will be. In this sense, even the best laid plans need correction and adjustment on-the-fly, making project managers' jobs that much more important. Implementing projects is important for project managers and the strategic planning process because it can reveal new issues and challenges that planner may not have anticipated, ultimately resulting in more refined strategies, products and processes.

The fact is that the principles and techniques of project management have a high relevance to the tasks of strategy implementation and it is actually a techno-managerial function. The principles and techniques of project management (knowledge of project formulation, implementation and evaluation) can be applied to large scale as well as minor project within organization.

Project management and strategy implementation:

Project management consist of five sequential processes which are: initiating project, planning a project, executing, controlling and closing of the project.

The alignment of project management and business strategy helps organizations to focus on the right projects in order to achieve the desired objectives. Project management is the key enabler of strategy implementation within the organization.

Strategy implementation through project management

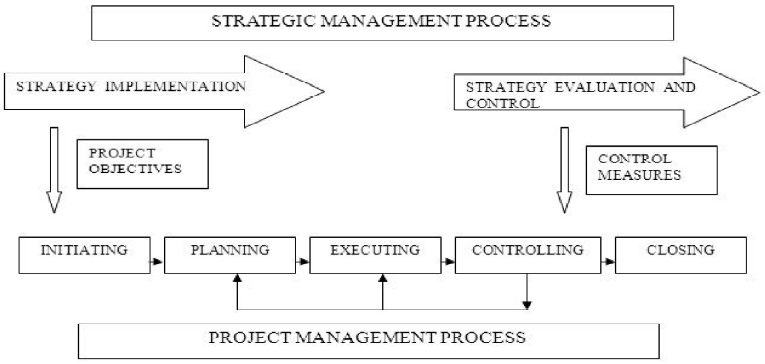
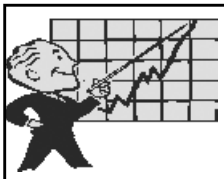


Fig : 11.4 Strategy implementation though project management

Ref: Strategic Management Azhar Kazmi p 324

When a firm links its project management process with strategy implementation, it helps in creating a project oriented organization. But it requires high level of coordination. Bigger project like creating a new company, setting up a new factory or entering into foreign market requires interacting with the regulatory authorities of the government. Many procedural formalities needs to be carried out in these cases.



CHECK YOUR PROGRESS

Q3: What is Strategic Planning?

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……

Q4: What are the major themes in strategy formulation?

……

……

8.6 PROCEDURAL IMPLEMENTATION: REGULATORY MECHANISM IN INDIA

Though it's your own company, you have contributed your fund, in spite of that you have to abide by rules and regulations. Regulation cannot

be avoided by any firm irrespective of its area or scale of operations. Regulation is a fact of life for business and industries. Though government has adopted policy of liberalization and globalization, there are still many control in the form of rules and regulations. The purpose of deregulating was to loosen the control. Old regulations are replaced with newer ones. E.g. rules and regulations regarding environmental preservation and protection imposed world wide. The concern for environmental protection led to the Kyoto Protocol, requiring the energy industry to be regulated and controlled for emission of carbon dioxide. Firm need to deal with increased cost of emission control. It gave birth to new industries of trading carbon credit.

Regulatory Mechanism in India:

No firm can plan its strategies without giving due consideration to the procedural framework prevailing in the country where its willing to operate. Plans, programmes and project have to be prepared and need to be approved by the government at the local, state and central levels. The procedural framework consists of a number of legislative enactments and administrative orders. Commerce and industry in India is governed by Constitution of India, the Directive Principles, Central, State and General Laws.

