Self Learning Material

Commerce

Strategic Management

Course: MCOM 106

BLOCK 1: INTRODUCTION TO STRATEGIC MANAGEMENT

Unit 1: Introduction to Management and Strategy

Structure of this Unit

1.1. Learning Objectives

1.2. Unit Introduction

1.3. What is Strategy?

1.3.1. Strategy, Policy and tactic: The difference

1.4. Why do we need strategy?

1.5. What is Strategic Management?

1.6. A historical view on Strategic Management

1.7. Let us sum up

1.8. Terminal Questions

1.9. Suggested readings

1.1. Learning Objectives

This Unit is aimed at making you capable of:

- understanding and defining the concept of Strategy
- understanding and stating the difference between Strategy, Policy and Tactic
- understanding the need for strategy
- understanding and defining the concept of Strategic Management
- knowing the birth and growth of Strategic Management as a concept

1.2. Introduction

As opposed to kids, we often observe that elders usually take more time to make a move. The popular saying "Think before you leap" goes well placed here to make you understand the

underlying concept. The concept we are about to make you aware of here is universally used either with knowledge or without it. For instance,

- How should I spend my monthly fund?
- How do I excel in the upcoming tests?
- How do I make it to the University football team in the next selection trials?

The following suggestions might visit you as probable answers to the questions above,

- I must identify my expenses and prioritize for proper utilization of my funds.
- I must plan my time schedules and consider all steps necessary to excel.
- I must assess myself to identify my strengths and practice more to reduce my weak spots.

All of the opinions above require some amount of thinking, analysing and planning for steps to be taken next. Such practices are sometimes involuntary and for most times inculcated in us, by the shear repetition of logic, rational thinking and the wisdom to plan ahead for thwarting potential failures. These processes indicate the presence of a concept known as strategy.

Strategy is that something that makes us plan our actions with careful observation of the environment surrounding us or affecting our decisions. It might be a little vivid now that Strategy is aimed at preventing potential errors or failures that can cause effects undesirable to the decision maker.

1.3. What is Strategy?

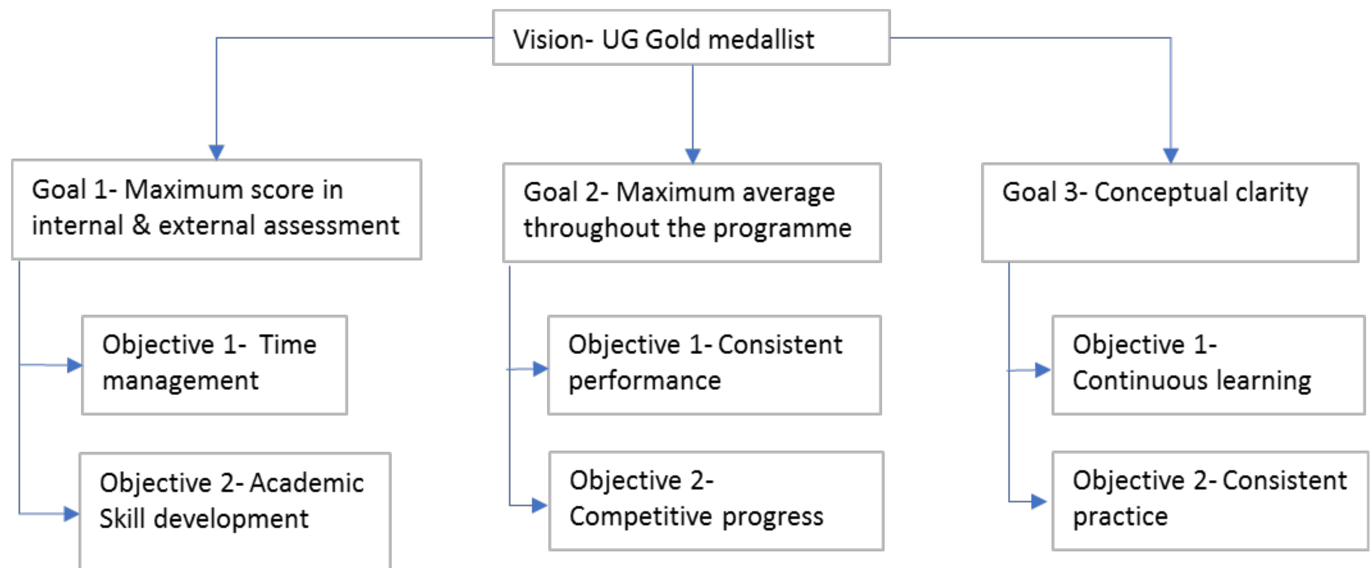
Where does our mind ponder when we hear of the word ‘Strategy’? Most of us would immediately opine that Strategy has much to do with the military science and wars. This assumption is quite correct, as the emergence of Strategy can be traced back to the Eighteenth (18th) century. The word Strategy has been derived from the Greek word “Strategos” meaning – The way of a General.

Although incepted in war, Strategy has found vast applications in the field of business and the like. As it evolved, people started understanding the broader aspects of strategic planning and execution. For present times, Strategy can be safely defined as a well-thought out plan for effectively reaching the vision of a business, however big or small, by adhering to the core principles of its foundation. The concept is thus designed to devise a workable plan to reach the

greater objectives of an organization accompanied by careful observation of business environment (both macro and micro) and assessment of capabilities, resources and potentials of the organization.

A vital element that must not be missed out or misunderstood here is the fact that a Strategy is a bigger logically established plan that has/will entail from various sub-strategies to attain shorter goals and objectives, thus leading to eventual realization of bigger goals. For instance, when a student has a vision to become a gold medallist for the University run undergraduate programme, the strategy in this case could typically be as represented below:

Diagram 1: An example of strategy



1.3.1. Strategy, Policy and tactic: The difference

Anyone who has heard about Strategy, might also have encountered policy and tactic. These words shown contrasts in spite of glaring similarities in meaning.

Although different schools of thought offer different opinions on the comparative outlook on Strategy and Policy, Policy can be considered as a precursor to strategy as the evidences of its prevalence date back to 1911. Policy can be defined as general handbook that offers direction to the decision-making processes in the business or organization.

"Policies are general statements or understandings which guide or channel thinking in decision-making." – Weihrich and Koontz

It is derivative that Policies help the decision makers in deciding on various courses of action. It is different than rules since policies offer advice, suggestions rather than strict directions. Policies are expressed in more general manner than being specific.

Strategy, on the other hand is a systematically devised plan that involves interplay of goals and objectives that coherently advance towards organizational goals.

Tactics are narrower in comparison to Strategy and Policy while being specific in its purpose. These may be defined as the instruments/techniques/mechanisms used for execution of plans made while strategizing. Kindly utilize the scenario given below to understand distinctions between Strategy, Policy and Tactics:

Consider a war situation, the losing side is low on resources and ammunition but they want to win, as does the other side. Pressurized by the depleting resources, the losing side has devised the following,

- **Strategy**-To capture the capital at all costs with optimal use of resources and ammunition
- **Policy**-Invade lowly guarded vital outposts, refill ammo and resources, engage only when necessary and advance with minimum casualties
- **Tactics**-Use flanking and close quarter kills frequently to save ammo, avoid alarms, gain intel for safe passage

1.4. Why do we need Strategy?

It must be clear by now that Strategy is vital for an organization to obtain direction, effective utilization of resources, avoid or tackle threats and reach its organizational goals in the long run. Some notable purposes for the existence of Strategy are listed below:

- **Direction:** Strategy provides a unified direction to the entire organization. Keeping with this direction, the subordinate goals and objectives can be formulated that can work in tandem to fetch collective outcomes. An organization without any direction faces crisis at major business stages due to lack of visionary reference. Strategy removes this flaw by imparting direction that creates individual and yet concurrent paths for all the parts of the organization. A targeted approach thus becomes a core policy for the entire business.
- **Concurrent outcomes:** As shown in diagram 1 previously, the objectives that lie towards the lower levels in strategy are narrower but essential for achievement of long term goals. The smaller milestones achieved result in collective progress of the greater goal for the organization or any department for that matter. Simultaneous progress of coexisting players or parts of an organization is what is being suggested here. For instance, an organization aims to double its sales from 1 lakh to 2 lakhs per month in the next month. For achieving this, the production has to step up accordingly delivering the increased output, the marketing department has to advertising effectively so as to boost sales by 100%, workers have to be scheduled for increased production output etc. The simultaneous success of all these departments is essential to achieve the expected sales by the next month.
- **Dynamic environment:** Business environment is ever-changing and unpredictable. The political environment, economy changes, technological changes, changes in buying behaviour, changes in purchasing power constitutes the macro environment or external environment. Other changes include, labour movement, company policy, business decisions, competitive advantages etc. are considered the internal environment or micro factors in business environment. These changes are continuous and are mostly characterized by partial stability. The changes ripple out business risks and uncertainties that bottleneck decision making. This is where Strategy comes into play to identify symptoms of known risks or unseen probabilities eventually offering solutions that are feasible and verifiable.
- **Effective resource mobilization:** The value of a resource is null if not utilized effectively. Many resources also call for timely deployment for successful integration into organizational commitments. By resources here, we are referring to human resources, materials, funds, technology, machineries, fixed assets and competitive

capabilities etc. Most organizations own valuable resources but fail to transform them into productive outputs. Those instances are strong indicators of the absence of Strategy. Strategy involves gauging all company strengths (big or small) and appropriates them into effective actions.

- **Decision making support:** Managers at all levels (top, middle and operational/functional) face decision making challenges at various stages of business operations. This obstructs the free flow in operation of a business organization. Obstruction means loss of time, loss of time means increase in cost, and finally leading to fall in profits. Strategy planning helps managers avert potential breakers by preventive measures and facilitates multiple alternatives for tackling unavoidable halts in business. Strategy offers a set of feasible alternatives to decision makers (managers) assisting managers to make a logical decision considering the risks and uncertainties involved.
- **Business sustainability:** We often reiterate people to be far-sighted in crucial stages of our own life. Business is no different than that. Short-sighted decisions have orchestrated the downfall of innumerable businesses in history and equally so in contemporary times. The mere orientation towards profits are no longer the reins of business. Shareholders are now overtaken by stakeholders. For a business to be sustainable, a successful profitable business must have plans for strategic allocation of profits towards stakeholder benefits. The strategically sound business organizations have become more aware of where they operate and how are they affecting the environment around them. Planned operation of business claims to have sustainable growth and stability at the same time.
- **Competitive advantage:** Strategy itself can become a competitive advantage if an organization understands its applications. As may be known, Strategy involves careful observation of the entire business environment (both internal and external). It means that Strategic planning involves scanning of internal strengths & weaknesses as well as external opportunities and threats. A plan of operation that succeeds after a rigorous scanning of competitors and core competencies will undoubtedly exploit competitor weaknesses and utilize core competencies effectively to gain a competitive advantage. Gaining competitive advantage, a chance happening in earlier days is now a must-have for surviving in the competition.

Check your progress

1. What do you mean by strategy?
2. Why do we need strategy?
3. Differentiate between strategy and tactic.

1.5. What is Strategic Management?

If Strategy exists, then there must be a process or method governing the creation and application of the same. This very process or method is known as Strategic Management. Strategy is a concept and Strategic Management is the process by which this vital concept is applied to business. The general sense of the term Strategy will gradually transform into a complex but systematic web of coherent activities as we proceed through this course. For a preliminary idea on Strategic Management, it can be accepted as a management process that is characterized by formulation of business directions after scanning of the business environment, leaving room for evaluation of steps taken for adapting to dynamic factors.

"Strategic Management is a continuous, iterative, cross-functional process aimed at keeping an organization appropriately matched with its environment"

-Samuel C. Certo and J. Paul Peter

Quite simply put Strategic Management involves activities such as scanning the environment (business in this case), articulating directions, implementing plans, evaluating actions, performing control etc.

1.6. A historic view on Strategic Management

It is well known that the only thing that is permanent in this world is change, all of the rest is temporary, dynamic, unstable and the like. Strategic Management is more complex than what meets the eye. The time frame required to accomplish successful Strategy formulation and implementation may range from a few years to a considerably large period of time. This is so because, organizations have to alter their strategies to cope with change agents until they reach a successful fit (as spoken in strategy). Thus, we can observe a wide spectrum of changes that the

process of Strategic Management itself has undergone in the minds of various noted Management experts and Philosophers of the subject under discussion.

The first remarks on Strategy and Strategic Management came from famous visionaries such as Abraham Lincoln, Confucius, Peter Drucker etc. These eminent thinkers laid focus on the importance of long term and short-term planning for successful decision making. Their ideals sufficiently point towards the flaws of short sightedness evident in their time. As time passed by the concept that was initially incepted as “Policy” took the present day form of “Strategic Management”.

A chronological evolution of the concept has been presented below for your understanding of the matter at hand. In the year 1962, Alfred D Chandler, brought to light that Strategic Management is not singular. It is but and interplay between the environment, planning and the physical pillars of the organization. Another scholar named Kenneth Andrews from 1965, was well known for notable contribution to the development of Business Policy as a subject in Harvard as well as devising Case study method as a teaching methodology. Andrews defined Strategy as a means to define and establish the line of business for an organization besides identifying the nature of the organization. All of this was possible when the objectives, goals, purpose and policies are stated in a way that directs the actions of a company.

“A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.”

William F. Glueck (1972)

In 1987, Henry Mintzberg defined Strategic Management by distinguishing between emergent and intended strategies. He believed that Strategies may be initiated by calculated forecasts but they evolve into a form that was never planned for.

The year 1996 was very significant for Strategic Management as Michael E. Porter contributed to the field, by providing novel ideas on competitive advantage, generic strategies, the Five Forces Model and many more.

1.7. Let us sum up

Strategy is basically planning after assessment of resources and capabilities to attain envisioned results. Strategy is different from tactics and policies with minor differences among them. Strategy provides direction, effective mobilization of resources and concurrence of objectives along with business support and sustainability. The concept was originally derived from military and now finds wider applications in business and allied sectors.

1.8. Terminal Questions

1. What do you mean by strategy?
2. What do you understand by Strategic Management?
3. State the history of Strategic Management.
4. Why do we need strategy?
5. What is the difference between strategy, tactic and policy?

1.9. Suggested readings

1. T.T. Bedwin, *et.al.,* "*The Evolution of Learning Strategies in Organisation*", Academy of Management Executive, November 1997
2. Azhar Kazmi, "*Business Policy*," Tata McGraw-Hill Publishing Company Ltd., New Delhi, 1992
3. Thomas L. Wheelen, J. David Hunger and Krish Rangarajan, "*Strategic Management and Business Policy*", Pearson, 2007
4. Harold Koontz and Cyril O'Donnel, "*Essentials of Management*," McGraw-Hill Book Company, New York, 1978
5. H. Igor Ansoff, "*Implementing Strategic Management*," Prentice-Hall, New Jersey, 1984.
6. The question 'What is strategy?' has been discussed in R. Whittington, *What is strategy – and does it matter?* International Thomson, 1993/2000; M. Porter, 'What is strategy?', *Harvard*

Business Review, November– December, 1996, pp. 61–78; and F. Fréry, 'The fundamental

dimensions of strategy', *MIT Sloan Management Review*, vol. 48, no. 1 (2006), pp. 71–75.

Unit 2: Relevance of Strategic Management for an organization

Structure of this Unit

2.1. Learning Objectives

2.2. Unit Introduction

2.3. What do we mean by Organization?

2.4. Relevance of Strategic Management for an organization?

2.5. Role of Strategists in Strategic Management

2.6. Levels of Strategic Management

2.7. Strategic Intent vs Strategic Fit

2.8. Let us sum up

2.9. Terminal Questions

2.10. Suggested readings

2.1. Learning Objectives

This unit is designed to make students-

- comprehend the importance of Strategic Management
- understand the levels of strategic decision-making in organizations
- understand the role of strategists in organizations
- acquainted with the concept of Strategic Choice
- understand distinction between Strategic Intent, Strategic Choice and Strategic Fit
- **2.2. Unit Introduction**
- You may have become familiar with the word "Strategic Management" from the previous unit. However, the relevance of Strategic Management to organizations may still be unclear. The word relevance literally means significance or application with respect to something or in something. We usually do ask this question often, when we are going through a topic of discussion - "What is the relevance of this topic in our

course?" All it means is that- Why is the topic being taught in such a course? or quite simply what is its relevance/connection or relation to our entire course?

- The answer to such questions lets us know the importance of a topic of discussion and eventually its applicability. Most of the environment around an organization is uncertain, probabilistic and full of risk. Although Strategic Management is not a compulsion, it does increases the chances of survival of an organization by providing it specific directions after adapting to various environmental changes in and around an organization. Strategic Management provides a generic definition to what is to be done and how to proceed to reach pre-defined goals effectively. It defines levels of decision making and provides roles to strategists at those defined levels.

2.3. What organization do we mean here?

The first question that might pop up at this stage is – What organization are we talking about here?

Any organization, whether big or small, intends to sustain for a long time profitably and in a contributing manner. However, lack of Strategy can lead to premature collapse, winding up or liquidation. An organization, if not even if completely unique in all respects, will call in competition in the future and will be vulnerable to changes in the environment. Hence, Strategy is essential to all kinds of organizations.

2.4. Relevance of Strategic Management for an organization?

Strategic Management's place in an organization is still evolving but it is quite evident that it is inevitable. The very initiation of goal formation for an organization is triggered by Strategic management. The significance of Strategic Management is not limited to formulation of objectives, goals and direction. Its functions extend to the environmental assessment, competition analysis, internal environment audits, implementation plans, evaluation of execution, controlling company directions and adaptation strategies. The points listed below shall clarify the significance of Strategic Management in a classified manner-

- **Objectives, Strategies and Policies**

  Strategic Management allows an organization to frame its policies, plan strategies and formulate objectives. This involves voluminous thinking that takes into account most

factors perceivable in the environment. Long term planning as well as short term planning are both part of Strategic Management.

- **Internal Evaluation**

  For effective Strategic Management, internal audits are necessary. Internal audits mean assessment of the internal strengths and weaknesses of an organization so that the current capabilities of the organization can be ascertained and the potential growths be demarcated. This provides for logical planning for future strategy formulation.

- **External Evaluation**

  If internal assessment is important, external evaluation is a must for any kind of planning. This is an integral part of strategy at all stages of management. External evaluation indicates the assessment of various factors that are macro in nature and mostly beyond the control of the organization. The only option viable is monitoring of those factors for setting courses of action for the organization. External audits help assess the game plan of competitors as well as the overall dynamics of the market.

- **Adaptation to changes**

  The above listed points lead to a scenario where it becomes clear what needs to be done. Although it is not objectified at this stage, managers become aware of the situation they are in. Forecasts and extrapolation of current trends lets us know where is the drivers taking the market in the near future. Changes here could mean stabilizing, expansion or growth, retardation of operations or complete diversification of existing strategies.

- **Strategic Alternatives**

  Feasible and operational alternatives lead to effective decision making. Hence, Strategic Management by utilizing all its tools, presents a set of most likely calculated alternatives that managers can choose from in order to drive an organization. These alternatives may not necessarily be of generic nature. They might be limited to a functional part of the organization as well.

- **Calculative Decision Making**

  The whole process of Strategic Management aims at logical decision making for good health of the organization by scientific assessment of all factors necessary to make such decisions.

2.5. Strategists in Strategic Management

We should enquire about - who are these strategists? Strategists are people who are primarily involved in the various stages of strategic management, the stages being formulation, implementation, evaluation etc. (refer process of strategic management). It may be noted here that persons of interest who are not a direct employee of an organization but do involve themselves in strategic management may also be referred as Strategists.

The most commonly known strategists are listed below:

- CEO-Chief Executive Officer
- BoD-Board of Directors
- Top level management
- SBU executives
- Middle level management
- Consultants
- Advisory Board
- Stakeholders

2.6. Levels of Strategic Management

Corporate Strategy: This stage concerns itself with the core direction of the organization in terms of - what businesses to be in? what to produce? where to compete in? etc. Commonly known corporate strategies include- stability, growth/expansion, retrenchment and restructuring.

Business Strategy: This level engages in how to compete in a specific market segment, how to penetrate a market, how to gain competitive advantage etc. E.g. Cost leadership, product differentiation, focus strategy etc.

Functional Strategy: These are the strategies adopted by the functional parts of the organization i.e. Finance strategy, marketing strategy, Human Resource strategy, Research & Development Strategy etc.

Operational Strategy: Such Strategies are undertaken at plant level, supervisory level for smooth operation of people, processes and production.

Check your progress

1. What are the various levels in strategy?
2. State the relevance of strategy for an organization.

2.7. Strategic Intent vs Strategic Fit

Strategic Intent is an enormous concept encompassing the core concepts in Strategy. It clearly indicates that it is a derivative of the word “intention”. Strategic Intent is defined better as its component parts than as a wholesome concept. It can be defined as an ambitious purpose of existence for an organization. This is the primary driving force of an organization that sustains it through confusing times. Strategic Intent can be subdivided as below:

Vision — A statement defining what an organization wants to become

- Vision must be inspirational in nature
- Vision must not be too specific so as to accomodate flexibility
- Visions although vague must be indicative
- Visions should be long term and challenging
- E.g. McDonald's vision is to be the world's best quick service restaurant experience.

Mission — Defines what is the nature of the organization and why does it exists

- Mission statements should be doable
- Missions should be precise
- Defines what type of business the company is in
- Defines how will their business be
- tells us how objectives are going to be accomplished

Goals — Specific end results that an organization wants to achieve

- They generally cover a period of one year
- They should be precise and measurable
- They should be realistic and challenging at the same time
- E.g. A company's goal is to be market leader for the current year

Objectives — Objectives are more specific than goals and limited to very short periods of time

- Of even shorter duration than goals
- Objectives should lead to the goals fixed
- Objectives should be very specific
- Should be measurable and quantifiable

2.8. Let us sum up

Before understanding strategy, it must be understood to what kind of organization are we applying the strategy to. It is thus crucial to know what relevance does strategy hold for the organization and today's business as well. As discussed here, we are now aware that strategy leads to fixing of the aims and objectives of an organizations, assesses the external and internal environment. This is done so that the organization can adapt to the dynamic environment by applying the appropriate alternative strategy for a particular situation. The various strategists are now known. The investors are not the only strategists but the role of strategists differ from level to level within the organization. The levels allow for decentralized decision making that leads to

centralized achievement of objectives. Thus, now it is clear that strategic intent of an organization comprises of Vision, mission, goals and objectives whose features differ respectively.