Act	Purpose
Securities Contracts (Regulation) Act, 1956	To prevent undesirable transactions in securities by regulating the business
The Foreign Exchange Management Act (FEMA),1999	To facilitate external trade and payments and top romote the orderly development and maintenance of the foreign exchange market.
The Foreign Trade (Development and Regulation) Act, 1992	To provide for development and regulation of foreign trade by facilitating imports into and augmenting exports from India and for matters connected herewith

The Industries Act, 1951	To empower the Government to take necessary steps for the development of industries; to regulate the pattern and direction of industrial development; and to control the activities, performance and results of industrial undertakings in the public interest
The Indian Contract Act, 1872	Governing legislation for contracts, which lays down the general principles relating to formation, performance and enforceability of contracts and the rules relating to certain special types of contracts like Indemnity and Guarantee; Bailment and Pledge; as well as Agency
The Sale of Goods Act, 1930	To protect the interest of buyers and sellers
Indian Patents Act, 2005	To grant significant economic exclusiveness to manufacturers of patented products with some in-built mechanisms to check extreme causes of competition restriction
The Company Act, 1956	To regulate setting up and operation of companies in India: it regulates the formation, financing, functioning and winding up of companies
Competition Act, 2002	To ensure a healthy and fair competition in the market economy and to protect the interests of consumers: aims to prohibit the anti-competitive business practices, abuse of dominance by an enterprise as well as regulate various business combinations such as mergers and acquisitions

The Trade Marks Act, 1999	To amend and consolidate the law relating to trademarks, to provide for registration and better protection of trade marks for goods and services and for the prevention of the use of fraudulent marks
The Information Technology Act, 2000	To provide legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication, commonly referred to as "electronic commerce", which involve the use of alternatives to paper-based methods of communication and storage of information; to facilitate electronic filing of documents with Government agencies
The Consumer Protection Act, 1986 (amended 1993, 2002) COPRA	To protect consumer rights and providing a simple quasi-judicial dispute resolution system for resolving complaints with respect to unfair trade practices
The Industrial Disputes Act, 1947	To facilitate investigation and settlement of all industrial disputes related to industrial employees and employers
The Factories Act, 1948 The Indian Trade Unions Act, 1926	Umbrella legislation to regulate the working conditions in factories. To facilitate the registration of trade unions, their rights, liabilities and responsibilities as well as ensure that their funds are utilized properly: it gives legal and corporate status to registered trade unions and also seeks to protect them from civil or criminal prosecution so that these

	could carry on their legitimate activities for the benefit of the working-class
The Bureau of Indian Standards Act, 1986	To set standards (quality, safety etc) for various kinds of products to protect consumer safety

Government policies, laws, rules and regulations and procedures are constantly under change, especially under the dynamic conditions as India is adapting to international environment.

Labour Legislation Requirements:

An essential part of procedural implementation in any project or in a going concern is that of labour legislation. For a company labour act as one of the major resource for the purpose of strategy implementation. It is the responsibility of the government to protect the interest of the labour force. More than 150 laws are prevailing in India which relates to labour. They are mainly classified as:

- Labour laws related to the weaker sections such as women and children.
- Labour laws related to specific industries
- Labour laws related to specific maters such as wages, social security, bonus etc
- Labour laws related to trade unions

Over and above there are many rules and regulations relating to :

1. Licensing procedures
2. Securities and Exchange Board of India requirements
3. MRTP requirements
4. Foreign Collborations procedures.
5. Import and Export Requirements.
6. Patenting and Trade Marks requirements.
7. Environmental Protection and Pollution Control requirement and so on..

8.7 RESOURCE ALLOCATION

Strategic plan can be put effectively into action with project implementation. They wait for procedural implementation green signal to go ahead. But nothing is possible without availability of adequate and timely availability of resources. Resource allocation deals with procurement, allotment and optimum use. Resource allocation is both one time and a continuous process. Every project requires adequate amount of resources. Strategy implementation deals with resource allocation as well. Financial and physical resources are allocated through budgeting.

A. Strategic Budgeting:

The main instrument for resource allocation is a budget. It is used as a planning, coordination and control tool by the management. There are three approaches to resource allocation through budgeting. The first type is a top down approach where resources are distributed through a process of segregation down to the operating levels. Top management decides the amount of resource allocation. This approach is used in an entrepreneurial mode of strategy implementation. The second approach is bottom-up approach where resources are allocated after a process of aggregation from the operating level. It is used in participative mode of strategy implementation. A third approach is mix of these two approaches and involves an iterative form of strategic decision making between different levels of management. This approach has been termed as strategic budgeting.