2.9. Terminal Questions

1. What is the relevance of strategy for an organization?

2. Who are the various strategists in an organization?

3. What are the levels of strategic planning and strategic decision making?

4. What do you understand by strategic intent? State and explain the various components of a company's strategic intent.

2.10. Suggested readings

1. Gerry Johnson, "*Strategic Change and the Management Process*", Basil Blackwell, 1987.

2. David Hickson *et.al*., "*Top Decisions: Strategic Decision-Making in Organisation*", Basil Blackwell, 1986.

3. James H. Donnelly Jr., James L. Gibson and John M. Ivancevich, "*Fundamentals of Management*," Richard D. Irwin Inc., Homewood, 1992

4. Daniel McCarthy, Robert J. Minichiello and Joseph R. Curran, "*Business Policy and Strategy*," Richard D. Irwin Inc., Homewood, 1996

5. R. Stacey, *Managing Chaos: Dynamic business strategies in an unpredictable world*, Kogan Page, 1992; and S. Brown and K. Eisenhardt, *Competing on the Edge: Strategy as structured chaos*, HBR Press, 1998.

Unit-3: The Strategic Management Process

Structure of this Unit

3.1. Learning Objectives

3.2. Unit Introduction

3.3. Various approaches to Strategy

3.4. The Strategic Management Process

3.5. Strategic Planning and Environmental Scanning

3.6. Strategy formulation

3.7. Strategy implementation

3.8. Strategy evaluation and control

3.9. Let us sum up

3.11. Terminal Questions

3.12. Suggested readings

3.1. Learning Objectives

In this unit, you shall learn the following:

- Basic process of Strategic Management
- Various approaches to strategy
- Environmental Scanning, its purpose, applications and tools used
- Strategy implementation and tools used
- Strategy evaluation and tools used here
- Strategic control

3.2. Unit Introduction

As you might have guessed there must be a process for strategic management as does many other concepts in management. The process of strategic management is a simpler one

although the details of sub-stages are rather complex. There is revisiting of stages at various points of time to identify variations in implementation and control the entire process. Since Strategy itself falls under the purview of planning, it does involve formulation, underlying analysis, subsequent execution and continuous evaluation for controlling variability.

3.3. Various approaches to Strategy

Strategy can be approached from multiple perspectives. This will be comprehensible if we imagine a situation where we are planning for a summer camp after our semesters. We can choose from either of the following:

- Contact a travel agency to plan for us
- Approach an experienced camper to advise our trip
- Make a preliminary visit to the site and plan the camp ourselves
- Think of any innovative way to accomplish our objective
- Search for a tested way to plan a summer camp in public domain

Thus, we see that there are various options available to us even when we haven't started planning. Similarly, there are some known approaches to Strategy. You will find them listed and explained below.

Approach	**Description**
Formalized approach	This is the conventional approach to strategy that follows internal audit and external environment scanning leading to implementation of strategy.
Entrepreneurial approach	Environmental scanning is done but mostly characterized by bold and innovative decisions that intend to utilize surfacing opportunities.
Adaptive approaches	These approaches focus extensively on problem solving following environmental analysis results targeting present needs.
Competition approach	This approach is based on the comparative

	strategy building of competitors
Stakeholder approach	This approach designs strategy keeping stakeholders as the central point of decision making.

3.4. The Strategic Management Process

The process of Strategic Management is composed of a logical sequence of interrelated steps that work in an integral manner to deliver concurrent objectives. The simplified process of Strategic Management has been displayed below:

Check your progress

1. Present the process of strategic management.
2. What is the Entrepreneurial approach to strategy?
3. What is the formalized approach to strategy?

3.5. Strategic Planning

The first stage in Strategic Management is Strategic Planning. This is supposedly the most time-consuming stage in Strategic Management. It involves defining the Strategic Intent, Environmental Scanning, Internal Audit etc. Kindly note that defining the Strategic Intent, although a part of Strategic Planning process runs parallel throughout the first three stages in Strategic management. This is so because, Vision and Mission must be defined prior to devising or formulating corporate and business strategies which are a part of Strategy Formulation (stage 2). Likewise, definition of goals and objectives has to be in close proximity to Strategy Implementation (Stage 3).

Thus, it can be safely said that Strategic Planning usually involves a situation analysis (external and internal) that gathers information sufficient to define Strategic Intent along the

other stages. Some important tools used in Environmental Scanning are: ETOP analysis, SWOT analysis, PESTLE analysis, Porter's Five Forces analysis model. Etc.

3.6. Strategy formulation

This is the stage where the various strategies are formulated as stated in the levels of Strategy earlier. Hence, Strategies are formulated at Corporate level, Business level, Functional level and Operational level for fulfilment of corresponding Vision, Mission, Goals and Objectives of the organization. Some Corporate Level Strategies are: Stability strategy, growth strategies like mergers and acquisitions, retrenchment strategies, turnaround, portfolio restructuring etc. Some Business strategies include: Cost leadership, focussed strategy, differentiation strategy etc. Some tactics include: Guerrilla warfare, flanking etc.

3.7. Strategy implementation

Strategy implementation is a crucial stage for Strategic Management. The more effective is the implementation, more accurate are the outcomes desired. Implementation happens in certain parts viz.

- **Structural implementation**
  This involves the creation of an organization structure that can effectively accommodate the strategies formulated and work towards its achievement. The required size of the organization, the recommended management styles, the smooth flow of operations as well as communication in the organization are some of the concerns in structural implementation
- **Functional implementation**
  This follows the functional strategies formulated. The strategies are subdivided into smaller objectives that are distributed for timely implementation. For e.g. a marketing plan is subdivided into sales, promotion, advertising and physical distribution plans for successful implementation of a marketing strategy.
- **Behavioural implementation**
  The organization culture itself is transformed by establishing values and good practices that are aligned to achievement of strategies of the organization. Work

ethics, employee motivation and effective communication are some of the activities in this area.

3.8. Strategy evaluation and control

This stage is vital for assessing whether the organization is in track and proceeding as planned for achievement of its strategic intent. On one hand it analyses the results of an on-going strategy implementation and on the other hand, suggests corrective measures if unacceptable variations are identified. The activities and tools here analyse the present performance of strategic implementation against premises and standards set prior to implementation. Quality, cost, price, satisfaction, loyalty, motivation etc. are some areas of evaluation in this stage. Some tools used in this stage are: Return on Investment, Budgetary control tools, Ratio analysis, Turnover, Social cost-benefit analysis and the like.

3.9. Let us sum up

Strategy is organization specific. Hence, for similar situation, different organizations can have different strategies. The stakes and resources of organizations differ as well. Hence, there are an array of approaches available for strategy. These strategic approaches are of the likes of adaptive, stakeholder and competitive nature etc. However different the approach may be, the generally accepted strategic management process is the same for all cases. It includes stages like planning, formulation, implementation, analysis and evaluation. Each of the stages are characterized by distinguishable set of activities and aims.

3.11. Terminal Questions

1. What are the various approaches to strategy?

2. What do you mean by adaptive approach to strategy?

3. What is the process of strategic management?

4. Explain briefly the concept of functional implementation for strategy.

3.12. Suggested readings

1. James H. Donnelly Jr., James L. Gibson and John M. Ivancevich, "*Fundamentals of Management*," Richard D. Irwin Inc., Homewood, 1992

2. Daniel McCarthy, Robert J. Minichiello and Joseph R. Curran, "*Business Policy and Strategy*," Richard D. Irwin Inc., Homewood, 1996

3. P. Wright, M. Kroll, and J. A. Parnell, *Strategic Management: Concepts,* Upper Saddle River, NJ: Prentice Hall, 1998

4. H. Mintzberg, "Opening Up the Definition of Strategy," in *The Strategy Process,* eds. J. B. Quinn, H. Mintzberg, and R. M. James, Englewood Cliffs, NJ: Prentice Hall, 1988

5. T. K. Das and B. Teng, "Cognitive Biases and Strategic Decision Processes: An Integrative Perspective," *Journal of Management Studies* 36 (1999): 757–778

Unit-4: Strategic Management: An Indian perspective

Structure of this Unit

4.1. Learning Objectives

4.2. Unit Introduction

4.3. Strategy and its ripples in India

4.4. Strategic business thinking in India

4.5. Features of Indian business operations

4.6. Let us sum up

4.7. Terminal Questions

4.8. Suggested readings

4.1. Learning Objectives

You shall be able to learn the following in this unit:

- Has strategy really changed Indian business?
- How has strategy changed Indian industry operations?
- What are the unique features of strategy applications specific to India?

4.2. Unit Introduction

Strategic management is a concept that made its way to India a few decades ago. A concept such as Strategy which is indeed universally acceptable eventually underwent a few changes before it penetrated India. The importance of this was not felt until the industrial liberalization that had swept the whole world along with India. The changes brought in by the infiltration of strategy in Indian business have clear evidence in the current day operations. It is interesting to see how strategy adapts itself when being applied by the specific scenarios of a country such as India.

4.3. Strategy and its ripples in India

As stated before, Strategy surfaced in India only after the economic liberalization i.e. 1991. The 2005 meet of the WTO gave a strong push to the cause as well. Many such moves have led to changes in the scenario of business in India.

- Public sector monopoly was diminished and greater business opportunities surfaced. Many such opportunities came in the field of advanced technology and large investment sectors and hence greater relevance for strategy ushered.
- There was greater availability of goods and services as a result of removal of entry and growth obstacles. Licensing was smoothened as well besides import regulations.
- Delimiting geographical frontiers, expanding foreign investments and liberalization led to drastic growth in competition in India.

The ones mentioned above are the most noticeable changes that occurred at the initial stage. Strategy is still evolving and its effects can be traced into many important aspects of business today.

4.4. Strategic business thinking in India

Strategy ignited many changes in Indian business, the more significant ones were in the change of business thinking as a whole. The emerged a mentality that can be strictly defined as strategic

thinking that backed up many important business decisions of the time. Some notable changes are listed below:

- **The dominance of analysis-** It started becoming clearer than before that emphasis has to be now laid on analysis. The gradual shift of importance from growth to profitability to market capitalization and finally towards sustainability is witness to the rise of analytical importance in business. There now exists the need to assess business importance and the customer expectations for a long run successful business operation.
- **Need based strategy-** Most corporations before the dawn of strategy either focussed on diversification, withdrawal, focussed strategy or growth as a unanimous strategy for the time of industry as a whole. However, strategy brought into light the fact that strategies are to be based specifically tailored to the needs and capacity of the firms involved. No strategy is recommendable at all times due to the everchanging dynamics of business.
- **Strategic tools-** The conventional manager expertise was then less relied upon when strategic tools were seen to transform business the world over. The flourishing use of competitive strategy and the planning matrices delivered the use of scientific planning in business thinking for smoother execution.

Check your progress

1. State the scenario of strategy in India.
2. Which strategy is very common in India?

4.5. Features of Indian business operations

Indian businesses are driven by various features that are inherent to this country. Although business thinking in India has sufficiently evolved post-independence, yet it has to go a long way in terms of optimization. Some of the notable features in Indian business operations are:

- **Rapidly developing economy-** Many economists are intrigued by the rapidly changing economy of India and are speculating for future business advantages. The Indian economy is big and globalization is accelerating its growth at a fast pace. The economic

liberalization has strengthened foreign relations and led to networking of global operations.

- **Connected capital markets in the world-** On one hand capital market integration has led to increase in entrepreneurship and venture capitalists while boosting the performance in business due to greater transparency worldwide. Domestic as well as foreign capital is now available for business use due to interlinking global markets for capital.
- **Revolutionary growth in communication and information technology-** The gradual ease brought in by advanced information and communication exchange technologies have made business in India undergo tremendous change. India has already established a firm ground in information technology and infrastructure. This calls for strategic thinking for better utilization of resources.
- **Governance-** Transparency and conformity has taken over the entire world. India is no exception. However, procedural, documental, and legal issues are an ever part of Indian economy. The owner attitude of promoters in Indian businesses lead to frequent fault in business decisions. Accessing company resources for personal benefits is another issue in business. The roles and responsibilities of the various stakeholders still need better definitions in India.
- **Shift in employee attitudes-** There seems to be a massive change of commitment mentality to professional attitude among Indian employees. Greater career opportunities and cultural changes can to an extent explain such changes. Thus, to retain employees of calibre, there is need of integrated, efficient and convincing organizational frameworks. Decentralization and job enrichment is thus seen during present times as well for retaining human assets.

4.6. Let us sum up

Most concepts are universal in their own right. But concepts do tend to customize themselves and evolve as they make their way into different subjects, the subject here being a country. A country has diverse dynamics, the political environment, economic environment, social and cultural environment etc. When a concept such as strategy first made its way to India, it took a while before being realized as a potent force back in 1991. The post-independence liberalization of economy in India, globalization of trade and the spreading international

markets drove this concept into Indian corporations. The rapid growth of communication and information technology was another accelerator to the vehicle of change. India now holds vast potential of growths in diverse markets and hence is attracting international players while domestic corporations are expanding operations in foreign soil.

4.7. Terminal Questions

1. What are the major forces driving strategic change in India?

2. What are the various strategic changes facing Indian corporations?

3. How did strategy change the face of Indian business operations?

Case Studies

Case Studies and strategic management has a long-standing history together. The unique method of employing case studies for teaching and learning were first witnessed for use in strategic management before any other discipline in management. The various concepts discussed in the discourse of strategic management finally find applications in case studies. Among cases, real time cases provide significant industry flashes to strike focussed discussions while the traditional long cases would delve into more detail about events or situations that happened a several years ago.

Steps suggested before analysing a case

Step 1: Reading and collecting background information

Step 2: Cross checking of similar information in multiple sources

Step 3: Perform a deadline oriented study before the analysis

Step 4: Identify key turns in the case

Step 5: Plan your discussion and keep justifications ready for potential questions.

Caselet on Amazon.com

In 1994, like many other greats, Jeff Bezos, a Princeton Graduate and a Wall Street executive had quit his job to launch an online retail business. Starting operations from his own garage, Bezos opened a 400 square feet office in Washington with books on its menu only. By the year

1996, sales boomed close to 16 million $. In 1997, Amazon became went public and sales rose exponentially to around 150 million $. Audio and videos came online for retail sales on Amazon by 1998 followed by toys and electronics. Amazon expanded by acquisition of book retailing giants in UK and Germany as well. The year 2000 was quite remarkable as Amazon secured a 10 year long partnership with Toysrus.com to co-launch a toy and video game store. In 2001, Amazon had to retrench 15% of the workforce with a charge of 150 million $. However, later America Online (AOL) invested around 100 million $ with Amazon, and the position of Amazon stabilized. Amazon introduced the Amazon Kindle E-book reader in 2007, which led to substantially more e book sales than print books by 2007. Following years saw a number of acquisitions by Amazon viz. Quidsi, Woot, Zappos.com. The growth of sales from 11 million $ in 2006 to 34 million $ in 2010 was phenomenal. As of today, Amazon offers a multitude of products covering books, electronics, videos, audio, cutlery, furniture, utility goods, engineering tools etc.

Challenges

1. How has Amazon succeeded without using "Brick and Mortar operations" in a time where "Bricks and Clicks" seem to dominate the retailing business?

2. Why is Amazon so dominant even if the chances of duplicate and copied lines of business are immense?

Suggested readings

Official website: www.amazon.com

Competitors preview: www.business.com

Key online auction competitor: www.ebay.com

E-Commerce information: www.ecommercetimes.com

Retailer information (National Retailing Foundation): www.nrf.com

Current trends in Retailing: www.retailingtoday.com

BLOCK 2: ENVIRONMENT AND STRATEGY

Unit-1: Organization environment or Internal Environment

Structure of this Unit

1.1. Learning Objectives

1.2. Unit Introduction

1.3. Elements of Organization environment

1.4. What are core competencies?

1.5. Resources and capabilities of an organization

1.6. What is the value chain for an organization?

1.7. Organization structure and strategy

1.8. Let us sum up

1.9. Terminal questions

1.10. References

1.1. Learning Objectives

In this unit, you will learn:

- The constituting elements of the organization environment
- What are core competencies?
- What is the Value chain?
- Resources and capabilities of an organization
- What do you mean by strengths and weaknesses for an organization

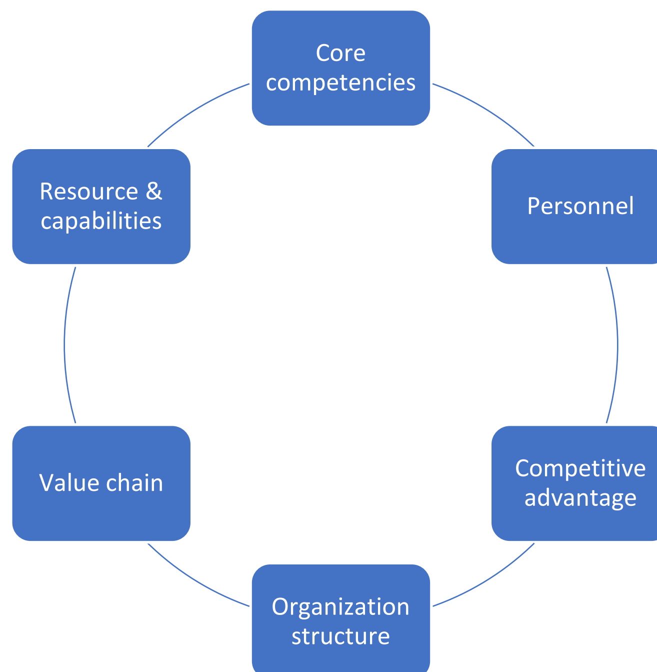
1.2. Unit Introduction

The organization environment is a collective term that comprises of many elements. This environment constitutes the internal environment of an organization. Most elements within this environment are controllable in nature and are organization specific. The organization

environment is built on the thought processes inside the organization that materializes into tangible results in due time. This also includes the capabilities of the organization and the potential to adapt to external changes. Some notable internal factors constituting this environment may include: human resources, systems of production, organization structure, technical facility, product mix, marketing strategy etc.

1.3. Elements of Organization environment

The list of elements in the organization environment is inexhaustible. However, we may list out some of the principle elements that we duly consider when looking at the organization environment. They are-



1.4. What are core competencies?

Core competency can be defined as an area where an organization can perform comparatively better to gain competitive advantage over its competitors i.e. Core competencies are strong areas of an organization that can transform into a competitive advantage in the long run. For e.g. core

competencies for McDonald's may be-restaurant operations, global standards in food, real estate etc. while Vodafone may take pride in extensive low-cost coverage as its core competency.

1.5. Resources and capabilities of an organization

The entire resources available with an organization are sometimes underutilized. The capacity to utilize resources of an organization is determined by its capabilities. Thus, resources and capabilities are interrelated elements. Resources here mean materials, equipment, machinery, personnel, managers etc. Capabilities indicate deployment capacity of these resources to realize the expected results. For e.g. Reliance Fresh and similar supermarkets have effective logistics management capabilities to realize the complete utilization of not only its financial resources but personnel movement at the same time.

1.6. What is the value chain for an organization?

What is value? Value is what the customers desire in exchange for the amount they are willing to pay for something. Value chain of an organization maps all the points in the conversion of inputs to outputs and subsequent delivery where value is added leading to creation of desired products/services. The aim here is to add more value at lower cost such that the value delivered by a good exceeds the cost incurred in producing it. It looks into dimensions of quality, comfort and satisfaction and convenience. Value chain has two main activity types-Primary activities (Inbound logistics, operations, outbound logistics, marketing and sales, pre-sales service) and support activities (research and development, human resource management and administrative procedures).

Check your progress

1. What is core competency of an organization?
2. What are included in the value chain?
3. Differentiate between resource and capability.

1.7. Organization structure and strategy

The organization structure is accountable for what an organization will do and how it shall be done. The organization structure must be planned for long term as various business level

strategies require a particular type of organization structure for successful implementation. Organization structure have and are still undergoing evolution to better adapt towards strategy implementation.

Some of the commonly used organizational structures are listed below with brief descriptions.

- **Simple structure:**
  This has only two levels-the Manager and the subordinate employees.
- **Functional structure:**
  This structure is characterized by division of departments on functional basis such as, Finance, Research and Development, Production etc.
- **Divisional structure:**
  Such structures feature the organization broken into various divisions headed by Division heads that report to a Chief Executive Officer (CEO). The divisions could be on the basis of multiple product lines, geographical areas, channels of distributions, specialized operations etc.
- **SBU structure**
  When divisions are so many that individual supervision becomes increasingly difficult, some divisions are grouped together based on similarity of operations or otherwise similar product lines. These groups are known as Strategic Business Units. The Strategic groups operate in a decentralized matter although perioding monitoring is done by the CEO.
- **Matrix structure**
  This structure is adopted by organizations that have frequent execution of project-based works and programs. The projects are headed by project managers that facilitates faster decision-making. However, dual leadership is an issue in such organization structures.

1.8. Let us sum up

The internal environment of an organization is also known as the organization environment as it includes elements upon which the organization can exercise control. The internal environment of an organization is composed of elements such as competencies, resources, capabilities and the entire value chain of an organization.

1.9. Terminal questions

1. What constitutes the internal environment for an organization?

2. What do you mean by Core competencies?

3. When are core competencies called distinctive competencies?

4. Explain Value Chain Analysis? Why is it important for internal environment?

5. What are considered as resources and capabilities of an organization?

1.10. References

1. M. E. Mangelsdorf, 2007, Beyond enterprise 2.0, MIT Sloan Management Review, 48(3): 50–55.

2. W. M. Becker & V. M. Freeman, 2006, Going from global trends to corporate strategy, McKinsey Quarterly, Number 3:17–27

3. S. K. McEvily, K. M. Eisenhardt, & J. E. Prescott, 2004, The global acquisition, leverage, and protection of technological competencies, Strategic Management Journal, 25: 713–722.

4. C. D. Zatzick & R. D. Iverson, 2007, High involvement management and work force reduction: Competitive advantage or disadvantage? Academy of Management Journal, 49: 999–1015.

5. R. D. Ireland & J. W. Webb, 2007, Strategic entrepreneurship: Creating competitive advantage through streams of innovation, Business Horizons, 50: 49–59.

Unit-2: The external environment

Structure of this Unit

2.1. Learning Objectives

2.2. Unit Introduction

2.3. The external environment of an organization

2.4. Classifying the external environment

2.5. The macro environment

2.6. The micro environment

2.7. Terminal questions

2.8. References

2.1. Learning Objectives

This unit should allow you to understand the following:

- What is the external environment for an organization?
- The components of External Environment
- The impact of external environmental factors on the organization
- Why do we have to understand the external environment of an organization

2.2. Unit Introduction

An organization is influenced by its environment. The environment is whatever surrounds the organization as well as some factors that constitutes the innards of the organization. The external environment can be identified as factors that are beyond the control of the organization. These factors change and influence the working of an organization. They have a high degree of random variability and hence very low predictability. The factors under discussion can be further classified as macro and micro environment. We shall introduce you to the external environment of an organization so as to sensitize and prepare you for the environmental scanning process to be taught at a later stage.

2.3. The external environment of an organization

Any firm, organization or company operates in an environment that is complex, unpredictable and flexible. Understanding what composes this environment is important but has the potential to become vital. The organization can adapt only when it comprehends what is happening. Thus,

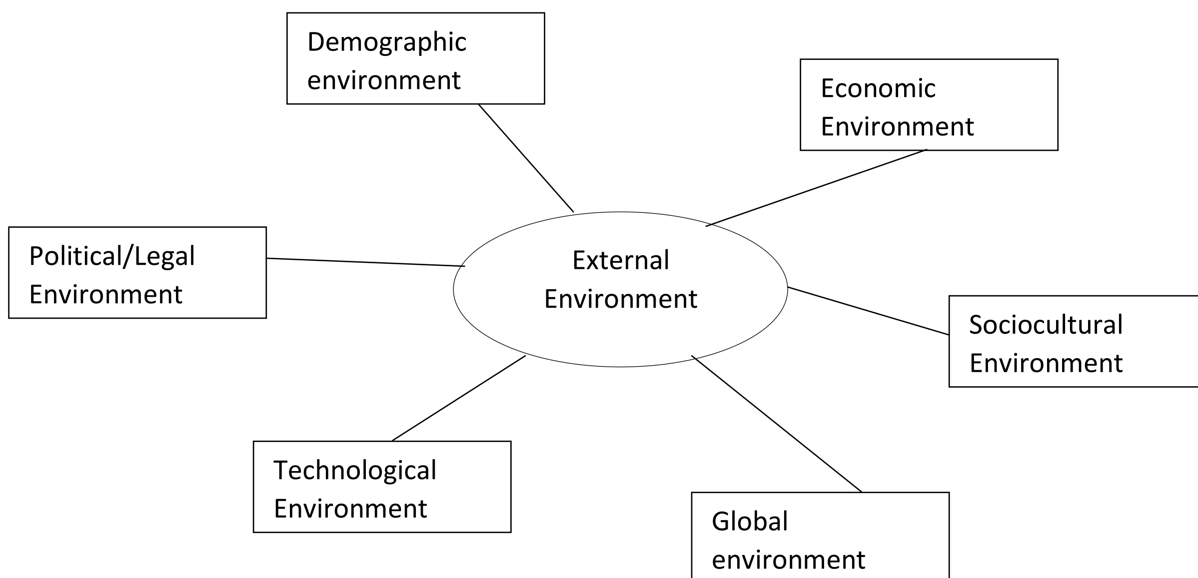
before we begin scanning the environment for variations, understanding the elements is preliminary.

As introduced before, the external environment is a composite of all the factors that are beyond the control of the organization. This is the basic indicator of an external environmental factor. We are providing a list of factors presented by most strategic philosophers that constitute the external environment.

2.4. Classifying the external environment

The external environment is a collection of many factors that are beyond the control of an organization. These factors are characterized by unforeseeable changes that make adaptation strategies very difficult to execute. Although it is not as simple to group these factors in terms of homogeneity in characters yet a broad classification can be performed on them. The range of impact and the intensity of exposure can be considered for categorizing these factors. Thus, external factors can be broadly classified as Macro factors and Micro factors.

2.5. The macro factors



The Demographic environment

The demographic environment is a mixture of population dimensions, age, race, religion, taste, geography etc. The growth of the population impacts the growth of the market as well. It is an important element in the environment. Similar roles are played by demographics like the geographical distribution of populations, age race and religion. The population demographics moves the market dynamics towards investment in the most profitable of segments available. Understanding the movement of these demographics, allows forecasting the directions so as to adapt for seizing an opportunity or defend against a threat.

The Economic environment

The economic environment for an organization is a macro environmental element that is composed of factors such as economic system, national income, policies for finance and taxes etc. The economic environment decides the amount of control an organization will have on the functioning of the organization. The economic system restricts the functioning. Similarly, another important sub factor is the national income that plays as an indicator of the purchasing capacity of the people of a country for a fixed period of time. The national income in turns points towards the dynamics of demand for certain products which is an information crucial for any organization. The flow of currency in a country is regulated by the monetary policy. This policy regulates the economic environment by constricting or releasing the flow of currency in a control thus controlling an inflationary or deflationary situation. The policies for taxes in a country are counted under the economic environment as these policies lead to equitable distribution of wealth and providing stability to prices of products. The taxes also reflect the moves of the government and its spending behaviour that connects to the growth of organizations.

Political and legal environment

Different political parties have different ideologies, different agenda and hence give rise to different policies for business. Defence policies, foreign policies, export-import policy, investment policies, bilateral and multilateral relations are some of the areas suggestive of such policies. Policies are born of ideologies and laws are born of policies. Thus, political and legal environment are always discussed together. Changes in this environment can be generalized into two broad features: promotional and the other being regulatory. The promoting type features government support for growth of indigenous markets by relaxation of constraints or increase in financial assistance. Evidences of such practices are prevalent in entrepreneurship, small scale

industries and medium scale indigenous industries. Promotional tools include incentives, schemes, subsidized loans, infrastructure support and related ones. Regulatory changes include strategic moves in licensing, trade policies, import-export restrictions, price control measures, environmental standards and distribution guidelines that tend to regulate the activities of various organizations.

Technological Environment

Technological environment concerns knowledge, inventions, methods as well as techniques to perform certain operations that are competitively existent at the time. Right from designing to manufacturing to distribution, technological environment is to be understood in detail for surviving in the market. Technology will obviously lead to increase in productivity in most cases. However, the procurement and deployment of technology at the right time to gain a competitive advantage is the concern in this environmental element. The capacity to adapt to a certain technological advancement must be assessed along with the status of technological advancement in the reference country itself. Technological changes also trigger changes in the design and the number of jobs. The complexity lies in the fact that the rate of technological advancement in a field cannot be accurately predicted so as to accommodate plans for adaptation.

Socio-cultural environment

The socio-cultural environment is mostly abstract in nature. The expectations from a business, the attitudes of the society towards it and its products, traditions of the society surrounding the organization are the sectors we look into here. An organization has to look into this element because it tells them not just what to offer, but how to plan its processes because the society is constantly observing the processes of the organization. The objectives of the organization are virtually steered by the expected contributions to the society it operates in. Organizations that ignore the customs and expectations of its surrounding socio-cultural environment may end up in complete halt of its operations but will definitely fail in performing sustainable business.

Global Environment

As revenue became classified as domestic and overseas categories, the global aspects of doing

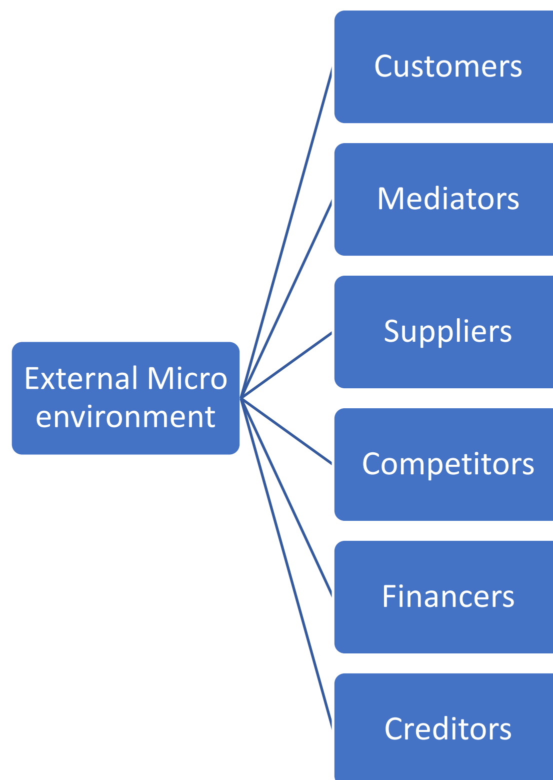
Check your progress

1. What do you mean by the external environment?
2. How is technology a macro environmental factor?

business started gaining focus for strategists. It became imperative for organizations to study domestic host as well as global environment to foresee global changes that will eventually penetrate into home operations. Of greater importance is this to companies having global operations where more complexities arise in managing business. In an interrelated economic scenario, changes in economic condition of one country has implications on others too. Similar is the shift in preferences of customers, purchasing behaviour, demand etc.

2.6. The micro factors

The micro factors are smaller in dimensions as well as impact as compared to the macro factors. These factors are actually composed of various interest groups having direct or indirect contact with the organization. These are micro factors, the study of which allows the organization to seize opportunities and defend against threats from the environment.



Customers

Possibly and arguably enough this is the word we come across in most parts of a studies in commerce, management and economics. Indeed, the needs and desires of the customers drive the policies and strategies of the firm. While the present customers are paid attention, the potential customers are kept in mind while devising strategies. The study of customers as an environmental factor is done simultaneously with the study of demography and the geographical distribution of the targeted customers. You will be well acquainted with the power of customers to control prices when we shall study the Porter's Five Forces model later in this course. The power of the buyer is correlated to the cost of the suppliers.

Competitors

Long term sustenance in the market also calls for close monitoring of competitors, their nature and their strategies. Competitors can be analysed by using specific tools used in strategic management. Initially, the major players in the competition are identified, their strategies analysed, monitored and adaptive or aggressive strategies are implemented accordingly. Such strategies shall be discussed under the topic Business level strategies. Analysing the competition allows for identification of critical success areas that needs to be assessed as per the capacity for implementation by the organization.

Suppliers

Prices of products depend to a great extent on the power of suppliers as well as their availability. The suppliers have significant influence in the gimmicks of the market. The release of raw materials in in controlled amounts and targeted prices affect the pricing of products that have to be distributed to the market.

Mediators

Although not as powerful as the suppliers, these groups extract notable number of margins from the entire revenue of the produced goods. Mediators do connect various parts of the market and are able to interact with majority of the players in the market.

Financers

The people financing a business must be taken into account during assessment of the micro environment. These groups have regulatory impact on the movement and production of the products.

Creditors

Creditors are specially important from the accounting perspective as they eventually lead to decisions on the working capital of the firm.

2.7. Let us sum up

The external environment of an organization consists of elements that in most cases are beyond the control of the organization. The external environment is divisible into two parts- the macro factors and the micro factors. The Macro factors consists of the political environment, social environment, cultural environment, technological environment and the economic environment. While the micro factors include factors like competitors, shareholders, suppliers, creditors and financers, they still hold a lot of significance in environmental scanning. Understanding the dynamics of the external environment is critical as it holds a lot of sway for the forces that affect the organization as a whole.

2.8. Terminal questions

1. What do you mean by the external environment of the organization?
2. What are the macro factors of the external environment?
3. What are the micro factors of the external environment?
4. What is understanding the external environment important for the organization?

2.10. Suggested readings

1. William F. Glueck, Business Policy and Strategic Management, McGraw-Hill, 1980, p. 88.
2. Philip Kotler, “Principles of Marketing”, Prentice-Hall of India
3. K. Aswathappa, “Essentials of Business Environment”, Himalaya Publishing House, Mumbai, 1996

4. James R. Bright and Milton E.F. Schoeman, “A Guide to Practical Technological Forecasting”,

Prentice-Hall, Englewood Cliffs, New Jersey, 1973

5. Michal E. Porter, “Competitive Strategy”, Free Press, New York, 1980

6. John A. Pearce and Richard B. Robinson, “Strategic Management,” Tata Mc Graw-Hill

Publishing Co. Ltd., New Delhi, 2005

Unit-3: Environmental scanning - synthesis of external & internal factors

Structure of this Unit

3.1. Learning Objectives

3.2. Unit Introduction

3.3. External Factors

3.3.1. The Industry Analysis

3.3.2. The Strategic Group Analysis

3.3.3. Synthesizing External factors

3.4. Internal Factors

3.4.1. Understanding internal factors- structure, culture and competencies

3.4.2. The Organizational Analysis

3.4.3. Analysis of Core and Distinctive Competencies

3.4.4. Analysis of Resources and Capabilities

3.4.5. Value Chain Analysis

3.4.6. Synthesizing Internal Factors

3.5. Strategic Audit: An Important Checklist for Environment Scanning

3.1. Learning Objectives

We are about to learn the following:

- How to scan the broad external environment?
- How to identify changes in the industry we are interested in?
- What should we know about our competition?

- How do we analyse competition for strategic management?
- Various tools and concepts used in environmental scanning

3.2. Unit Introduction

Environment is a very important factor taken into consideration at every stage of strategic management. As discussed earlier, the environment is constituted by both controllable and uncontrollable factors, specific tools are necessary to understand them and plan our strategy. Environmental scanning is a process by which the strengths, weaknesses are assessed to take on the opportunities and threats lying in the external environment. This is important since, external environment is prone to changes and internal capabilities need to be adapted to such change. We shall discuss how to identify these changes and monitor them using various tools for the length of this unit.

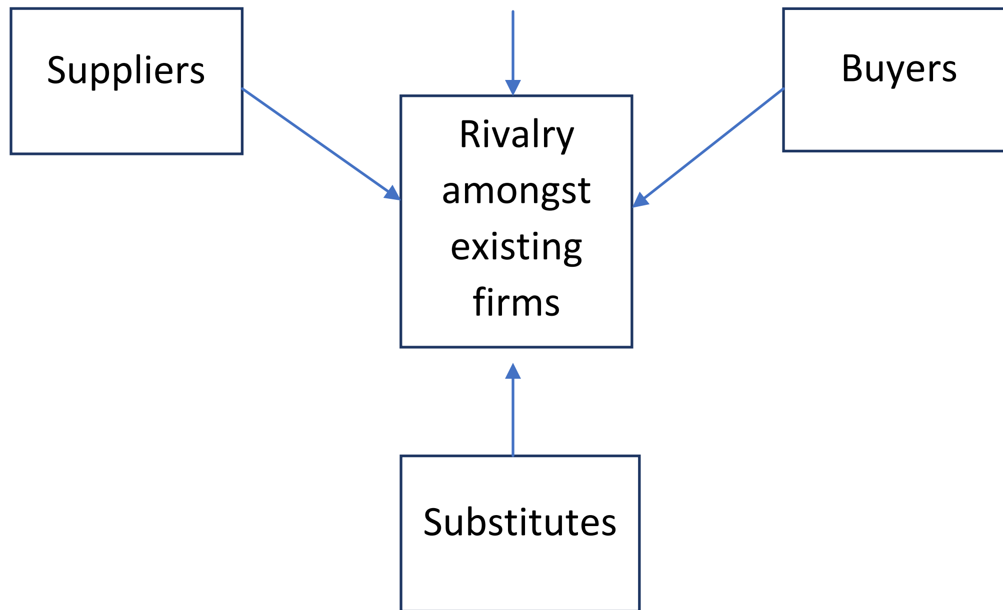
3.3. External Factors

We are well acquainted with the external environment of a firm at this point. However, while scanning the environment, we come across external factors that are critical for the decision making of the firm. These external factors are diverse from the external environment although they niche among the same. A firm's external factors basically reside in the industry that the firm operates in, competitor strategy and the strategic groups existing in the market.

3.3.1. The Industry Analysis

The first order of concern for an organization lies indeed inside the industry itself. There are various forces at play intermittently. The power of these forces and the power of the firm to contend against them decides the capture potential of a firm in the market. Michael Porter, a strong advocate of competitive strategy has established this concept with model quite popular as the Porter's five forces model. This model attempts an insightful comprehension of the forces that project both positive as well as negative impacts on the firm. The perspective of this model is that of the firm. Thus, a strategist can analyse an industry by analysing these forces for informed decision making.

Potential
entrants



Suppliers

Suppliers are few yet they cater to many. This provides them bargaining power in the industry. They may choose to elevate the prices or work together to reduce the quality of supplied materials. Suppliers have power under certain circumstances notably when,

- the number of suppliers is less in number
- the supplies are of unique nature
- substitutes are scarce
- there is direct connectivity between suppliers and customers

Buyers

Buyers power is derived from their ability to bring down prices by negotiating for lower prices or asking for higher quality. A single buyer or a group of buyers can work out the market dynamics to turn the tide in their favour under certain conditions as mentioned below.

- Buyers have the capacity to buy major portions of suppliers' products or services.
- Product is of standard nature and hence substitutes are available.
- Switching costs for buyers are low

- Profit share of buyers from the purchased product is low
- The purchased product is not critical to the final product quality.

Substitutes

A substitute is a different product that can fulfil the same needs as delivered by a product. When substitutes are available, price ceilings are formed for certain products. Low switching costs for substitute products provide great power to substitutes that govern market dynamics. For example, there are a wide variety of substitutes in communication of information these days. If you wanted to communicate a message, you could use an SMS, an email, a fax, a phone call, messaging apps, post letters etc. All of these fulfil the same need. Depending on the urgency of the message, the delivery speed and the costs involved, all of the above offer substitutes for each other.

Threat of New Entrants

The new entrants to any market brings in new resources, new competition and new threats. These new entrants are a potent threat to stable competition. Entry barriers and reactionary strategies are some obstacles to entry of new entrants. It is not easy to enter a new market. Certain barriers to this may be,

- **Government regulations**-Government can limit entry of new competition by restrictive policies in licensing, barring access to raw materials, operational barriers etc.
- **High switching costs**-When established products are of premium breeds, it is difficult to switch to new products. E.g. computer software packages.
- **Economies of scale**-Established firms have the experience to draw profits from even narrow sales by capitalizing on economies of scale. Pricing policies could thus affect new entrants from becoming a formidable rival.
- **Capital requirements**-High capital requirements to reach the level of entry creates doubt for long term sustenance for new firms thus creating a virtual barrier to entry.
- **Distribution channels**-New firms find it difficult to connect as well as obtain priority among distribution channels that prefer to give greater attention to established firms.

Rivalry among Existing Competition

The competition in the market decides the size and operation of the market. A strategy by one competitor affects the others and vice versa. Eventually, the competitors have to adopt strategies to keep up with or otherwise compete with their counterpart's strategy. Some features of these kind of forces are as given below:

- Rivalry is possible when most competitors are of equivalent sizes. This allows room for monitoring the countermoves of the firms by one another.
- Product and service characteristics also initiate rivalry as similar products and services always tend to spike rivalry.

Check your progress

1. How do suppliers affect the industry?
2. How do customers act as a force in industry analysis?
3. What are the various elements in industry analysis?

3.3.2. The Strategic Group Analysis

A more focussed analysis of competition is done with the help of strategic groups. Strategic Groups are a set of business firms that adopt similar strategy corresponding to similar resources. Firms within the same strategic group tend to have more rivalry than firms from other strategic groups doing business in the same industry. Firms inside the same strategic group will tend to have similar mission, vision and identifiably similar strategies for survival.

How to identify strategic groups?

Consider any two characteristics for comparison of firms in an industry. For example, price, product variety, range of operations etc. Plot the characteristics along the x and y axis of a two-dimensional graph. Place the firms on the graph with respect to the characteristics plotted. You will notice that some of the firms tend to be closer to one another than others. Draw circles around the group of firms seem closer to one another. This is how we identify strategic groups.

Strategic Types

Based on their strategic approach the firms within a strategic group or an industry can be categorized into various strategic types. The work culture, operational processes and structure of a strategic type shall reflect its particular strategic orientation. In general, strategic types found while analysing competition could be as follows:

- **Defenders:** Strategic firms that focus primarily into improving existing lines of business operations leaving very less scope for innovation are called Defenders. They are cost oriented firms.
- **Prospectors:** These firms scout constantly for emerging opportunities, having broad product lines and rely heavy on creative strategies. They promote new product development.
- **Analyzers:** Analyzers follow a mixed orientation where it operates in a stable segment in one hand and a variable segment on the other hand. Correspondingly, it applies the defender's approach in the stable segment and the prospector's approach in the variable segment. Example of these firms are multidivisional firms.
- **Reactors:** These firms are responsive in nature and respond to environmental changes. They lack structure, culture and proactive strategies.

3.3.3. Synthesizing External factors

Synthesis of external factors involves the identification, categorization and summarization of externally available opportunities and externally emerging threats. The initial scanning of the external environment brings to notice many factors. However, not all of these are relevant upon closer examination. A commonly used method for synthesizing external factors is by using the External Factor Analysis Let us sum up (EFAS) Table. This table categorizes the identified external factors based on universally accepted classes of opportunities and threats. We have included the process of creating an EFAS table below.

Step 1: List about 8 to 10 number of external opportunities and threats faced by the company in present times.

Step 2: Provide weights to the factors listed from 1.0 to 0.0 based on the factor's individual impact on the strategic position of the firm. The total weights of all the factors taken together must be 1.0

Step 3: Rate the individual factors from 5.0 to 1.0 based on the company's current response to the factor.

Step 4: Multiply the weights with the ratings given to arrive at composite scores for individual factors.

Step 5: Find the summation of all the scores for all the factors to get a composite score. The score for a company tells how well a firm is responding to these external factors.

Check your progress

1. What are the various strategic types?
2. Who are the followers in strategic groups?
3. What are the steps involved in synthesis of external factors?