Budgeting is the means through which resources ‘are allocated to various organisational units. However, the traditional budgeting which focuses just on the past resource allocation as the basis is not useful for resource allocation in any way because of the conditions, both external as well internal, change making the past practices of resource allocation meaningless. Therefore, when budgeting is used as a tool for resource allocation, it has to be oriented to the objectives of the organisation and the way each unit of the organisation will contribute to the achievement of these objectives. From this point of view, following types of budgeting are more relevant:

1. Capital budgeting
2. Performance budgeting
3. Zero-base budgeting
4. Strategic budgeting.

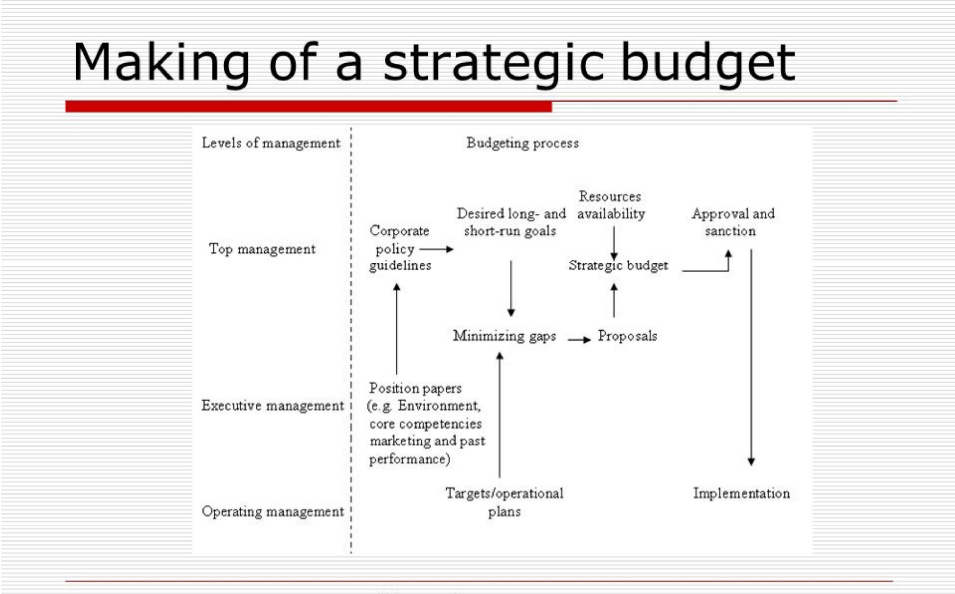


Fig 11.5 : Making of a strategy budget

Ref: Azhar Kazmi, Strategic Management and Business Policy P. 335

A. Factors affecting Resource Allocation:

The resource allocation cannot be done on uniform basis. There are many factors which affect the resource allocation, which are:

1. Objectives of the Organization: Setting up of objectives is complex process. Objectives can be either explicit or implicit. The importance of a particular goal / tasks or objectives is judged by the employees on the basis amount of resources allocation made by the firm. Operative objectives tend to affect the pattern of resource allocation.
2. Preference of Strategists: The resource allocation is majorly affected by the attitude of the strategists. Their preferences determine the amount of resource allocation.
3. Internal Politics: Resource allocation is always considered as possession power. Those department or businesses which are powerful may get extra resource allocation.

4. Internal policies: Resources area a symbol of power. Internal policies based on negotiations and bargaining affects resources allocation.
5. External influences :The demands of stakeholders also affect resource allocation. They can be owners, suppliers, customers, employees, bankers and community. Legal requirements may require additional resources allocation. For example pollution control,safety and labour welfare requirement.

B. Difficulties in Resource Allocation:

Resource allocation is a central management activity that allows for strategy execution. Strategists have the power to decide which divisions, departments, or SBUs are to receive how much money, which facilities, and which executives. The primary tool for making resource allocations is the budget process. Functional strategies are derived from business strategy and provide directions to key functional areas within the business in terms of what must be done to implement strategy.