3.4. Internal Factors

Internal factors refer to the controllable environment of a firm. These are the internal strengths and weaknesses that constitute the internal strategic decision-making bases. Internal scanning is often referred to as Organizational Analysis. This concerns the identification and development of internal competencies of the organization in response to internal resources and capabilities.

3.4.1. Understanding internal factors- structure, culture and competencies

The internal factors of an organization are diverse. It includes resources, competencies, capabilities, structure and even the culture of an organization. Before analysing them, we are supposed to comprehend the scope of their meaning and the applicability of such concepts in an organization. Resources are the assets available in an organization that are used to build the organization from inside out. The resources could be human resources, their skills, fixed resources like plants and machinery and also intangible resources like goodwill, loyalty and motivation. Whereas capability refers to the ability of an organization to utilize its resources. It usually governs the ways in which inputs are transformed into outputs. Capabilities are function oriented. Hence the words such as marketing capability, advertising capability, operational

capability are commonly used terms in business. When various capabilities are coordinated for the purpose of achieving a common upgrade or improvement or edge over competitors, such a thing is known as a competency. For example, a marketing competency could result from coordination among marketing capabilities, financial capabilities and distribution capabilities. Another concept that is over used and yet seldom explained is a core competency. A core competency is a collection of various competencies of an organization that allows the organization to perform an activity in an impressive manner. When such core competencies of an organization are comparatively superior to its competitors they are referred to as distinctive competencies.

Structure of organization varies from Simple, functional to divisional structure. Although it is not simply limited to these types, the mentioned ones are the base for any structure adopted or created by an organization. SBU structure and conglomerate structures are some varieties worth a mention here.

3.4.2. The organizational Analysis

Organizational analysis encompasses all the factors that originate from inside the organization. The factors are filtered on the bases of their impact on development of a strength or a weakness which ultimately affects strategic decision making. The source of these factors include structure of the organization, culture of the organization, value chains, models used, resources and capabilities and the competencies thus achieved by the organization.

3.4.3. Analysis of Core and Distinctive Competencies

Now that we are aware of the concept called competency, we must be able to identify those by analysing data from the organization. The most commonly used tool for analysing competencies of an organization is the **VRIO framework**. The concepts underlying the VRIO framework has been mentioned below:

- V - Values. It concerns value to a customer and the competitive advantages from it.
- R - Rareness. It stands for the uniqueness of an organization that the competitors do not possess.
- I - Imitability. It assesses whether imitating the firms moves are expensive for the competitors or not.

- O - Organization. It analyses whether the firm is position customized to effectively utilize its resources.

Hence, each resource, capability factor passes through the VRIO framework to be finally identifiable as a competency. The assessment may mark a factor as a strength or weakness for the firm after being assessed from the VRIO lens. On being identified as a strategic factor, it is then compared with the factor's own past records to see its essentiality in requirement.

3.4.4. Analysis of Functional Resources and Capabilities

The resources and capabilities of an organization can be found in various parts of the organization. It is a wider concept than it looks like because of its interrelation with the network of activities performed by an organization.

Structure of the organization

The structure of an organization provides a clear idea of the policies of the organization and suitability of its purpose. The commonly found structures are as given below:

- Simple structure - This structure has no specific functional traits. Employees are not specialized. Suitable for limited product line businesses.
- Functional structure – Employees are specialized as per company functional departments. Suitable for medium sized with multiple product lines.
- Divisional Structure – For huge corporations with multitude of product lines in multiple related industries.
- SBU structure – When divisional structure is applied along with decentralization, it results in a SBU structure. The idea is to allow independent operation to reach unified goals. The divisions are specialization based rather than size based.
- Conglomerate structure - Suitable for larger corporations having multiple product lines in several unrelated industries.

Organization Culture

Another important element in organizations functional analysis is the corporate culture. It is the collection of beliefs, norms, values and aspirations shared throughout the organization. It includes two concepts. The first is cultural intensity. It is the extent to which the organization

members accept the norms and values of the organization. The other is known as cultural integration. This is a broader concept as it connects the entire organization and measures the depth of acceptance of common ideals by the members. Understanding corporate culture can identify unique strengths or underlying weaknesses that are frequently overlooked. These overlooked weaknesses or undermined strengths could lead to faulty strategies.

Marketing scan

Scanning of marketing issues as a part of organizational analysis leads to identification of marketing agenda and quality of present marketing strategies. Thus, areas such as position, segment, branding etc. must be assessed for ascertaining internal factors. The following areas are commonly identified as prospects in scanning:

- Market position
- Market segmentation
- Stage of the Product life Cycle
- Marketing mix
- Brand

Financial scan

The sources of funds, utilization strategy, payments, returns etc. must be dealt with properly in order to ensure profitable business. However, their impact is not limited to profits alone. They influence strategy to a great extent. The areas that are considered form scanning in organizational analysis are as stated below:

- Capital structure
- Cash flows
- Capital budgeting
- Budgetary control measures
- Financial forecasting

Human resources scan

The human resources are a vital component in strategy. The impact of this area on strategy is great. The various areas where scanning is possible are as listed below:

- Team work
- Industrial relations
- Work life
- Human diversity
- Job performance

3.4.5. Value Chain Analysis

A value chain is a chain connecting all value adding activity centres to one another that starts from the procurement of raw materials until the delivery of finished products. While value chain for a single product may include value adding activities and operations on the product, the value chain analysis of an industry can be broadly divided into two parts: upstream and downstream value chain. It must also be noted here, that a product value chain also operates within the upstream and downstream of an entire industry value chain. The most impart part of a value chain where the core competencies lie is termed as a **center of gravity** for that chain.

If we are to discuss about the value chain of a single firm, according to Michael Porter, activities in such a chain can be classified into two: primary activities and support services. The primary activities in an ordinary value chain may include the following:

- Inbound logistics- includes activities for raw materials handling and warehousing
- Operations- includes assembly, transformation, extraction, quality testing etc.
- Outbound logistics- Includes warehousing for ultimate distribution of finished goods.
- Marketing and sales- Advertising, channel distribution, promotion, direct sales etc.
- Services- Installation, immediate repairs, replacement, warranty etc.

While the support activities shall include:

- Infrastructure- Management, finance, planning
- Human resources management- recruitment, training and development, induction, selection etc.
- Technology- Product development, process improvement, Research applications etc.
- Procurement- Purchase of raw materials, supplier relations, supply of equipment etc.

A value chain analysis helps extend the understanding of value creating activities, their importance and the coordination among them. This analysis leads to identification of competencies as well. Difference in value chain activities as compared to competitors can even lead to identification of competitive advantages.

A common value chain analysis can include the following steps.

Step 1: Identify all activities involved in production of a product or design of a service.

Step 2: Filter the non-value adding activities from the list.

Step 3: Identify the linkages between the listed activities and finding room for alternative routes.

Step 4: Identify the synergies between various activities and look for economies of scope.

Check your progress

1. What are the various internal factors in an organization?
2. How is value chain analysis?
3. What is VRIO framework used for?
4. How are the competencies of an organization analysed?

3.4.6. Synthesizing Internal Factors

Quite similar to synthesis of external factors, we use an IFAS (Internal Factor Analysis Let us sum up) Table for listed and classified under strengths and weaknesses. The steps involved in synthesis of internal factors are as below:

Step 1: List the strengths and weaknesses that are really significant

Step 2: Allot a weight on each of the factors as per its impact on the company's strategic position.

Step 3: Assign a rating to each factor signifying the company's current response to the specific factors concerned.

Step 4: Multiply the weights with the assigned ratings to arrive at a factor's weighted score.

Step 5: Add all the scores to arrive at a composite score. This score can be used to compare the company with others in the industry.

3.5. Strategic Audit: An Important Checklist for Environment Scanning

Strategic audit is a checklist often used for scanning of the environment of an organization. A commonly accepted format of strategic audit worksheet has been provided below:

	Analysis		
Heads	**Positive factors**	**Negative factors**	**Comments**
Corporate Governance			
A. Directors			
B. Top Management			
External Environment(EFAS) Opportunities and Threats			
A. Natural Environment			
B. Social Environment			
C. Task Environment (Industry Analysis)			
Internal Environment(IFAS) Strengths and Weaknesses			
A. Organization structure			
B. Corporate Culture			
C. Resources and Capabilities			
Finance			
Marketing			
Reasearch & Development			

Operations & Logistics			
Human Resources			
Information Technology			

3.6. Let us sum up

Understanding the external environment is followed by the actual environmental scanning process. The external and internal factors are scanned using different tools that summarizes the factors critical for assessing the impact on the organization. Industry analysis, competitors analysis, the Porter's Five Forces, VRIO framework, PESTEL framework are some of the most notable and effective ways to scan the environment. A strategic audit is of utmost important that precisely list out various environmental factors after the completion of environmental scanning.

3.7. Terminal questions

1. What do you mean by VRIO framework?

2. Explain the Porter's Five Forces Model of Industry analysis.

3. Briefly explain the competitor analysis in environmental scanning.

4. State and explain the process of strategic audit.

5. How is the synthesis of external and internal factors done during environmental scanning?

3.8. Suggested readings

1. Michal E. Porter, "Competitive Strategy", Free Press, New York, 1980

2. Thomas L. Wheelen, J. David Hunger and Krish Rangarajan, "Strategic Management and Business Policy", Pearson, 2006

3. Arthur Sharplin, "Strategic Management", McGraw-Hill, New York, 1985

4. John A. Pearce and Richard B. Robinson, "Strategic Management". Tata McGraw-Hill Publishing Company Limited, New Delhi, 2007

5. Robert A. Pitts and David Lei, "Strategic Management", Thomson, 2006

6. Fred R. David, “Fundamentals of Strategic Management,” Merrill Publishing Company, London, 1986

7. C.K. Prahld and Gary Hamel, “The Core Competence of the Corporation”, Harvard Business Review, 90:3, May-June 1990

8. Philip Kotler, “Marketing Management”, Prentice-Hall, Englewood Cliffs, New Jersey, 1984

9. John A. Pearce and Richard B. Robinson, “Strategic Management,” Tata Mc Graw-Hill Publishing Co. Ltd., New Delhi, 2005

COM: 106 – STRATEGIC MANAGEMENT

Block -3 Strategic Analysis Models and Techniques

Unit-1: Definition of Concept of Strategic Analysis

Structure of this unit

1.1. Learning objectives

1.2. Definitions of Strategic Analysis

1.3. Importance of Strategic Analysis

1.4. Strategic Analysis Process

1.5. Scopes of Strategic Analysis

1.6. Terminal questions

1.1. Learning objectives:

- Understanding the Definitions and Concepts of Strategic analysis;
- Understanding the Scope for Strategic Analysis
- To understand the importance and the fundamental framework of strategic analysis
- Understanding the challenges for Strategic analysis

1.2. Definitions of Strategic Analysis

Strategic analysis is an independent subject of scientific study conducted to analyse present state of affairs and projecting future of organisation. The term "strategic analysis" is having a combination of two words "Strategic" and the other one is "Analysis". It's called ***strategic*** because it's high level, about the longer term, and about your whole organisation. It's called ***analysis*** because it's about breaking something that's big and complex down into more manageable chunks. Strategic analysis refers to the process of conducting research on a company and its operating environment to formulate a strategy[1].

[1] https://corporatefinanceinstitute.com/resources/knowledge/strategy/strategic-analysis/

In simple way, it can be defined as understanding of organization and its environment with respect to long-range perspective**.** To define strategic analysis is the process that pertains to analysing the strengths of business positioning; that, understands the external and internal factors that influence this position or orientation. In other words "s*trategic analysis is a method to facilitate research, analyse, and map a company's ability to achieve the future target or threshold based on current reality and resources"*[2]. In simple term strategic analysis is all about systematic examination of how successfully an organization is operating and how well it is using its resources to achieve something over time[3]. Strategic analysis can also be understood as the process of developing strategy for a business by researching the business as well as the environment in which a business or a group of business operates[4].

Strategic analysis is an input to make better strategic choice. In the strategic management process just after completion of setting objectives for strategy, the next stage follows the strategic analysis. Strategic analysis is about looking at what is happening outside your organisation now and in the future. It asks two questions:

- How can we be affected by the dynamics around us?
- What would be your response to likely changes?

The above definitions of strategic analysis clarify that strategic analysis is a-

i. An input for better strategic choice,

ii. Just after the stage of setting objectives are over, then next phase of strategic analysis follows.

iii. A process of strategic management analysis that analyses the strength of business for understanding business position.

iv. It is a process that enables to develop business strategy by researching business and business environment.

v. It is the method of mapping the companies' ability based on past and current realities.

The examples of strategic analysis include many methods and techniques, to be discussed in the next unit of the module. The common examples of strategic analysis models are –

- SWOT analysis
- PESTLE analysis

[2] https://imarticus.org/how-do-we-determine-techniques-in-strategic-analysis/
[3] https://dictionary.cambridge.org/dictionary/english/strategic-analysis
[4] http://www.businessdictionary.com/definition/strategic-analysis.html

- PRIMO-F analysis
- Porter's five forces analysis
- Value chain analysis etc.

(All the models and techniques will be discussed in the unit-2 of this block)

1.3. Importance of Strategic Analysis

Strategic analysis is an all-encompassing process of strategic planning. A good strategic analysis boosts organisational effectiveness. Strategic analysis facilitates in researching, analyzing, and mapping an organization's abilities to achieve a future envisioned state of business or management based on present reality. Usually strategic analysis aims to form a picture of the influences playing upon the organization in order to be informed of the strategic choice elements of the overall strategic management process. Strategic analysis is concerned with the following:

- Organizational strategic position
- Environmental conditions
- Organization strengths and weaknesses
- Effects of all the above on organization stakeholders

The analysis is often done with the consideration of organization's processes, technologies, business development and people capabilities. Strategic analysis helps to anticipate what might happen; evaluate how likely it is to happen; and helps and organisation to prepare for its happening. No doubt, strategic analysis will lead to clearer and more relevant goals, helps in taking better quality of decision and ensure more or better secured future as one can be prepared for what will happen in future. From the other perspective, the cost of not doing at least a small amount of strategic analysis means missed opportunities (i.e. 'opportunity cost' - the cost of not doing something). If an organisation or manager doesn't do strategic analysis, it may face the risk being left behind, would be missing opportunities for organisation.

The value and importance of strategic analysis is immense for business. Business organisations obviously work in a fast-changing environment. The future of business is never clear at present, and can be assumed that each day of business unclear situations. Strategic analysis serves as the input for

(a) Business sustainability initiatives

(b) Resilient Organisation

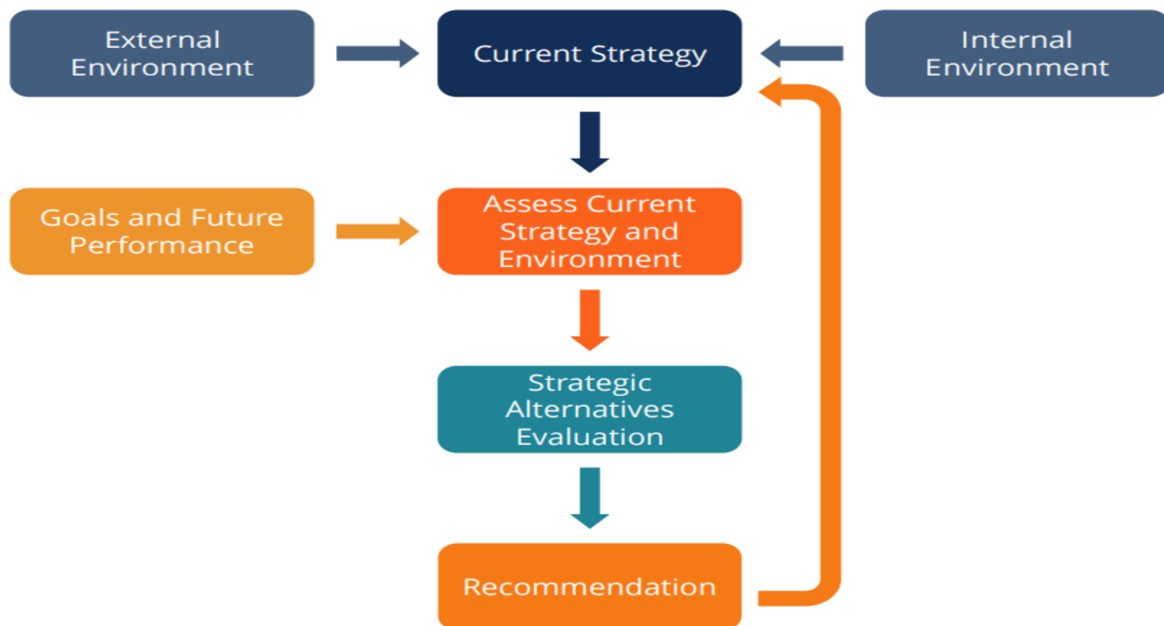
(c) Business and Organisational Innovation

(d) To stay relevant as desired by environment

1.4. Strategic Analysis Process:

The process of strategic analysis is multi-step process. The following figure explains simply about the process of strategic analysis.

Figure: Strategic analysis Process



Adopted from CFI™ at URL https://corporatefinanceinstitute.com/resources/knowledge/strategy/strategic-analysis/

i. Perform an environmental analysis of current strategies- Environmental analysis of a company's current strategy is the starting point of strategic analysis process. To start environmental analysis of a strategy the strategists divide the issues into two categories- the issue related to internal environment, includes issues such as operational inefficiencies, employee morale, and constraints from financial issues. The issues related to external environment, there are- political trends, economic shifts, and changes in consumer tastes, technology, and market.

ii. Determine the effectiveness of existing strategy- The second step of strategic analysis is determining the effectiveness of existing strategies. Determining the effectiveness of the current strategy amid the prevailing business environment is the goal of strategic analysis. Strategists must ask themselves questions such as - Is our strategy is failing or succeeding? Will we meet out our goal(s)? Does the strategy formulated is aligned with the mission, vision, values of the organisation?

iii. Formulate plans- After the determining the effectiveness of existing strategy or by getting the answer from the step-2 (above) i.e. "No" or "Yes" or with the word "Unsure" the strategic analyst undergoes to a planning stage. At this stage planner makes a plan with a proposal for strategic alternative. The planer may propose ways to keep costs low and the operation may be leaner. The potential strategic alternatives include changes in capital structure, changes in supply chain management, or any other alternative to a business process.

iv. Recommend and implement the most viable strategy- After the proposing alternatives in the planning stage, the next stage follows recommendation. After assessing the possible alternatives, the strategist chooses to implement the most viable and quantitatively profitable strategy. After forwarding recommendation, the strategist must implement the recommendation, then again assessed, then re-assessed. This reiteration of assessment and re-assessment is essential because the business environment is dynamic, no business strategy can be assumed to be implemented in a static environment.

Check your progress

1. What is strategic analysis?
2. State the various steps involved in strategic analysis.
3. Why is strategic analysis important?

1.5. Scopes of Strategic Analysis

Scope of strategic analysis has two connotations. First connotation of scope of strategic analysis involves levels of strategic analysis. The second connotation involves the framework of analysis in short known as SCOPE, i.e. situation, core competency, obstacle, prospects, and expectation analysis.

1.5.1. Levels of Corporate Strategy and Analysis

Usually strategies are framed at three levels, they are- Corporate Level, Business Level, Functional Level. Analysis is required for each level. The importance of analysis for each level can be understood from the type of strategies framed at each level.

Corporate Level- It is the first level of strategy. Before plunging deeper into the specific strategy, strategist needs to outline the general strategy. The corporate level strategies outline exactly what businesses the corporation is going engage in, how the company plan to enter and win in those markets.

Business Level Strategy- Stepping down from corporate level strategy the next level is business level strategy. It is slightly more specific than corporate strategy. Business level strategies are involved with smaller businesses in a large corporation/organisation. The strategy highlighted at the corporate level is broad in scope, in the business level strategy boil down the broad strategy into smaller parts which will enable to take action.

Functional Level Strategy-This is the day-to-day strategy that is going to keep organization moving in the right direction. This level of strategy is the most important of all, because without a daily plan company may go to be stuck in neutral as an ever increasing competition continues to drive forward. While one works on putting together the functional strategies, one keep in mind that company's higher level goals so that everything is coordinated and working toward the same end.

Levels and Uses of Strategy

Levels of Strategy	Uses of Strategies
Corporate Level	• Outlines general strategies • Defines the markets the company operates • Plans how company will enter into the market
Business Level Strategy	• Define Specific tactics for its markets. • Relate how each business unit will deliver these planned tactics.

Functional Level Strategy	• Day-to-day actions need to deliver corporate and business strategies • Relationships needed between business units, department and Teams • How functional goal will be met and delivered.

Based on the levels and the uses of strategies the requirement for analysis is different. Strategic analysis need to be conducted to support in framing and execution of strategies in corporation.

1.5.2. SCOPE as the Framework

The scope of strategic analysis is very wide. Strategic analysis can be applied with a special analytical framework known as SCOPE. The premise of SCOPE framework offers a situational analysis that takes a more than the 360-degree view on the business situation; encompassing past, current and future perspectives[5] as follows:

S – SITUATION: The situational analysis pertains to the condition of business that have a relevant and material impact on planning decisions with regards to internal or external environmental factors. The **situation of business** provides an outline and understanding of the existing or prevailing conditions based on which the strategic plan can be developed. For situational analysis the analyst must consider both internal and external factors which have led the business to its current position, also consider the factors which have a bearing on the identification of future opportunities, trends and plans.

C – CORE COMPETENCIES: In analysing core competencies analysis business examines the unique abilities or assets of the business that provide the basis for the provision and realisation of value to customers, and are critical to the creation of competitive advantage. The c**ore competencies for the business means the** specific factors that a business sees as being central to the way it operates which fulfil following three key criteria. They are- i. Which are unique to business or enterprise, or not easy for competitors to imitate the uniqueness; ii.Which can be leveraged across products and markets

[5] **Get2Growth;** SWOT Alternative: SCOPE Situational Analysis Tool; in the URL https://get2growth.com/scope-planning-model/

iii. Which contribute to the end customer's experience, or customer experienced benefits by adding value.
From the stand point of above criterion, core competencies provide the fundamental basis for business in achieving the competitive advantage pertaining to the defined marker under a given market conditions.

O – OBSTACLES: Strategic analysis concentrates on analysis of potential issues or threats that could jeopardize in realisation of the core competencies of business enterprise and thereby impinge on prospect in prospects. In analysing obstacles for business analysis may consider both internal and external factors, and reflects on the specific issues that needed to be addressed if the business is to deliver on its core competencies. In this respect, the analysts shouldn't necessarily be defined as either a "Weakness" or "Threat" but rather they must perceive the hurdles executing plans or business decision, and also considers the plan that need to be overcome over the duration. The analysts consider "weaknesses" are longer-term systemic issues those causing a strategic disadvantage or the obstacles those are shorter-term situations which need to be resolved in the priority basis.

P – PROSPECTS: Prospects in common parlance can be understood as the opportunities or chances those exist internally or externally to the business which can enhance sales and / or profits which is created through leveraging its core competencies and in overwhelming the obstacles. Identification of prospects provides the foundation for both goal setting and strategic development going forward. The strategic analysts must understand and identify the business prospects in enabling the business to continue.

E – EXPECTATIONS: Expectation for the business reflects the anticipated developments, i.e. what does the planner see happening in the future that could have either a direct or indirect influence on the execution of the plan and achievement of the defined prospects. It is one kind of future-view – or in commons, are the predictions of future internal and external conditions that are likely to materially influence, positively or negatively, the delivery of plans to meet the identified Prospects. The key predictions normally have impacts on the business plan in short and in long term. These predictions can both objective (quantifiable) or may be subjective (non-quantifiable) can providing the planner with an appreciation of and insight into the future on which business management can have strategic thinking and strategic directions.

The SCOPE framework n strategic analysis involves situational analysis of business or organisation, understanding core competencies of business, obstacles in present and in impending future, the business prospects in future, and finally, the expectations pursued by the organisation and management. SCOPE framework for strategic analysis can be considered as the holistic framework that speaks about what is to be done to achieve strategies and also guides strategic analyst for business decision makers to decide, plan, execute strategic decision.

1.6. Terminal questions

1. What do you mean by strategic analysis? How strategic analysis does support business analysts?
2. Elaborate- "s*trategic analysis is a method to facilitate research, analyse, and map a company's ability to achieve the future target or threshold based on current reality and resources"*.
3. Why strategic analysis important? Explain reasons?
4. Briefly introduce about the levels strategy in corporation. Distinguish between corporate level and business strategies with examples.
5. What is "SCOPE"? How scope framework guides in strategic analysis.

COM: 106 – STRATEGIC MANAGEMENT

Block-3: Strategic Analysis Models and Techniques

Unit-2: Approaches of Strategic Analysis and Models

Structure of this unit

2.1. Learning objectives

2.2. Introduction

2.1 (a) Synergy Approach to Strategic Analysis

2.1 (b) Analytical Approach to Strategic Planning and Analysis

2.3. Qualitative Forecasting Models for Strategy Analysis

2.4. Quantitative Forecasting Models for Strategy Analysis

2.5. Terminal questions

2.1. Learning objectives

- Synergy Approach to strategic analysis
- Analytical approach to strategic analysis
- Qualitative and Quantitative Forecasting Models for Strategic analysis

2.2. Introduction:

Strategic analysis is a series or isolated puzzling some activities for corporate organisations. There are many tools and techniques that can be applied to strategic analysis. The selection of best approach, tools, and techniques to a given business problem and opportunity is very troublesome activity for the strategists of business house. As it is a complex but important activity the analyst must have to undertake cautiously taking consideration of fitness to the problem/situation, environment, and future expectation of corporation.

As the strategic analysis is a critical job, therefore, strategist must start their activities for analysis with systematic approach. Different approaches for strategic analysis are –

(a) Synergy Approach to Strategic Analysis

(b) Analytical Approach to Strategic Planning and Analysis

2.1 (a) Synergy Approach to Strategic Analysis

To begin etymologically, synergy means interaction, or cooperation, collaboration. Synergistic approaches concentrate to derive the benefits of business experiences by strategically organizing itself to maximize cooperation and innovation1. A synergistic approach of analysis attempts to achieve analytical view from the group rather than its parts could in isolation. Synergistic analysis requires a careful analysis of any organization's current strategies to identify better ways of doing business.

Synergistic approach of strategic analysis emphasises on finding the synergistic connections of skills of person, groups, sections, units, or among the departments which can complementarily and collaboratively contribute to common strategies of the organisation. Thus, by adaption of synergistic approach for analysis enables an organisation to detect communication blockage and the point of performance blockage, the collaboration blockage, and structural deficiencies for the business processes of an organisation. Synergistic analysis always seeks to find out the ways and means doing things better, for innovation to achieve the strategic objectives of the organisation.

2.1 (b) Analytical Approach to Strategic Planning and Analysis

An analytical approach is also known as "structuring one's analysis". This approach helps in arranging and configuring the available analytical tools and techniques those are required in positing any problems and solutions. Analytical approach is the use of an *appropriate* process to break a problem down into the smaller pieces necessary to solve or to achieve the solution. Analytical approach postulates on the fundamental meaning of "**analysis" which means the activities of separating** a problem into its constituent elements. Analysis reduces complex issues to their simplest terms. That's why an analytical approach of the strategic analysis speaks about the use of an appropriate process to break down the issues or the problems into elements necessary to materialise any strategy. Usually all the popular the models available in the strategic domains of knowledge are rest under the analytical approach. There are types and classes of models available for strategic analysis. To name a few, the most commonly adapted models and techniques for strategic analysis are-

1. Strategic Forecasting models
2. Business Analysis Models

---

[1] *Stan Mack,* Synergy Approach to Strategic Analysis, *https://smallbusiness.chron.com/synergy-approach-strategic-analysis-35341.html*

3. Economic Models
4. Simulation Models
5. Decision Support Models
6. Sensitivity Analysis Model
7. Porter Five Forces Theory
8. Portfolio Analysis or Evaluation
9. McKinsey's 7S Framework

Check your progress

1. What are the analytical models in strategic analysis?
2. What are synergistic models in strategic analysis?

And many other contemporary strategic management thoughts are based on analytical approach of strategic planning and analysis. All the analytical models can be used to develop a process for churning out new or alternative strategy for differentiation. The following sections devoted to explain briefly on various models for strategic analysis.

Forecasting Models for Strategic Analysis- Forecasting is an important part of many activities of business strategy. Forecasting is important, when a business predicts it's sales, or measuring market impact, or understanding the need to grow it's workforce. Forecasting helps businesses assess where they are and predict where they might be going in many key areas. This is crucial when it comes to goal setting, budgeting, and campaign planning. Business can outperform the competition if it has a method for looking ahead and planning for adjustments to create new income streams. 2Strategic forecasting attempts to look into the future to determine what markets may develop what resources the company needs to exploit those markets and ways to enter those markets before the competition does.

To develop strategies for the management of any business, strategist has to evaluate the present business position and forecast how it will change during the planning period. Such forecasters have to guide strategists in specifying strategic objectives. Validity of such business strategy mostly depends on the accuracy of forecasting. Depending on the type of strategy developing by a manager, he/she has to choose the forecasting techniques that will best allow him to predict how the business will evolve. In other words, forecasting helps a business to look at past trends along with their current position and helps in predicting the

[2] https://yourbusiness.azcentral.com/strategic-forecasting-23681.html

future of the business. One can use business forecast tools to help predict sales, budgets, and many more.

Forecasting models can be classified under two broad heads.

- Qualitative Forecasting Models
- Quantitative Forecasting Models

2.3. Qualitative Forecasting Models for Strategy Analysis: Qualitative forecasting models use various subjective techniques for strategy analysis, centrally based on the opinion and judgement of consumers, experts. These techiques are appropriate when past data is not available. It is usually applied to intermediate-long range decisions. The qualitative forecasting models for strategic analysis tools mostly uses judgmental methods incorporating intuitive judgment, opinions, subjective probability estimates. The example of qualitative forecasting methods is

- Informed opinion and judgment
- Delphi method
- Market research
- Historical life-cycle Analogy.
- Composite forecasts
- Surveys
- Scenario building
- Technology forecasting
- Forecast by analogy
- Artificial intelligence methods
- Artificial neural networks
- Group method of data handling
- Support vector machines

In addition to above techniques other commonly used qualitative methods for strategy analysis are-

- Simulation
- Prediction market
- Probabilistic forecasting and ensemble forecasting
- Reference class forecasting

2.4. Quantitative Forecasting Models for Strategy Analysis: The other groups of forecasting models for strategy analysis are **quantitative forecasting** models. Quantitative forecasting models are applied to estimate future demands as a function of past data. Quantitative forecasting is appropriate when past data is available and usually applied to short-intermediate range decisions. Examples of quantitative forecasting methods:

- Last period demand
- Arithmetic Average
- Simple Moving Average (N-Period)
- Weighted Moving Average (N-period)
- Simple Exponential Smoothing
- Multiplicative Seasonal Indexes

The above list of quantitative forecasting models is not an exhaustive one. There are many more methods are emerging, can be added t this list.

Note: To clarify the qualitative and quantitative forecasting models and techniques for strategy analysis learner can refer the text books for statistics and or econometrics

2.5. Terminal questions

1. What do you mean by strategic analysis?

2. How are qualitative models used for analysis of strategy?

3. State the quantitative models for strategic analysis?

COM: 106 – STRATEGIC MANAGEMENT

Block-3: Strategic Analysis Models and Techniques

Unit-3: The Business Analysis Models for Strategy Analysis

Structure of this unit

3.1. Learning Objectives
3.2. Introduction
3.3. SWOT Analysis
3.4. PESTLE analysis
3.5. Terminal Questions
3.6. Suggested readings

3.1. Learning Objectives

- Introduction to business analysis models
- Various business analysis models for strategic analysis

3.2. Introduction: The business analysis models for strategy analysis deploy the activities measuring the business performance and aims to set targets for business. Business analysis models are the useful tool and techniques that can helps in understanding the organisational environment and to think more strategically about the business operation in future. A dozens of generic techniques are available for business analysis, but some of them are frequently used than the others. These include:

- SWOT analysis (strengths, weaknesses, opportunities, threats)
- PESTLE analysis (political, economic, social, technological, legal and environmental) scenario planning
- Porters 5 forces Model-to analyse industries
- Business Canvas
- BCG Matrix- To analyse Product Portfolios
- Porters Diamond Model- To analyse locations
- McKinsey 7 S Model-To analyse teams
- Gernier Theory- To analyse growth of organization
- Herzberg Hygiene Theory- To analyse soft aspects of individuals
- Marketing Mix Model- To analyse marketing mix.

3.3. (i) SWOT Analysis: SWOT analysis is one of the oldest techniques of strategic analysis for long range planning for business**.** Humphrey wrote a brief history of SWOT development with the realisation that long range planning approaches during 1960 were not working properly. Humphrey with his research team interviewed 1,100 organizations and had 5,000 executives complete a 250-item questionnaire. The original approach of SWOT was called SOFT (Satisfactory, Opportunity, Fault, and Threat) but after subsequent adaptations by a number of consultants and academics, it evolved into SWOT. There are devotees of SWOT that believe it originated at Harvard Business School under the guise of Albert Smith, Roland Christensen, and Kenneth Andrew. SWOT analysis is one of the most popular strategic analysis models. It involves looking at the strengths and weaknesses of business' capabilities, available opportunities for business, available threat to the business. Once the manager or strategist identifies these, he would be able to address the following issues

- capitalise on business/owner's strengths
- minimise the effects of his/businesses' weaknesses
- make the most of any opportunities
- reduce the impact of any threats

A SWOT analysis gives a better insight into the internal and external business environment. It has its basic limitation, that is, it does not always prioritise the results which can lead to an improper strategic action. **SWOT analysis** of **business** will enable to make a solid strategic plan for b**usiness's** growth to make better use of the SWOT framework is to consider the customer's perspective when making strategic plans and decisions. One can do this by applying **importance-performance analysis** (IPA) to identify SWOT based on customer satisfaction surveys.

3.3. (ii) How to Start SWOT Analysis- To conduct a SWOT analysis systematically one must cross multiple steps. They are -

Step-1 Brain Storming: To initiate SWOT analysis brain storming is very much essential. This brain storming may be at organisational level or may be at even individual level. A series of questions may be asked under the heads of SWOT. They are

(a) Brain storming to Analyse Strengths- If you want to start Strength analysis then we have to identify the things that we are good at. It is a long procedure, hence in the initial stages we enlist as many strengths as possible.

1. **Financial Strengths:** What is our most trustworthy source of finance? Is it our present customers, a specific product or the services that we offer?
2. **Customer Strengths:** How are our customers growing? Is it the word of mouth of the customers in a particular segment? Is it mainly retail or commercial? Why do our customers prefer us over our competitors?
3. **Internal Strengths:** How do we excel as a whole? Do we innovate? Do you have strong customer relationships or partnerships?
4. **Learning & Growth Strengths:** Where do you excel in according to our employees? Is it our compensation system? Is it be our workforce training and development programme? Is it our work culture?

(b) Analyse Weaknesses- To analyse weaknesses, start asking yourself or your business, "Where are we failing?" or "Where is the scope to improve?"

1. **Financial Weaknesses:** What is your biggest financial weakness? Perhaps most of your customers are in a cyclical industry and subject to market whims, for example. Or maybe your most used product has the lowest profit margins.
2. **Customer Weaknesses:** Where do your customers think you need to improve? This could be your investment products, locations, loan origination, or competitive prices for interest rates.
3. **Internal Weaknesses:** What do you do poorly? Do you have opportunities to improve in project management for opening new branches? What about for one-touch call resolution for customer service?
4. **Learning & Growth Weaknesses:** What are your biggest challenges with employees? Do you have particularly high turnover in certain departments or a negative perception of the organizational culture?

(C). **Opportunities**- Following the discussion on threats, ask those in leadership to look toward the future and consider, "Where do we see big possibilities for our organization?"

1. **Financial Opportunities:** What is your biggest opportunity to improve your finances? This might be starting a new product line, increasing customer retention, or going after a new geographical area.

2. **Customer Opportunities:** Where could you dramatically improve with your customers? Could you improve your online interface? What about cross-selling related products, or better understanding your customers' purchasing habits?
3. **Internal Opportunities:** What processes will drive you well into the future if you could improve upon them? This may entail partnering with a mortgage origination company or developing neighborhood sponsorships.
4. **Learning & Growth Opportunities:** What opportunities do you have to leverage staff? For example, do you have cross-training opportunities? Could you make a few tweaks to improve your culture and thus your retention?

(d) Threats: After identifying opportunities, zero in on your biggest threats by asking, "What do we see on the horizon as being potentially harmful to our organization?"

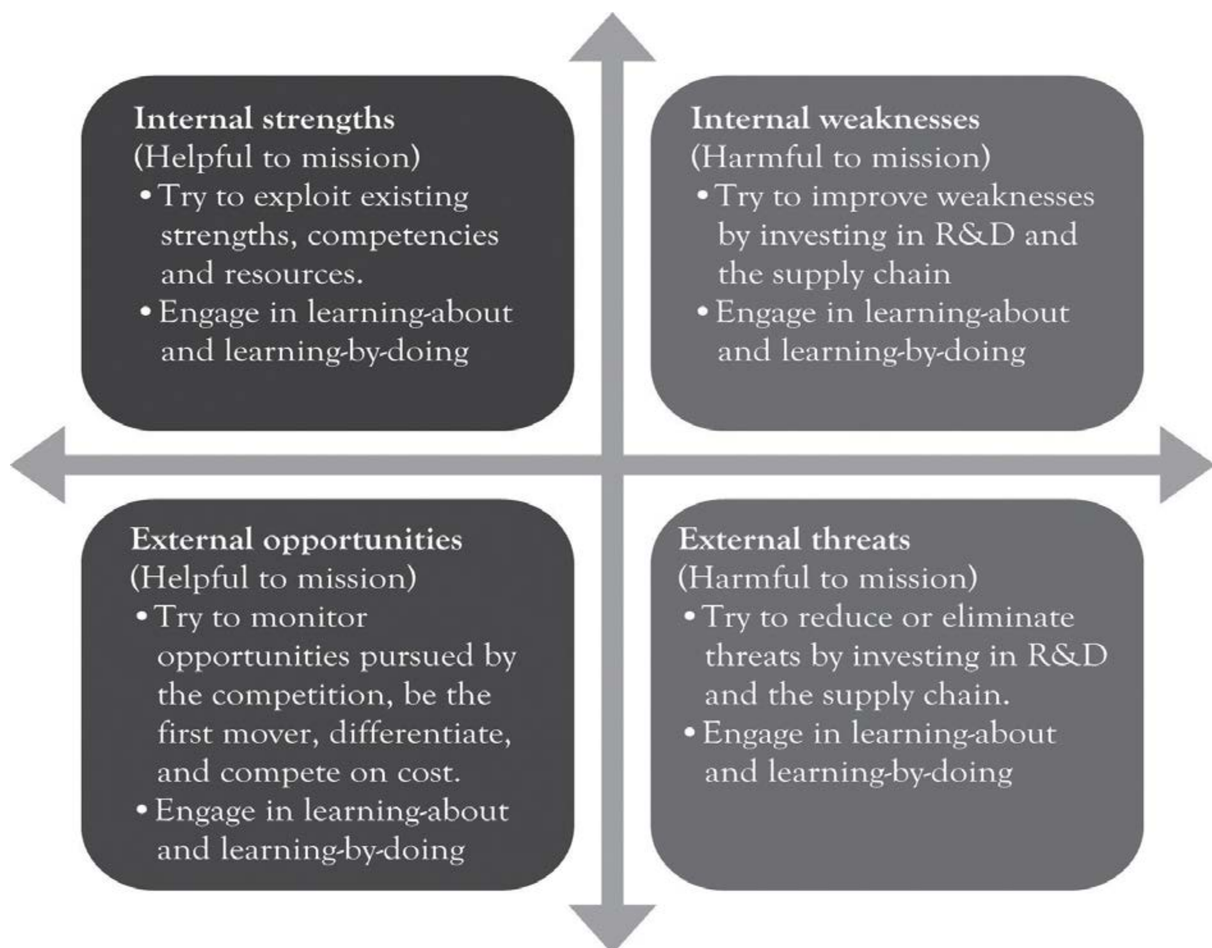
1. **Financial Threats:** What threats could seriously impact your financial health? This could be low-cost competitors, a partner entering the banking space, or an overseas banking product.
2. **Customer Threats:** What is your biggest concern about your customers? Does one of your competitors offer zero-fee checking that could steal some of your market share? How simple is your customers' ease of departure?
3. **Internal Threats:** What current areas of your business might harm you later? Do you have a new product rollout soon that could potentially fail? Are you struggling through a merger or an office upgrade?
4. **Learning & Growth Threats:** What threatens the people within your organization? This could be anything from instability in your customer support department to staff member departures to a department-specific pushback against new technology.

STEP-2: After completing SWOT analysis brainstorming, then take the following steps or activities:

i. Consolidate your analysis results into a four-box SWOT matrix.

Source: https://www.smartsheet.com/ic/14-free-swot-analysis-templates

Once SWOT brainstorming process is completed with leadership, consolidate the results so that all the positive opportunities—and any negative trends—that could affect business strategy, and how you operate on the whole can be found out.



ii. Start developing your strategy map- Strategy mapping is a cornerstone of business-aligned strategies. If it is done right, it produces clearly defined objectives with measurable results. Strategy mapping is a principal method of aligning, planning and communicating the overall business direction and strategy. It is built from the top down, so it is important to understand the ultimate objective of the organisation before identifying the supporting objectives needed to achieve it. There are several benefits to be gained from strategy mapping.

(iii) After the strategies are mapped then requires to communicate to the organization where, how, and why business/manager s are changing the strategy. To communicate the mapped strategies, print the SWOT matrix in large size , ask leaders to fill up the missing items in all four boxes, or can be asked to provide suggestions so that the leader can follow up rightly in future.

(iv) After you start implementing a strategy, build programs to help overcome weaknesses or go after opportunities. Keep in mind that your SWOT analysis isn't an end product—it's the first step to helping strategist to align strategy around the areas you've identified as strengths, weaknesses, opportunities, and threats.

(v) The last step is to remain prepared to take action on your SWOT analysis once one completes it!

3.3. (iii) Importance and Advantages of SWOT analysis- SWOT analyse can provide many advantages. They are

- It helps firm to conduct an internal analysis that helps in growth of business. It assumes that out of all analysis, the analyse of self (organisational self) is more important and the SWOT analysis does exactly that for any firm.
- SWOT analysis helps the firm to improve upon its weaknesses. A firm can use SWOT in creative ways and can facilitate in giving feedbacks to find out all weaknesses about itself. This is the first step of any improvement exercise because to find out ways that you can improve.
- SWOT helps in strategy and decision making because SWOT focuses on all different aspects of an organization; it helps in quick decision making and also helps in strategy.

- Another advantage of SWOT is that it determines threats which need to be acted on. SWOT matrix helps in analysing the threats to the brand or to the company. With the combination of detected weaknesses, SWOT directs strategies which can be acted upon to make the organization even more competitive.
- SWOT can help in deciding short term and long-term objectives. There may be many plans that a company wants to implement. But deciding which plans are in priority and which can be implemented later is the job of SWOT analysis.
- SWOT helps in understanding the barriers to growth of business. There are numerous barriers for firms. The SWOT analysis helps pin pointing these barriers and threats which can be overcome to explore more opportunities.
- SWOT analysis helps in adjusting strategy. It is not necessary that every plan of an organization will be successful. The company might have to keep adjusting its strategies based on results. With a proper SWOT in place, the company can adjust by looking at its strengths and weaknesses and helps in adjusting until it lessens threats or overcomes opportunities.
- SWOT paves the way forward of goals, objectives and decisions. Strategy involves elimination of all alternatives and determining which is the best way forward. In such decision making, SWOT is the perfect tool as it helps in elimination of goals and objectives which are achievable or even not achievable one for the company.