In economics, resource allocation is the assignment of available resources to various uses. The resources can be allocated by various means, such as markets or central planning. In project management, resource allocation or resource management is the scheduling of activities and the resources required by those activities while taking into consideration both the resource availability and the project time.

After resource mobilisation, resource allocation activity is undertaken. This involves allocation of different resources financial and human among various organisational units and subunits. In order to understand the rationality of resource allocation, it is essential to understand commitment principle because resource allocation is a kind of commitment.

1. The first problem of resource allocation arises with the major question of what to produce and in what quantities. This involves allocation of scarce resources in relation to the composition of total output in the economy
2. Scarcity of Resources: The main difficulty in resource allocation is its availability. The resources like finance, material, manpower and finance are available in scarce. Even the finance is available the cost

of finance is the major constraint. Physical resources like land machinery and equipment needs to be imported. Though there are less burden or restrictions from the government but import may increase the cost of the company. Though India has demographic dividend but the problem is available labour is either not skilled or appropriate to suit the requirement of the industry.

3. Internal Restrictions: When firm wants to allocate resources for new businesses it becomes very difficult issue as the firm has to also allocate resources to the existing SBUs or department. The usual budgeting practices creates problem for new units.
4. Competitors: Many firm copy its competitors when it comes to resource allocation. They never pay attention to the internal capabilities. This is a imitation tactic adopted by the firm. This does not really make a sense. This affects the capability to develop competitive advantage.



11.8 LET US SUM UP

In this unit we have discussed the following:

- Strategy implementation is a term used to describe the activities within an organization to manage the execution of a strategic plan. Strategy implementation is 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.
- The characteristics listed below highlights the nature of strategy implementation: Action Orientation, Comprehensive, Demands skills, Involvement and Integrated Process
- Hrebiniak's findings pointed out the following major barriers : An inability to manage change, Poor or vague strategy, Not having proper guidelines, Poor or inadequate information sharing, Unclear responsibility and accountability, and working against the organizational structure

- The model of strategy implementation attempts to capture the major themes in strategy implementation. The major themes in strategy formulation are: Activating Strategies, Managing change and Achieving effectiveness
- Project planning and implementation are two important aspects.
- Many project management consist of five sequential processes which are: initiating project, planning a project, executing, controlling and closing of the project.
- We discussed the procedural implementation and regulatory mechanism in India.
- An essential part of procedural implementation in any project is that of labour legislation.
- The main instrument for resource allocation is a budget. it is used as a planning, coordination and control tool by the management.



8.9 FURTHER READING

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8.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: Strategy implementation is a term used to describe the activities within an organization to manage the execution of a strategic plan.

Ans to Q No.2: The characteristics listed below highlights the nature of strategy implementation is: Action Orientation, Comprehensive, Demands skills, Involvement and Integrated Process.

Ans to Q No.3: Strategic planning is the act of creating short- and long-term plans to guide an organization to continued and increasing success in the marketplace.

Ans to Q No.4: The major themes in strategy formulation are: Activating Strategies, Managing change and Achieving effectiveness



8.11 MODEL QUESTIONS

Q.1: Define Strategy Implementation

Q.2: Discuss the barriers to Strategy Implementation

Q.3: Write the interdependence between strategy formulation and strategy implementation

Q.4: Write the nature of strategy Implementation.

Q.5: What are the barriers to strategy implementation

Q.6: Explain the model of strategy implementation

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UNIT 9: STRUCTURAL IMPLEMENTATION

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Concept of Structure

12.4 Structure and Strategy

12.5 Stages of Development of Organizations

12.6 Types of Organizational structures

12.7 Organizational Design and Change

12.8 Information system

12.9 Control system and Reward system

12.10 Let Us Sum Up

12.11 Further Reading

12.12 Answers to Check Your Progress

12.13 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the Concept of Structure of Organisation
- discuss Structure and Strategy
- outline the stages of development of organizations
- list out the types of Organizational structures
- describe the organizational Design and Change

9.2 INTRODUCTION

In this unit we are going to discuss the various concept of Structure like Vertical Dimension and Horizontal Dimension. Also we will get a fair idea about the stages of development of Organizations like Entrepreneurial Stage, Functional Development Stage, Decentralization, Staff Proliferation, and Recentralization. We will learn about the various types of organizational structures.