Check your progress

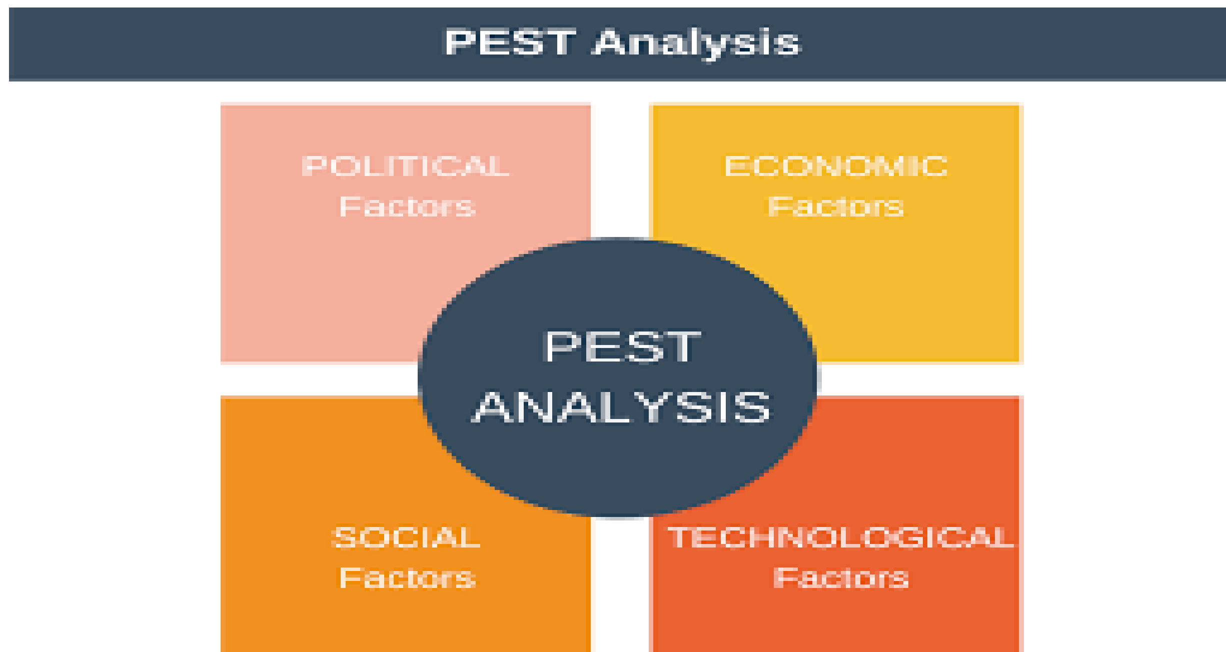
1. How is SWOT analysis done?
2. What are strengths in SWOT analysis?

3.4.(i). PESTLE analysis

PEST or PESTEL analysis is a simple and effective tool used in situation analysis to identify the key external (macro environment level) forces that might affect an organization. It considered as the technique for understanding the various external influences on a business. Those influential factors are Political (P), economic (E), social (S), and technological (T) factors in the external environment of an organization, which can affect its activities and performance[1]. PEST analysis is known as PESTLE analysis. It is a model of analysis

[1]Thompson, J. and Martin, F. (2010). Strategic Management: Awareness & Change. 6th ed. Cengage Learning EMEA, p. 86-88, 816

involves the collection and portrayal of information about external factors which have, or may have, an impact on business. This model of analysis sometimes known as an environmental scanning and is an input to setting strategy for business.



Source: https://expertprogrammanagement.com/2018/05/pest-analysis/

Example: When to apply PEST or PESTLE

Suppose a company has to consider two options, they are –

Should the company develop a new product?

Or should it (company) expand into a new country?

Company faces the puzzles, due to many questions as consequence. They are, how would a company decide which opportunity is the right on to follow? Where would you start in answering this question? What are the key pieces of information you would need to enable you to make this kind of strategic decision? etc. etc.

3.4. (ii) Aims of PEST Analysis: Connecting to the puzzles above, the main aims of doing the PEST Analysis is to collect information about macroeconomic factors to gain insight. This insight can then be used to make better decisions. In addition to above, the aims of PEST analysis is summarised as -

- To find out current external factors affecting an organization;
- To identify the external factors that may change in the future;

- To exploit the changes (opportunities) or defend against them (threats) better than competitors would do.

3.4. (iii) Factors to considered for PEST Analysis: The process of PEST of PESTLE Analysis with an assumption that there are many factors you can consider in your PEST Analysis. The real key to conducting a successful PEST Analysis is to recognize which are the most essential factors for you or for your organization.

- **Political Factors (P)**- Politics and the action of government has an enormous impact on the businesses conduct and operation of business. Politics also decides how favourable a country to do business within or go beyond the country. This aspect of a PEST Analysis is about understanding how shifts in political power structures might impact any or your business.

Example
Consider a country where the government introduces a new piece of legislation. This legislation states that all companies must be carbon neutral within seven years. For some businesses, this may result in an increased cost of launching in that country. For other businesses, it might provide a huge opportunity.

- **Economic Factors (E)**- The economic factors of the PEST Analysis trepidation on understanding the economic prospects for a country. Here the business or strategist understands amongst the other things, are –
  - Shifting demographics.
  - Fiscal policy.
  - Market demand.
  - Interest rates.
  - Infrastructure improvement rate.
  - Using this information you can then determine if it makes sense to operate within this country or region.

Example of Economics Factors in PEST Analysis
The economy of India has grown massively over the past 5 years. This is evidenced by high GDP growth almost every year. This GDP growth

combines with a huge internal market of well over more than one billion people. The GDP and population growth together present an enormous prospect for firms looking to grow. This is especially the case because many western markets are saturated.

Social Factors(S) - For the PEST analysis, the social factors include all factors that are social or cultural within a particular country or society. These factors can be some of the most difficult to predict and interpret. These factors include such things as:

- Career expectations.
- Lifestyle preferences.
- Education levels.
- Attitudes.
- Entrepreneurial spirit.

Technological Factors (T)-Technological for PEST analysis concern on macroeconomic technology shifts as the factors impacts on the business. Swift technological change has impacts on many businesses since the industrial revolution. These technological factors can influence how a company or organisation delivers product or service to the market. Obviously, technological factors can affect both consumers and the company itself. Some of the technological factors you should consider in your PEST Analysis are:

- Are there any technologies that your business should be using to create products or to deliver products?
- How might new technology impact your product offering?
- How might new technology impact the cost structure of your business?
- Might new technology impact your value chain?
- In what industries does this nation have a competitive advantage? How does this impact your business?
- Do technological hubs exist within the country? Can you use one of these hubs to your benefit?

It is also to be note that technological change is vital to staying competitive. From the time of industrial revolution to the present day, technological factors are being considered as the driving force behind globalization.

Check your progress
1. What factors are considered for PESTLE analysis?

3.4. (iv) Procedures for PEST Analysis- There are multiple steps for PEST analysis. They are –

1. Determine the most important PEST factors to collect- There is an almost countless quantity of factors that you *could* collect to execute your PEST Analysis. The key to a successful PEST Analysis is to begin by determining which the most important factors for your organization are. The Innumerable factors for PEST analysis can be arranged as analysed above. Factors arrangement can be done according to the requirement and logical connection with business operation from the list under each head of P-E-S-T.

2. Collect the information- The second step for performing PEST analysis is Collection of information those involves in determining the factors that are important for business. One should focus only on those factors that you or strategist think will help to make better strategic decisions.

Once you have determined the factors you want the next step is to agree who is going to be responsible for collecting each factor, and by when.

3. Analyze the Data- In the third step of PEST analysis is analysis of data collected in the step-2. Observe the collected data with a good insight into the major trend that are taking place. Analyse the data to see how it impacts on your organisation.

This step ordinarily takes the form of a brainstorming session. In this session analyser(s) may look for:

- Opportunities: What trends can you see in the data that could provide an opportunity for your business?
- Threats: What trends can you see in the data that have the potential to undermine your business?

You may find it useful to weigh (balance) up each of the factors according to how important it is for your business. This will highlight the most important factors, helping a strategist to make better decisions.

4. Take Action- After analysing PEST one can rarely immediately take action on the findings. This is because a PEST Analysis is just an input to the strategy process. Many other factors in addition to the PEST analysis need to be considered before deciding a strategy. PEST analysis may help to determine what the next steps for the strategic process are. May you may select strategy diamond, or SWOT analysis.

The common Cautions for PEST Analysis

There are some common pitfalls in PEST Analysis as reported by experts on it. A few pitfalls need to avoid when conducting PEST Analysis, they are:

- Making assumptions rather than collecting hard facts i.e. collect the hard facts rather the making assumptions;
- Never trying to collect too much data "mountain of data" as because there are an almost infinite number of factors you could collect and it's very easy to try and collect too much. The real key is for a successful PEST Analysis is limiting the data you'll collect to a small set of factors.
- Normally analysts conduct PEST Analysis and then forget about it. To get result, the factors that are important to business should be tracked and monitored over time.
- Thinking that a PEST Analysis is all you need to do to formulate your strategy for a market, isn't it. As already stated that a PEST Analysis is just one input to strategy creation therefore one should never feel that PEST in not that tool to formulate strategy directly.

3.5. Terminal Questions

1. What is SWOT? Write briefly on SWOT as the strategic analysis model.
2. Explain in detail on the steps of SWOT analysis.
3. Write briefly on the history of SWOT analysis model. Also explain the situation when SWOT analysis can be conducted. What are the advantages of SWOT analysis?
4. Write an Essay on PEST Analysis. How would you conduct PEST Analysis?
5. Explain various steps for conducting PEST analysis. What are the pitfalls of PEST analysis?

3.6. Suggested readings

Web Sources

- *https://www.strategicmanagementinsight.com/tools/pest-pestel-analysis.html*

- *https://searchcio.techtarget.com/definition/SWOT-analysis-strengths-weaknesses-opportunities-and-threats-analysis*

- *https://www.smartsheet.com/ic/14-free-swot-analysis-templates*

- *https://www.smartsheet.com/ic/14-free-swot-analysis-templates*

- *https://expertprogrammanagement.com/2018/05/pest-analysis/*

COM: 106 – STRATEGIC MANAGEMENT

Block -3 Strategic Analysis Models and Techniques

Unit-4: Other Important Strategic Analysis Models

Structure of this unit

4.1. Learning Objectives

4. 2. (a) PRIMO-F analysis

4.2.(b) PORTER'S FIVE FORCE ANALYSIS

4.2.(c) BCG-Matrix

4.3. Terminal questions

4.4. Suggested readings

4.1. Learning Objectives

- Introduction to PRIMO-F, Porter's Five Force Analysis, Force Field Analysis, BCG Matrix
- Understanding Usage and Limitations of Models
- Methodology for analysing under different Models

4.2.(a) PRIMO-F analysis- The PRIMO-F model was originally developed by RapidBI & Morrison in the year,1998. This was created to overcome the limitations of the SWOT and PESTLE Model of Analysis for strategy development. The PRIMO-F Model is a detection tool to measure an organization's effectiveness as compared to pre-determined parameters. To go ahead with strategic management in in an organisation, the management has to set the parameters against which organisation will strive. PRIMO-F model is the abbreviation of parameters needs to be diagnosed. They are-

P= People

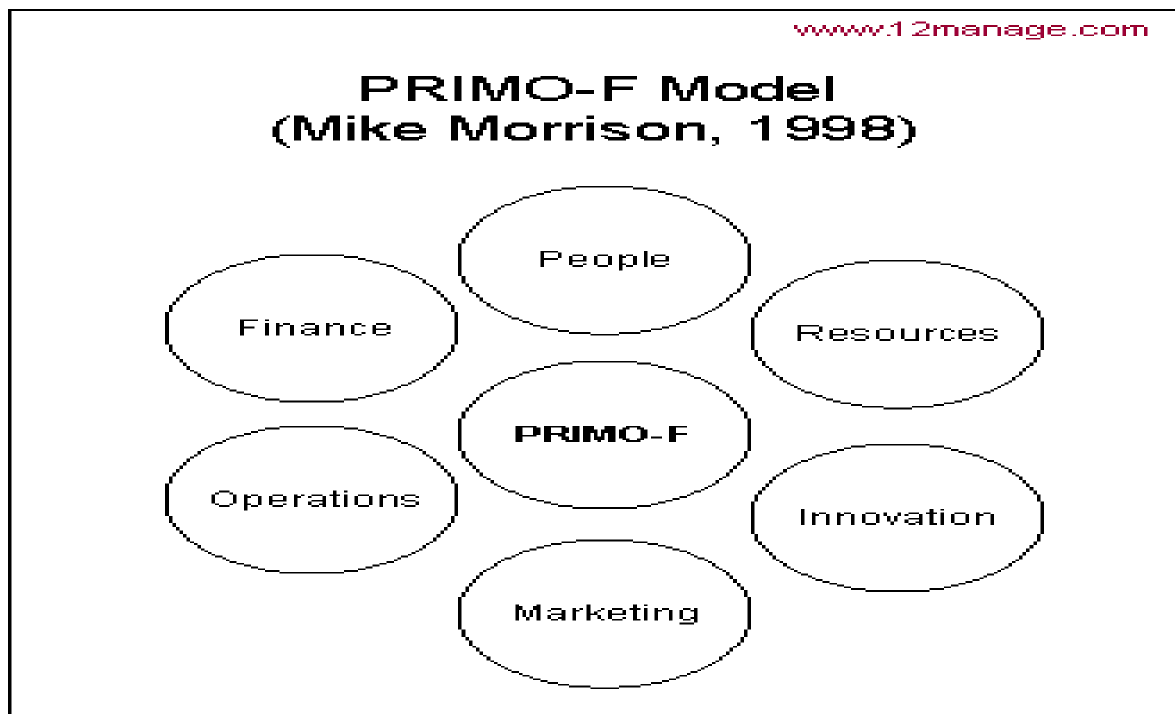
R=Resource

I= Innovation

M= Marketing

O= Operation

F= Finance



Source: https://www.12manage.com/description_PRIMO_F_model.html

The parameter People is measured in terms of experience, leadership and control skills.

The PRIMO-F model holds that an organization with successful current performance and promising future performance will grow and perform. It is to be noted that, if present performance is poor, it does not mean that the situation cannot be different in the future. In other words, situation is alterable. In the same way, if current performance is satisfactory, future success may also not be guaranteed, or in other words future success may not be guaranteed even the current performance is satisfactory.

APPLICATIONS AND USAGE OF PRIMO-F MODEL

To use this model a thorough analysis of the People, Resources, Innovation, Marketing, Operations and Finance is essential. The reason behind the analysis in these areas is to identify strengths and weaknesses among them. The strength needs to be sustained in the future while weaknesses require development of improvement actions or plans. This analysis for the model enables to establish a prioritization plan and set objectives.

PRIMO-F can be used in combination with a PEST and when conducting a SWOT analysis. The PEST framework helps to investigate the **external factors** pertaining to the external environment (threats and opportunities), on the other way, PRIMO-F can be used to analyze the **internal factors** (strengths and weaknesses) of an organization. PRIMO-F model is considered as an advanced technique to narrowing the focus of a strategic analysis only to internal factors. An additional advantage of this framework is that it enables to compare relevant data with internal or external benchmark.

LIMITATIONS OF THE PRIMO-F MODEL. DISADVANTAGES

1. All parameter in the models need to considered as equal factor in other word PRIMO-F does not assume any prioritization; each parameter is considered as a qualitative standard.
2. The application of parameter range of the tool is broad. Therefore, it is assumed that if a CEO excels in Finance or in Marketing indicates the he could be more concerned about this field than others.
3. In this model there is consideration for current and future performance for analysis or for diagnosis, but in reality, completely separating the current from the future performance is difficult.

4.2. (b) PORTER'S FIVE FORCE ANALYSIS

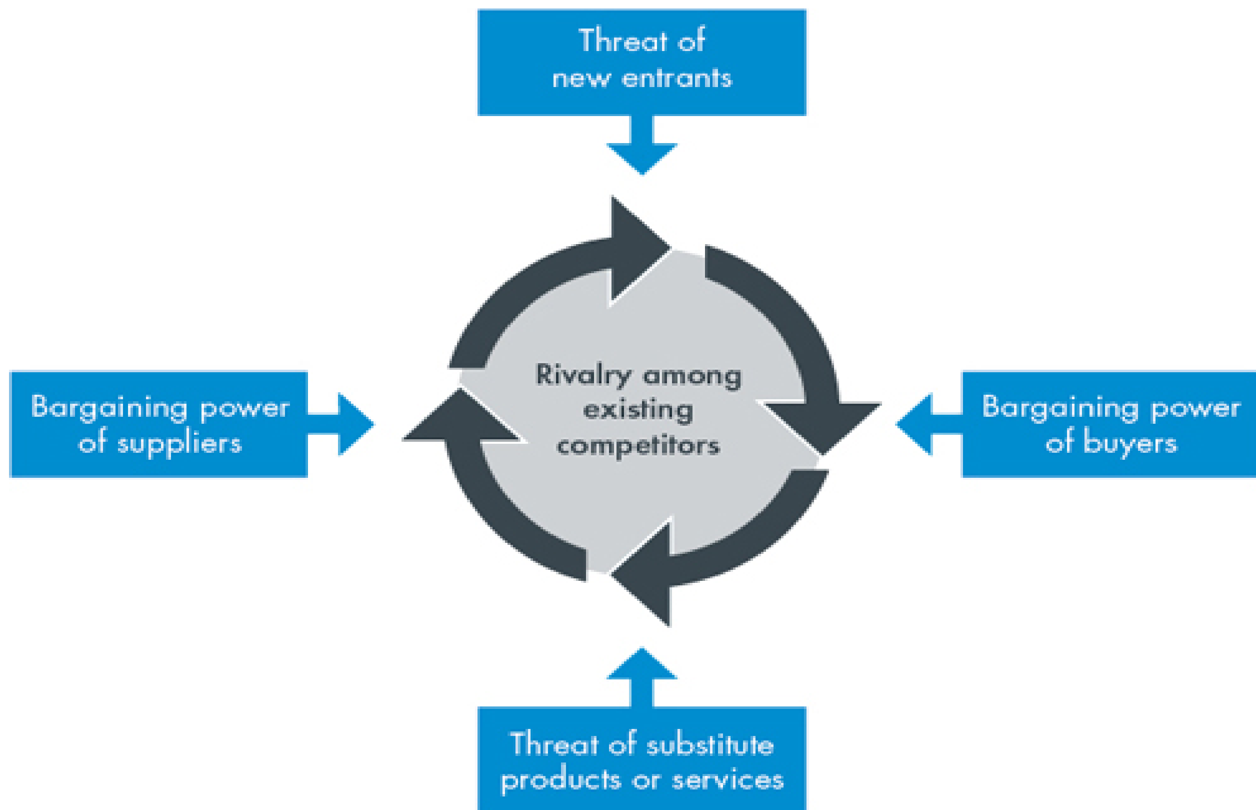
Porter's Five Forces of Competitive Position Analysis were developed in 1979 by Michael E Porter of Harvard Business School. It is a simple framework for assessing and evaluating the competitive strength and position of a business organisation.

This model is based on the concept that there are five forces that determine the competitive force and attraction toward a market. Porter’s five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organisation’s current competitive position, and the strength of a position that an organisation may look to move into.

Strategic analysts often use Porter’s five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

Porter’s five forces of competitive position analysis:

Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of business environment. It facilitates in identifying potential of business strategy as drivers to profitability. It is beneficial due to when one can understand the forces in his environment or industry that can affect his profitability; he/she would be able to adjust his/her strategy accordingly. One can take the fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in future.



Source: https://www.cgma.org/resources/tools/essential-tools/porters-five-forces.html

The five forces as described by Porters:

i. Supplier power. Supplier to a business is indispensable force work as the power. Suppliers drive up prices. Analysis of this force helps in assessing how easy for suppliers to drive up prices. The force is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.

ii. Buyer power. Buyers Power in this model is an assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organisation; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictate terms.

iii. Competitive rivalry: The competitive rivalry is one major determinants business success and efficiency or existence. Competitive rivalry is the main driver is forced by the number and

capability of competitors in the market. There are many competitors, offering undifferentiated products and services, will force to reduce market attractiveness.

iv. Threat of substitution. Business has to see where are the close substitutes of products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. The threat to substitution reduces both the power of suppliers and the attractiveness of the market.

V. Threat of new entry: It is common parlance that profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability must decline to a competitive rate. Arguably, regulation, taxation and trade policies make government a sixth force for many industries.

What benefits does Porter's Five Forces analysis provide?

Five forces analysis helps organisations to understand the factors affecting profitability in a specific industry, and can help to inform decisions relating to: whether to enter a specific industry; whether to increase capacity in a specific industry; and developing competitive strategies.

Advantages of Porters Model

- The model is a strong tool form competitive analysis at industry level
- It provides useful input for performing a SWOT analysis

Disadvantages of Porter's Model

- It is not based on the concept of inside-out strategy the issue of core competence of business is not taken into account.
- It doesn't cope with synergies and inter-dependencies within the portfolio of large corporations (parenting advantage)
- This model does not fit to businesses which are operated under the environments which are characterised by rapid, systematic and radical change require more

Check your progress

1. What is the PRIMO-F model used for?
2. What are the forces in Porters Five Forces Model?

flexible, dynamic or emergent approaches to strategy formulation (disruptive innovation)

4.2. (C) BCG-Matrix

The BCG Matrix is a commonly used **portfolio management tool**. It is based on the principles of product life cycle theory. It was developed in the early 70s by the Boston Consulting Group. It helps in decision making for various businesses on priority basis. BCG Matrix aims at value creation in the long run. It assumes the prime condition that to ensure long-term value creation; a company should have a portfolio of products. Those portfolio products contain both high-growth products in need of cash inputs and low-growth products that should generate a lot of cash.

The Boston Consulting Group Matrix has 2 dimensions: **market share** and **market growth**. The basic idea behind consideration of two dimensions is, if a product has a bigger market share, or if the product's market grows faster, it is better for the company.

According to this matrix, business could be classified as high or low according to their industry growth rate and the industry's market share.

Relative Market Share = SBU Sales this year leading competitors sales this year.