At the end of the unit, we will look into the organizational Design and Change; Information system; Control system and Reward system.

9.3 CONCEPT OF STRUCTURE

An organisationaly structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies. An organisation structure has two broad dimensions; namely–

1. **Vertical Dimensions:** The vertical structure is planned to facilitate superiors to implement control over the work of subordinates. Vertical structures are known as tall structures. Such structures are suitable for companies which produce standardized products / services on a large scale with the help of mass production systems and well established technologies.

   The vertical dimension is characterized by

   i. Specialization of tasks
   ii. Chain of command
   iii. Formal reporting relationships
   iv. Grouping of individuals into departments
   v. Upward and downward communication

2. **Horizontal Dimensions:** The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures. Such structures are more vital for companies making differentiated products. Medium sized manufacturing and service enterprises and nonprofit orgainsation which present specific social services are examples of these orgainsations.

   The main characteristics of horizontal dimensions are

   i. Sharing of tasks
   ii. Sharing of information
   iii. Decentralized decision making
   iv. Focus on learning

9.4 STRATEGY AND STRUCTURE

There is close interdependence between strategy and structure. There are two types of interdependence on forward and backward relationship.

i. **Forward Relationship**: A suitable organizational structure is required for effective implementation of strategy. A growth strategy requires a different structure then stability structure. Organizational structure is a means for strategy implementation. When there is a significant change in strategy the structure has to be redesigned. New organizational structure creates changes in corporate strategy.

ii. **Backward Relationship**: Strategy is also influenced by Structure. Structural consideration affects the implementation of present strategy and the formulation of future strategies. There is a reciprocal relationship between strategy and structure. Structural implementation is in fact an ongoing process of matching the structure of an organisation with its strategy. Whenever there is a mismatch between the two, changes in structure have to be made. Otherwise strategy implementation becomes difficult and performance suffers.An effective structural framework helps to deal with confusion, chaos and duplication of efforts arises at different levels.

9.5 STAGES OF DEVELOPMENT OF ORGANISATIONS

Cannon's Model consist of the five stages of development, which are discussed as follows—

Stage I: Entrepreneurial Stage: This stage represents the small business, generally operated by the owner – manager. The market of the firm is limited to a specific geographical area.

Stage II: Functional Development: When the company grows in its size, the owner manager cannot perform increased volume of managerial functions. A functional form of organization structure will be adopted. But the problem of functional structure will come to the surface with the further

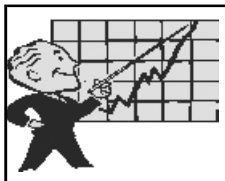
increase in the company's operations. These problems include; delay in getting approval for new products and other innovations. This problem may push the company to the next stage.

Stage III: Decentralization: Organization will be restructured either based on product or geographic or customers. Control may become difficult when each division develops its own view of product quality, pricing etc.

Stage IV: Staff Proliferation: To regain control of the organization, management may employ additional human resources to assist top management.

Stage V: Recentralization: This stage involves increasing involvement of top management in strategic decision making. This move to recentralization may be a part of a cutback and turnaround strategy.

(Source: J.Thomas Cannon, op.cit.,pp. 525 -528., p. 302)



CHECK YOUR PROGRESS

Q1: What is organization Structure?

.....

.....

Q2: What is Horizontal type organisational structure?

.....

.....

9.6 TYPES OF ORGANIZATION STRUCTURE

The main types of orgainsational structures are given below:

1. **Entrepreneurial Structure**: The entrepreneurial structure is the most basic and the simplest type of organisational structure. This structure is suitable for an organisation that is owned and managed by one person. Such an organisation is typically a single product firm that serves a local market.