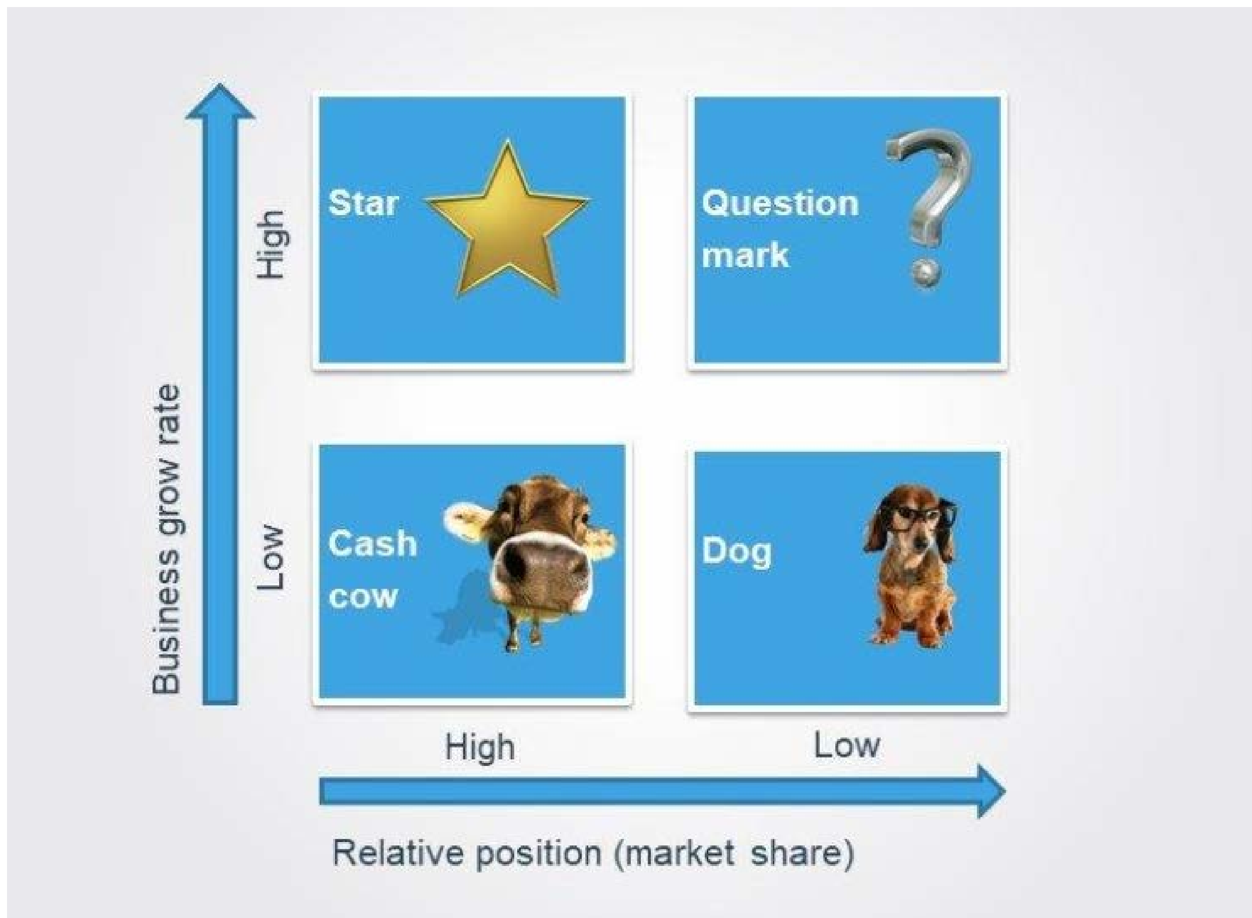
Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures (i.e. Market Share and Market Growth Rate) be calculated for each SBU. The business strength and relative market share measures the comparative advantage, which is indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells (appeared in figure below). The horizontal axis denoting relative market share and the vertical axis denoting market growth rate in figure. Resources are allocated

to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

Figure-BCG-Matrix



Source: https://www.toolshero.com/marketing/bcg-matrix/

Categories in BCG Matrix

The values of each axis depend on the line of business or industry. For this reason, the axes are often showed or indicate with high and low. BCG Matrix explains the product or business unit can be in one of the four of the following categories:

1. Question mark- This about the question what product is going to do on the market. This question cell is often concerns a product that is to be introduced and is unknown for a very small market share. It is still uncertain whether it can become a Star or a Cash Cow. Question Marks have the worst cash characteristics of all, because they demand high cash and produce low returns as they have low market share. During unchanged market shares, Question Marks will simply absorb great amounts of cash. It suggests that have to invest heavy, or sell off, or invest nothing and generate any cash that we can.

2. Star- Star indicates high growth and high market share. It explains the phenomenon of the market share of the product grows like a 'rising star' in the growth market. To maintain a lead in the market, the investments to be made as targeted along with targeted innovations along with the adjustments to the product, thus, the product will become more and more familiar.

The other side interpretation is that, the stars are using large amounts of cash. Stars are leaders in the business. Therefore, they should also generate large amounts of cash. Stars are frequently roughly in balance on net cash flow. However, if needed any attempt should be made to hold your market share in Stars, because the rewards will be retaining the Cash Cows if market share maintained.

3. Cash Cow- The product of company can be cash cow or is a 'milch cow' from which big money is made from cash cow. Cash cows explains low growth product but with high market share. Profits and cash generation should be high. Because of the low growth, investments which are needed should be low. Cash Cows are often performed as stars of yesterday and they are the foundation of a company. The revenue generated form the operation of Cash Cow-product or project is invested in other products.

4. Dog- It explains about low growth and low market share of product or projects. When a product is in the under the dog position, it has a small market share in a mature market. If this product is no longer of strategic importance to the company, this product will be divested. The

options for strategist under the Dog are to avoid and minimise the number of dogs in a company. The strategist has to watch out for expensive options as the 'rescue plans' but dogs must deliver cash otherwise they must be liquidated.

Sequence

BCG-Matrix directs the sellers from where to move through development path. The most ideal development path of a product starts from the cell of **Question mark** to **Star** and to the **Cash Cow**. The route to **Dog** should be postponed for as long as possible. It is observed that some products remain stuck as a Question mark, become Dogs at an early stage. But, observed that it is a costly affair for a business as investments have been made in the product and in the promotion around the product. The direction of a product via the ideal development path will eventually bring in money with which investments can be made in other and/or new products that will be deployed in the market as a Question mark. However, for the sake of the continuity of the Cash Cows and/or Stars, Dogs are also necessary; no any stages can be avoided.

Strategic Choices

BCG Matric can determine the operational management of product of a company. For a company selecting one option out of four categories entail a lot of risk, and from the strategic point of view it is superior to distribute the assortment over all four categories. Some of the strategic choices those are in conformity with the BCG matrix could be:

- Start with **c**reating a new brand and a new target by means of a Question Mark.
- Maintain success and benefit from market growth by means of a Star.
- Make as much money as possible with the product by means of the Cash Cow. This can be achieved by improving or renewing the product or by manufacturing by-products.
- Abandon the investment in the product by means of a Dog; the market is saturated or there is no or little interest in the product.

ADVANTAGES OF BCG MATRIX

The BCG Matrix method is a tool, helps in understanding the strategy mistakes which is frequently made by the business. It is considered as one size fit to all strategy approach can support to generic growth target or a generic return on capital for an entire corporation. In addition, BCG matrix is useful in-

- It suggests a company to enjoy the experience curve, through manufacturing and by selling new products at a price that is low enough, suggests how to get early market share and market leadership. It also suggests that once it becomes a star, it is destined to be profitable.
- BCG model is helpful for managers to evaluate balance in the firm's current portfolio of Stars, Cash Cows, Question Marks and Dogs.
- BCG method is applicable not only for small firms but to large companies that seek volume and experience the effects.
- The model is simple and easy to understand.
- It provides a base for management to decide and prepare for future actions.

LIMITATIONS AND CRITICISM OF THE BCG MATRIX

Through, BCG matrix is applied by many businesses, and has many advantages; still, it is not free from criticism. The following are the limitations of BCG Matrix-

- The focus on the market share of the matrix does not guarantee profitability.
- The BCG matrix does not consider decreasing markets enough; in reality, the Cash Cows could disappear without any reason.
- Market growth is treated as a given, whereas a business could give the market an incentive.
- It neglects the effects of **synergy** between business units.
- High market share is not the only success factor.
- Market growth is not the only indicator for attractiveness of a market.
- Sometimes Dogs can earn even more cash as Cash Cows.
- To analysing with BCG Matrix getting data on the market share and market growth are problematic.

- This matrix has to operate in absence of clear definition of what constitutes a "market".
- A high market share does not necessarily lead to profitability all the time.
- The model uses only two dimensions – market share and growth rate. This may tempt management to emphasize a particular product, or to divest prematurely. There are many dimensions other than this two.
- BCG matrixes never assume the business with a low market share that can also be profitable.
- The model neglects small competitors that have fast growing market shares.

4.3. Terminal questions

1. Explain Porter's five forces model?
2. What are the characteristics of Cash Cows?
3. What is the BCG matrix? Where is it used?
4. How are question marks related to dogs and stars in a BCG matrix?

4.4. Suggested readings

Assen, M., Berg, G., Pietersma, P., (2009) Key Management Models: The 60+ models every manager needs to know. Essex: Pearson Education, UK 2nd ed. Brandenburger, A., (2002)

Crook, T.R., Ketchen, D.J., Snow, C.C., (2003) Competitive Edge: A Strategic Mnagement Model, ….pp. 44-53

Downes, L., (1997) Beyond Porter, The Context Magazine. Available at: http://www.contextmag.com/setFrameRedirect.asp?src=/current/archive.asp

Faulkner, D., Campbell, A., (2003) The Oxford Handbook of Strategy: Strategy overview and competitive strategy. Oxford (New York): Oxford University Press, USA, pp. 248-250

Grant M, R., (2002) Contemporary Strategy Analysis: concepts, techniques, application. Oxford: Blackwell Publishers, UK, pp. 89 Grant (2005) p. 83

Hambrick, D. C., MacMillan, I. C., & Day, D. L. (1982). *The product portfolio and profitability—a PIMS-based analysis of industrial-product businesses*. Academy of Management Journal, 25(4), 733-755.

Henderson, B. D. (1973). *The experience curve–reviewed. IV. The growth share matrix of the product portfolio*. Perspectives.

Hill, C.W.L, Jones, G.R., (2007) Strategic Management: An Integrated Approach. 7th ed. Boston: Houghton Mifflin, USA pp. 46-67

Hill, C.W.L, Jones, G.R., (2001) Strategic Management: An Integrated Approach. 5th ed. Boston: Houghton Mifflin, USA pp. 97-98

Johnson, G., Scholes, K., Whittington, R., (2005) Exploring Corporate Strategy: Text and cases. 7th ed. Essex: Pearson Education, UK.

Smith, M. (2002). *Derrick's Ice–Cream Company: applying the BCG matrix in customer profitability analysis*. Accounting Education, 11(4), 365-375.

Thompson, A. A., Strickland, A. J., Gamble, J. E., & Zeng'an Gao. (2008). *Crafting and executing strategy: The quest for competitive advantage: Concepts and cases*. McGraw-Hill.

Van Vliet, V. (2007). BCG Matrix. Retrieved [insert date] from ToolsHero: https://www.toolshero.com/marketing/bcg-matrix/

https://www.managementstudyguide.com/bcg-matrix.htm

BLOCK 4: STRATEGY FORMULATION: CHOICE AND ANALYSIS

Unit 1: STRATEGY FORMULATION: DECISION LEVEL PERSPECTIVES

Structure of this Unit

1.1. Learning Objectives

1.2. Unit Introduction

1.3. What is strategy formulation?

1.4. Decision levels for Strategy formulation

1.5. Let us sum up

1.6. Terminal questions

1.7. Suggested readings

1.1. Learning Objectives

This unit aims to impart,

- The concept of Strategy Formulation
- The principle motives of strategy formulation
- Strategy formulation and decision stages
- Strategy formulation and Corporate strategy
- Strategy formulation and functional strategy

1.2. Unit Introduction

Until this point it has been clearly laid out, that any venture without planning, direction and assessment of the environment is bound to end up in lot of complexities. Strategy provides for the tools and techniques necessary to avoid such misery. Although many managers are well versed with the basics of the trade, yet they find themselves in constant turmoil over decision making due to lack of sequential application of the proposed theories.

In some other cases, managers try to fit tailor-made strategies to overcome unforeseen situations. This results in a misfit between the two. The point here is that, every other organization faces

different situations though it might seem similar on first sight. Since situations are different, hence the common strategies as explained earlier differ exponentially when being applied to unique scenarios of the organizations. This brings us to Strategy Formulation – the development of strategies customized to serve the dedicated causes of the organizations concerned. Such attempts require parallel activities involving analysis and choices. The strategies so formulated must cater to the needs as drawn out previously in the SWOT followed by the TOWS matrix.

1.3. What is strategy formulation?

Strategy formulation is a step after the environmental scanning stage in the entire strategic management process. Many scholars advocate that strategy formulation is the development of the long-range plans of an organization and the devising of the best fitting strategies to achieve them. Quite true that is, as strategy formulation does indeed involve formulating strategies at corporate level, functional level, keeping in mind the various factors in the external and internal environment.

For making things simpler we must note that strategy formulation involves the following activities in logical sequence.

The flowchart above categorizes the principle activities in strategy formulation and places them in sequence. The mission defines the reason for existence, the objectives present the results to be delivered, the strategies are plans to achieve the mission and the objectives, while the policies are broad instructions to carry out the implementation of strategy.

1.4. Decision levels for Strategy formulation

The organization has various levels of management- the top, middle and operational level. Similarly, for strategy formulation, various decisions are done as specified by the complexity, function and roles defined. Strategy formulation happens in the following levels.

- The corporate level
- The functional level

Strategy formulation at the corporate level (elaborated in the next unit) relates to the directional strategy, the portfolio analysis and the parenting strategies.

Strategy formulation at the functional level (elaborated in the subsequent units) relates to the strategies to impart competitive advantages to the various functions of the organization viz. finance, marketing, production, human resources etc.

1.5. Let us sum up

Strategy formulation engages the corporate and functional levels of the organization in matters of mission, objectives, strategy selection and policy making for implementation of strategy. Strategy formulation and implementation are interconnected. Failure in formulation will lead to failure in implementation. Strategy formulation at Corporate levels basically relates to the decisions regarding direction of business as to expand, restrict or reconstruct. Strategy formulation at functional levels supervises the strategy required for developing effective financial strategy, marketing strategy, human resource strategy, production strategy etc.

1.6. Terminal questions

1. What do you understand by Strategy formulation?

2. Who is concerned with Strategy formulation?

3. What are the principle areas of Strategy formulation?

4. What are the various decision levels in Strategy Formulation?

1.7. Suggested readings

1. M. E. Porter, “From Competitive Strategy to Corporate Strategy,” in International Review of Strategic Management, Vol. 1, edited by D. E. Husey (Chicester, UK: John Wiley & Sons, 1990), p. 29.

2. J. E. McCann III, “The Growth of Acquisitions in Services,” *Long Range Planning* (December 1996), pp. 835–841.

3. M. E. Porter, *Competitive Advantage* (New York: The Free Press, 1985), pp. 317–382.

Unit 2: STRATEGY FORMULATION AND COPORATE STATEGY

Structure of this Unit

2.1. Learning Objectives

2.2. Unit Introduction

2.3. What is a corporate Strategy?

2.4. Purpose of Corporate strategy

2.5. Direction strategy

2.5.1. Stability strategies

2.5.2. Growth strategies

2.5.3. Retrenchment Strategies

2.5.4. Restructuring Strategies

2.6. Portfolio analysis: Analysing direction strategy of Corporate strategy

2.6.1. BCG Matrix

2.6.2. GE 9 Cell matrix

2.7. Corporate Parenting

2.8. Let us sum up

2.9. Terminal questions

2.10. Suggested readings

2.1. Unit Introduction

The decision levels of strategy are now known to you. It is time to delve deeper into the decision levels. Both the levels, the corporate and the functional have specific activities. The first looks

after the broader perspectives in the organization. The second looks after the effective strategies for operating the functions of the organization. Corporate strategies hold great significance for strategy formulation as they provide direction to the entire operation of the organization. The various corporate strategies are already established in literature. The job remaining in our hands is to select the best fitting ones based on the analysis of the various businesses that we have. There are various tools specific to analysis at this stage. Such tools will be discussed in this unit. The various corporate strategies have been elaborately explained with examples from the industry.

2.2. Learning Objectives

This unit shall attempt to provide a clear understanding on,

- What is a corporate strategy?
- What are the purposes of corporate strategy?
- What are the various corporate strategies available in business?
- How is the analysis carried out for strategy formulation?
- What are the tools available for analysis during formulation and selection of corporate strategy?

2.3. What is a corporate Strategy?

Strategies that are backed by decision as to stabilize, expand, restrict or restructure the business of an organization are collectively called corporate strategy. These decisions rest on the top level management who are well aware of the resources and the restraints of the organization. These strategies consider all the product lines as one, all branches as one and decide for the organization as a whole. These are major decisions that can make or break an organization.

2.4. Purpose of Corporate strategy

Corporate strategies exist to make decisions on the entire scope of the organization. This strategy plans the geographical proliferation of an organization apart from cooking up the variety of businesses and products that the company will deal in. Corporate strategy also worries about the allocation and distribution of resources and the alignment of various business functions towards the overall goals.

For a particular organization, corporate strategy answers some typical questions like

What businesses will it engage in?

Should some businesses be cut down due to recurring losses?

How should businesses add value?

Where to expand our operations?

However, it gets confusing at times, what corporate strategy really deals in. Hence, to make things easier to understand, Strategists and Academicians have sorted the various roles of corporate strategy and defined the following purposes:

a. Direction
b. Managing the portfolio
c. Corporate parenting

2.5. Direction strategy

Corporate strategy decides on which direction should it lead the organization so as to improve its competitiveness in the industry or stabilize its position. i.e.

- Should we expand, downsize or standby?
- Should we diversify or consolidate?
- What move will be suitable if we want to expand?

Hence, it is now understandable why we often hear the words merger, acquisitions, turnaround, retrenchment and restructuring, in business. Direction strategy in business are as follows.

- Stability strategy
- Expansion/growth strategy
- Retrenchment strategy
- Restructuring strategy

2.5.1. Stability strategies

Stability strategies are usually adopted by organizations that compete focussing on present lines of business and do not try to expand or cut down. These organizations attempt to do this in either of the following ways-

- **By maintaining the status-quo:** This strategy is employed by organization in a comparatively predictable environment. Success of such a strategy is entirely dependent on the stability of the business environment or the lack of dominant external changes. There are minor changes to sales and profit objectives which are indeed inevitable.
- **By sustainability and reinforcement:** Under stability strategy, this alternative allows for only additional changes to the existing core ideology of operation. Both this strategy and the previous are considered temporary in nature until a certain hostile situation passes. Plans for this strategy relies on providing consolidation efforts to the continuation of present policy. This happens when the present operation is profitable while there lies a risk in altering the present with significant changes.

2.5.2. Growth strategies

The most widely employed corporate strategies are growth strategies. The factor for growth could be profit, sales, distribution, markets or mixed among the mentioned few. Organizations can grow either by expanding themselves or by teaming up with other organizations that aim at expansion of mutual benefits. Sometimes, few organizations with economic problems are acquired by larger firms that can capitalize on the acquired technology, assets and resources.

Growth strategies can be broadly classified as – Concentration strategies that focus on current product lines or Diversification strategies that push businesses into unrelated and different product lines. The commonly known growth strategies have been explained below:

- **Vertical Growth –** Vertical growth can be achieved by expansion into the various operations performed in the entire supply chain. Such strategies are motivated by reduction in operation cost, acquisition of scarce resources, improvement of product quality or streamline the production flow. Vertical growth is implemented through **vertical integration** i.e. expanding operations in the value chain, from supply of raw materials to distribution of final products. Both **forward integration** (Raw materials

to production site) and **backward integration** (production site to distribution centres) are types of vertical integration.

- **Horizontal growth –** This means expansion of similar operations into wider geographical locations. Increments in volume of products and services are some indications of this strategy. E.g. Proctor and Gamble, Unilever. Horizontal growth can be achieved through:
    - **Exporting** – Finished products being shipped into other country locations
    - **Licensing –** Allowing firms based in other countries to produce and sell ones goods.
    - **Franchising –** Establishing brands in other locations by transferring knowhow in production and delivery under legal agreements to pay royalty by the franchisees.
    - **Joint ventures –** Temporary association between foreign firm and domestic organization seeking technological competitiveness, efficient delivery, reduction of production cost and utilizing domestic firm for host assistance. E.g Maruti Suzuki.
    - **Acquisitions-** This strategy allows a larger firm to acquire a smaller or weaker firm where the smaller firm loses its identity. Acquisitions could be friendly acquisition or a hostile takeover.
    - **Turnkey operations –** Here one firm constructs the operational facilities for another firm and transfers operations to the client once construction is completed.
- **Diversification strategies-** Sometimes businesses decide to follow a different line of business than the current product lines. This is employed when present business have reached or are reaching maturity. Opportunities in less mature markets stimulate interests for diversification. Diversification is commonly known in two avenues:
    - **Concentric diversification –** The idea behind this is that, two firms operating in similar industries with different product lines can sell more if they have cross selling advantages. E.g. Tie-up between McDonald and Coca-Cola. The two firms either have similar product lines, similar channels of distribution, or similar technology.

- **Conglomerate diversification –** When unrelated firms get together for expansions, it is conglomerate diversification.

2.5.3. Retrenchment Strategies

Retrenchment literally means to cut down, shut down, divesting or liquidating when circumstances for the organization are severely unfavourable. Retrenchment is achieved through the following:

- Turnaround
- Captive Company strategy
- Divestment or sell out
- Liquidation strategy
- **Turnaround strategy-** Turnaround strategy is the common retrenchment type which is featured by visible cost cutting and downsizing. Turnarounds are employed to bring escalating problems in business to manageable dimension. Once the sizing is done, the strategists try to stabilize the position. Operations that are critical and unnecessary are identified and their cost of operations are reviewed again to justify cost allocations.

- **Captive Company strategy –** Such a move means to compromise freedom of operation to ensure security in a hostile situation. Long term contracts are used by various organizations in times of distress, with more efficient and productive firms. The firms with whom such contracts are done are expected to worry about major sales volume of the firm in distress. In turn, the weaker firm becomes profoundly dependent on the other until the crisis is over.