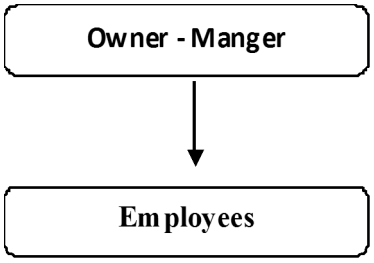


Fig 12.1: Entrepreneurial Structure

Advantages	Disadvantages
1. It is very simple 2. Quick Decision making 3. It ensures centralized control over the entire business 4. It is Flexible	1. Owner – manager is overburdened 2. Little scope for growth of business 3. Employees feel insecure 4. Overlooking strategic issues.

2. Functional Structure : The expansion into the same line of business necessitates specialization of tasks and delegation of authority to heads of different functional areas. Functional structure is suitable for medium sized firms having limited number of products. Grouping of activities on the basis of functions performed for strategic implementation creates functional structures. For example, production, marketing, finance and personnel are the basic functions in a manufacturing organization. The process of functional differentiation may continue through successive level in the hierarchy.

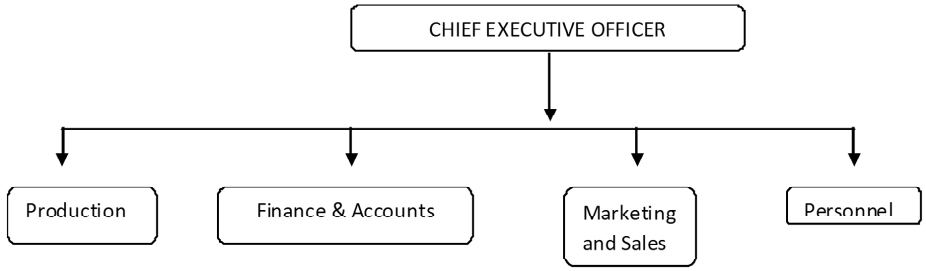


Fig 12.2: The Functional Structure

The main advantages of Functional Structures are as follows:

i. Specialization on the basis of functions results in efficient distribution of work and maximum utilization of functional skills.

ii. Delegation of operational matters enables the chief executive officers to concentrate on strategic issues.

iii. Structure can be linked to strategy by designing key activities as functional departments.

iv. It permits centralized control of strategic results.

v. There is minimum duplication of facilities.

The main disadvantages of functional structure are as follows:

i. There is difficulty in maintaining cooperation and coordination among different functional departments.

ii. Narrow specialization may lead to neglect of overall goals of the organisation.

iii. Conflicts may arise among functional and advisory staff.

iv. Decisions that require involvement of two or more functional areas may get delayed.

v. There is lack of quick response to environmental change.

3. **Divisional Structure**: The functional structure proves to be unsuitable, when the company expands into new products or geographical areas. Under the divisional organisation structure is divided into several divisions on the basis of geographical areas, types of customers and product line. Each division is self contained in terms of manufacturing and marketing facilities. Each division is self contained and headed by a divisional manager who is responsible for efficient and profitable working of the division.

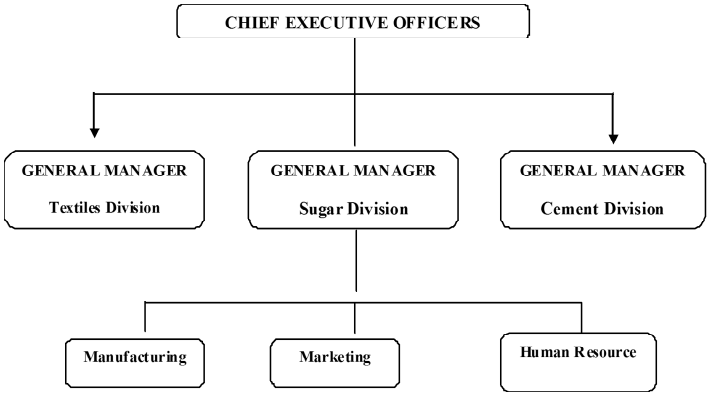


Fig 12.3 : Divisional Structure