- **Divestment strategy –** Businesses having several product lines decide on withdrawing from segments or markets that seem to deliver recurring losses or marginal performance with respect to the performing ones. Such a strategy is known as divestment. Rather than waiting for unfavourable times to blow over, organizations choose to withdraw from such markets and later diversify into lesser mature markets.

- **Liquidation –** Liquidation refers to the act of complete shutdown of operations. In similar cases, handing over management of the firm to the judiciary upon a reasonable settlement of its obligations by a firm is often referred to as Bankruptcy. Such situations arise in the decline phase of the Product life cycle.

2.5.4. Restructuring strategy – This strategy is although very similar to diversification strategy is yet different. Restructuring is characterized by complete do-over of planning, infrastructure, team building, establishment, product development and areas of the kinds mentioned before. This strategy may lead an organization into a completely new market with entirely new product lines, or operate in geographical areas that different from previous existence. With change in product lines, market segments and the strategies to sell undergo drastic makeover to cater to the new needs.

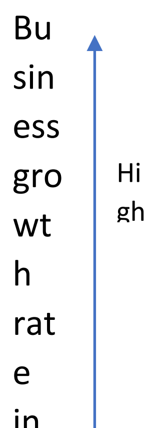
2.6. Portfolio analysis: Analysing direction strategy of Corporate strategy

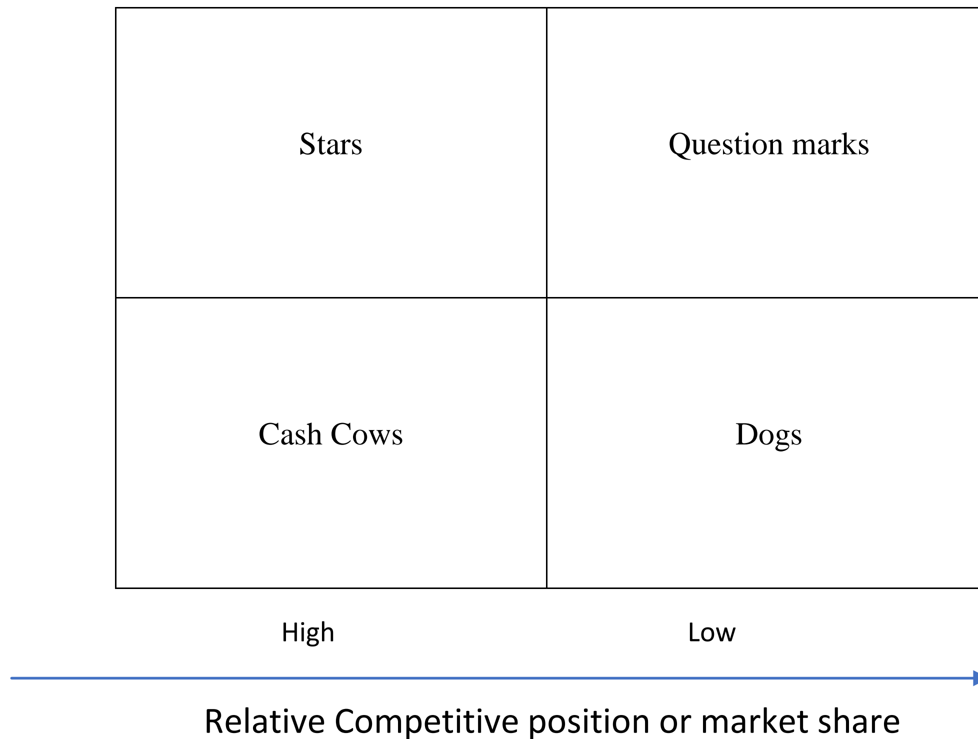
Portfolio analysis consider each product line/business as an investment and assesses them on the basis of expected profit returns. Based on this analysis, the suitable direction strategies as discussed above are employed to achieve maximum possible wealth generation/profit returns. Research has shown that firms performing portfolio analysis tend to make greater profits than the ones avoiding it.

The most popular portfolio analysis tools have been explained below:

- Boston Consulting Group Matrix or BCG Matrix
- General Electricals matrix or GE 9 cell matrix

2.6.1. Boston Consulting Group Matrix or BCG Matrix- The BCG matrix is also known as the Growth-Share matrix. It is the simplest way to analyse the various product lines of an organization based on their growth and share in the market.





The BCG matrix classifies the portfolio of an organization as provided below:

- **Stars:** Stars are those product lines that are market leaders and account for major profit gains in a business. They generate enough cash to sustain their own growth.
- **Cash Cows:** Cows are those product lines that occupy a large market share but grow at a very slow rate. Cash generation by these product lines are much more than is needed to sustain.
- **Dogs:** Dogs possess very low market share and also generates scanty cash. These businesses are prone to shut down and divestment.
- **Question marks:** These are product lines that have potential but are risky. They may end up being a star or worse, a dog in the near future.

2.6.2. GE 9 Cell matrix

The GE 9 cell matrix is broader than BCG matrix as it can accommodate 9 cells of classification for portfolio. The classifications are done on the basis of two factors viz. Industry attractiveness and business strength. Business strength examples are- knowledge of the customers, technology available, competitive strengths, relative market share, price and quality etc. Industry attractiveness factors are – market size, growth rate, competition intensity, macro factors etc.

Market Attractiveness

	Strong	Average	Weak
High	Invest or grow	Invest or grow	Stay
Mediu	Invest or grow	Stay	Harvest or Divest
Low	Stay	Harvest or Divest	Harvest or Divest

Business strengths

Based on where in the matrix, a business or product line lies, the following strategies are allotted as per need:

- Invest or grow
- No change or stability

- Harvest or divest

Businesses that fall in the top left of the diagonal for stay policy have potential for investment or growth while the businesses falling below the diagonal for stay action, need to be either harvested or divested.

Thus, we see how portfolio analysis techniques provide a graphical tool for making management judgement in direction strategy.

2.7. Corporate Parenting

Let us take a simple analogy to understand this concept. Parents guide their children so that they spend their time and resources judiciously. The parents keep a close eye towards their children since they want them to grow in their own image in most cases.

Similarly, the organization supervises the use and distribution of resources and capabilities among the various units to achieve coordination between them. The parent organization builds a constant relation with its business units to deliver the core values of the parents to the units. This part of corporate strategy works to bring the resource and capacity mobilization of the units in coordination with the parent organization.

2.8. Let us sum up

Corporate strategy formulation is done to plan the broad courses of action for the organization. Corporate strategy are long range plans. Corporate strategy exist to deliver direction, manage the portfolio of the organization and execute corporate parenting effectively. Direction strategies are broadly divisible into stability, growth, retrenchment and restructuring strategies. Portfolio analysis is very important as this allows a graphical representation of the business units with comparative features for better decision making. The most commonly found portfolio analysis tools are the BCG matrix and the GE 9 cell matrix. Corporate parenting helps the organization bring synergy among its units by imparting the shared values and common logic for resource and capacity mobilization.

2.9. Terminal questions

1. What is Corporate strategy?

2. What are the purposes of formulating corporate strategy?

3. Explain directional strategies.

4. What is an acquisition strategy?

5. What is corporate parenting? Why is it important?

6. How can portfolio analysis be done?

7. Explain the Boston Consulting Group Matrix.

8. Explain the GE 9 Cell matrix. State its purpose.

9. How can horizontal growth be achieved through strategy?

10. What are the various growth or expansion strategies?

11. What are the various retrenchment strategies?

2.10. Suggested readings

1. R. P. Rumelt, D. E. Schendel, and D. J. Teece, "Fundamental Issues in Strategy," in

Fundamental Issues in Strategy: A Research Agenda, edited by R. P. Rumelt, D. E. Schendel, and

D. J. Teece (Boston: HBS Press, 1994), p. 42.

2. M. E. Porter, "From Competitive Strategy to Corporate Strategy," *in International Review of Strategic*

Management, Vol. 1, edited by D. E. Husey (Chicester, UK: John Wiley & Sons, 1990), p. 29.

3. K. R. Harrigan, *Strategies for Vertical Integration* (Lexington, MA.: Lexington Books, 1983), pp. 16–

21.

4. J. E. McCann III, "The Growth of Acquisitions in Services," *Long Range Planning* (December 1996),

pp. 835–841.

5. R. F. Bruner, “Corporation Diversification May Be Okay After All,” *Batten Briefings* (Spring 2003),

pp. 2–3, 12.

6. D. P. Lovallo and L. T. Mendonca, “Strategy’s Strategist: An Interview with Richard Rumelt,”

McKinsey Quarterly Online (2007, No. 4).

7. F. Vermeulen, “Controlling International Expansion,” *Business Strategy Review* (September 2001), pp.

29–36.

8. A. van Oijen and S. Douma, “Diversification Strategy and the Roles of the Centre,” *Long Range*

Planning (August 2000), pp. 560–578.

9. B. Hedley, “Strategy and the Business Portfolio,” *Long Range Planning* (February 1977), p. 9.

10. M. E. Porter, *Competitive Advantage* (New York: The Free Press, 1985), pp. 317–382.

11. L. Carlesi, B. Verster, and F. Wenger, “The New Dynamics of Managing the Corporate Portfolio,”

McKinsey Quarterly Online (April 2007).

Unit 3: STRATEGIC FORMULATION AND FUNCTIONAL STRATEGY

Structure of this Unit

3.1. Learning Objectives

3.2. Unit Introduction

3.3. What are functional strategies?

3.4. Marketing strategy

3.5. Financial strategy

3.6. Human resource strategy

3.7. Research and development strategy

3.8. Information technology strategy

3.9. Operations strategy

3.10. Logistics strategy

3.11. Let us sum up

3.12. Terminal questions

3.13. Suggested readings

3.1. Learning Objectives

After reading this, the reader will be able to understand:

1. What is functional strategy?

2. What are the types of functional strategies?

3. What is the purpose of formulating functional strategy?

3.2. Unit Introduction

This unit will strictly concentrate on the meaning and necessity of formulating functional strategies. As decision levels for strategy vary from corporate, business and functional levels, this unit shall deal in the detailed explanation of what happens at the functional level from strategic point of view. The unit shall also introduce the students to the many types of functional strategies commonly seen in a standard organization along with their respective importance.

3.3. What are functional strategies?

Strategies designed specifically to achieve the goals and objectives of the organization are known as functional strategies. The organization is divisible into multiple business units. These

business units in turn shall have different departments. Each of those departments will have strategies of their own for achieving the goals and objectives aligned with the mission and vision. These strategies are the functional strategies. The various functional strategies known in general are as follows:

- Marketing strategy
- Financial strategy
- Human resource strategy
- Research and Development strategy
- Information technology strategy
- Operations strategy
- Logistics strategy

3.4. Marketing strategy

Marketing strategy is the strategy that deals with the marketing mix i.e. sales, promotion, distribution, pricing, selling strategy etc. This strategy aims to answer how to penetrate new markets, how to use promotions effectively, how to price a product and how to distribute them to the consumers/customers. Some popular pricing strategies are skimming prices, penetration prices, dynamic prices and premium prices. Push strategy and pull strategy are most used strategies in marketing for either pushing a product to the market or pull the product using customer demands.

3.5. Financial strategy

As the word suggests, financial strategy relates to the various financial agenda of the firm. Cost control, procurement of finance, utilization of funds, capital budgeting are a few sectors that financial strategy takes care of. Financial strategy is very important as the corporate strategies of expansion and retrenchment along with diversification are significantly linked to the working out of cost-profit trade-offs in merger, acquisitions and divestitures. Even the dividends and profits are managed by the financial strategy. From works costs to cashflows, budgets and financial reporting are entirely aligned with the financial strategy.

3.6. Human resources strategy

Human resource strategy is the strategy that is concerned with human resources. The recruitment process, design of jobs, job analysis with job specification and job description, remuneration/salary/wage structure, leave policy, payment plans, incentive schemes, work environment, training and development are some basic aspects of this strategy. HR strategy also plans for appraising the staff and employees and experimenting various techniques of team building.

3.7. Research and Development strategy

Research and development are part and parcel for improvement and invention. This strategy plays vital role in product and service design. Firms may choose to innovate in standardization or differentiation based on their corporate and business goals. Research and development also focus on quality management aspect in business. It constantly works to diversify products or to devise new ways to cut down costs. R & D also plays a role in advertising, promotion and sales by innovating in new more efficient techniques.

3.8. Information technology strategy

The decisions whether to innovate or outsource rest on this strategy. The procurement of new technology has to be looked from productivity point of view. This strategy helps organizations compete in the industry by assessment of upgrades procured by its competitors. Communication is so vital now, that greater efficiency results in saving time and quick dispatch of instructions. This eventually results in greater productivity. Many companies are now preferring to reduce paperwork as much as possible by transforming into an online network of enterprise resources. SAP-ERP, MRP and CRM are certain examples of the coming of the information technology era.

3.9. Operations strategy

Operations Strategy works at the very operational level. With very little decision making, corporate and business strategies mandate most plans in this strategy. The decisions regarding where to establish a factory, how to arrange the departments, how to move equipment, how to measure work, how to control quality, whether to make or buy etc. are some notable aspects of this strategy. Operations strategy goes into the technicalities of production itself and hence deals in monetary terms only when it cannot be avoided. The selection of process layout or product layout or fixed position layout is a decision in this strategy as is the scientific location of a

facility. The alignment of workstations, work schedules, master production schedules and even project management plans are laid out in this strategy.

3.10. Logistics strategy

Logistics is a segment of Operations. This relates to the flow of raw materials, work in progress and finished products throughout the entire supply chain. The strategy is based on the time allocation of a dedicated material flow that connects various entities in a chain from raw materials site to the market. The principles of centralization, outsourcing, packaging, warehousing and transportation form a part of this strategy. Time and volume are two important aspects of this strategy.

3.11. Chapter Let us sum up

Functional strategies are strategies designed to achieve the goals and objectives of the organization. The various functional strategies are - Marketing strategy, financial strategy, Human resource strategy, Research and Development strategy, Information technology strategy, Operations strategy and Logistics strategy. Functionals strategies help an organization to achieve synergy between its multiples business units that in turn have multiple departments.

3.12. Terminal questions

1. What are functional strategies?
2. Why is financial strategy important?
3. What is Operations strategy?
4. State the various types of functional strategy.
5. Why is Research and development strategy important?

3.13. Suggested readings

1. S. M. Oster, Modern Competitive Analysis, 2nd ed. (New York: Oxford University Press, 1994),

p. 93.

2. J. Bughin, M. Chui, and B. Johnson, "The Next Step in Open Innovation," *McKinsey*

Quarterly (June 2008), pp. 1−8.

3. A. Goel, N. Moussavi, and V. N. Srivatsan, “Time to Rethink Offshoring?” McKinsey Quarterly

(September 2008), pp. 1–5.

4. R. G. Hamermesh, *Making Strategy Work* (New York: John Wiley & Sons, 1986), p. 14.

5. Azhar Kazmi (2003), Business policy and Strategic Management 2nd edition , *Tata McGraw Hill,New Delhi.*

6. Hitt , M.A, R.D Ireland and R E Hoskissian, *(1996) Strategic Management : Competitiveness \and globalization,* West publishing New York

Unit 4: STRATEGIC FORMULATION, COMPETITIVE STRATEGIES AND STRATEGIC CHOICE

Structure of this Unit

4.1. Learning Objectives

4.2. Unit Introduction

4.3. Competitive strategies and business strategy

4.4. Michael E. Porter’s Generic competitive strategies

4.5. Benchmarking

4.6. Value chain analysis

4.7. Process of Strategic Choice

4.8. Let us sum up

4.9. Terminal questions

4.10. Suggested readings

4.1. Learning Objectives

This unit shall help you learn

1. What are competitive strategies?

2. What do you mean by competitive advantage?

3. What do you mean by Core competency?

4. What is benchmarking?

5. How is Benchmarking a tool for competitive advantage?

6. What is the process of strategic choice?

4.2. Unit Introduction

This unit shall explain the meaning of strategic choice and its relation with strategic analysis. Strategic choice is deemed to be the last stage in strategic analysis although it stands independently. The unit shall also explain the process followed for strategic choice. The unit also includes the various competitive strategies followed by firms in a competitive business environment. Certain tools for competitive advantage have been included in this unit.

4.3. Competitive strategies and business strategy

Strategies used by various corporations to gain competitive advantage in a industry or a market segment are classified as business strategy. Competitive strategies are certain tactics used in business to plan moves in business level. As competitive strategy answers the question as to how the firm should do business or compete in an industry, competitive strategies can be alternatively called business strategy.

4.4. Michael E. Porter's Generic competitive strategies

Michael Porter has been and still considered a significant scholar in the field of strategy. The great proponent has proposed three generic strategies as competitive strategies. They are called generic as these strategies are used by all firms irrespective of their size or structure. The various strategies proposed by Porter have been explained below:

Cost Leadership	Differentiation
Focussed cost	Focussed differentiation

Cost Leadership – This strategy is featured by the lowest cost possible through cost control in production, overheads, distribution etc. The resultant price of the product is the lowest in the market. As the most efficient firm can offer the lowest cost, hence it becomes a cost leader. E.g. McDonalds in fast food chains, HP and Dell in computers, Walmart in retail etc. The lower costs facilitate decent profits even in times of high competition. The lower price also serves as a barrier to market entry.

Differentiation – The element in this strategy is uniqueness in product or service offered. The design of the product or service is so, that it is perceived as different from all of its competitors. Differentiation can also be achieved in customer service, technology used, brand image, features etc. among others. This strategy can pull premium prices that can cover the increasing cost of production of customized products. E.g. BMW, Nike, Apple corporation etc.

Focussed cost – In this strategy, the cost leadership strategy is applied only for a particular segment. The aim is to supply low cost products suitable only to a particular segment while also selling to the entire market. E.g. Lifebuoy bathing soap aims at the segment that is insensitive to gender specific products and would buy them for their lower cost for a functional purpose.

Focussed differentiation – Like its predecessor, this strategy aims for a particular market segment or a geographical segment. E.g. Idli and Dosa sold in a restaurant in North-East India is focussed differentiation strategy as this aims to attract visitors from South India or residents preferring the dish in the convenience of their region.

4.5. Benchmarking

One of the most commonly observed competitive advantage building strategy is Benchmarking. It is a special technique applicable for identifying products, process or practices that have potential for creating efficiency or increasing customer satisfaction. Benchmark usually means identifying a base for making comparisons. In simple terms, it defines how a product should be, a process should be, a task should have been done, a layout should have been planned etc. Benchmarking competitors actually involves observing what others are doing and improving it further. Benchmarking is a continuous process and as such has evolved over time. The various records of benchmarking according to phases of transition have been laid out below:

First Generation	Product Benchmarking	This involves analysing the product to determine which product features are valued most by the customer
Second Generation	Competitive Benchmarking	This involves performance of a firm is compared with the industry leader and other competitors
Third Generation	Process Benchmarking	This involves analysing the process of production to identify critical activities and their efficiency
Fourth Generation	Strategic Benchmarking	This involves analysing the various strategies that have proven to be effective in corresponding situations
Fifth Generation	Global Benchmarking	This defines the standards of competition for the global market bringing to notice critical factors in global competition

4.6. Value Chain Analysis

Value Chain analysis is a tool used by firms to identify ways the resources and capabilities can add value to the product or services that it produces. A value chain analysis is done in steps. At

first, the primary and supportive activities are identified. Then the critically of each is determined. Further, the ways are explored in which such activities can be improved.

Primary activities in the value chain are-

- **Inbound logistics-** This part deals with the raw materials, their receipt, their storage in the warehouses, their inventory and their distribution to the production site.
- **Operations –** The process of transformation of raw materials to finished products.
- **Outbound logistics –** All activities related to receipt, storage and distribution of finished products to customers.
- **Sales and marketing –** The direct sale of goods and services, the promotion, the advertising, the distribution channels and the like.
- **Customer service –** The post-sale services operated to satisfy customers including repair, installations, replacement and warranty.

Supportive activities indirectly connected that add value:

- **Procurement –** The purchase of raw materials, fixtures, supplies needed for production are known as procurement activities.
- **Technological development –** The research and development activities, product design, service design and process design to achieve better productivity.
- **Human Resource management –** All matters relating to training, hiring, appraising the human resources.
- **Company infrastructure –** All other activities that indirectly help in smooth functioning of the value chain as in planning, financing, accounting, legal work, government regulations compliance etc.

This identification then is followed up by weighing of critical factors and then exploring ways to improve them.

4.7. Process of strategic choice

Once the strategic are formulated, alternative strategies will be listed. The process of selecting the best suited strategies out of the ones available is strategic choice. The alternatives are available once the SWOT analysis is done or using the TOWS matrix. The strategic choice is

difficult as the choices are scrutinized by a lot of stakeholders i.e. community, shareholders, creditors, customers and the government.

Step 1: List out the available alternatives

Step 2: Collate the strategic intent

Step 3: Weigh the alternatives in pros and cons

Step 4: Find the best fit among the alternatives to reach the strategic intent

The strategic choices so made will heavily impact the implementation of strategy. Thus, one must be very careful while selecting.

4.8. Unit Let us sum up

Strategy formulation at Business level is important as it answers how a firm should compete in the industry. Porter's generic strategies of cost leadership, differentiation and focus, are the competitive strategies that are commonly used in various businesses globally. Benchmarking is a very effective strategy for building competitive advantage in a firm. It assists in identifying critical factors for competition. A value chain consists of primary and supportive activities. Value chain analysis helps a firm to increase the value of its products and services. Strategic choice follows strategy formulation and analysis as it leads to selection of the best suited strategies. This is vital for implementation as a wrong selection will lead to a certain failure in implementation.

4.9. Terminal questions

1. What do you mean by a value chain?

2. What do you mean by benchmarking?

3. How is benchmarking done?

4. What is strategic choice?

5. What are the primary and secondary activities in a value chain?

4.10. Suggested readings

1. S. M. Oster, Modern Competitive Analysis, 2nd ed. (New York: Oxford University Press, 1994),

p. 93.

2. H. W. Chesbrough, "A Better Way to Innovate," Harvard Business Review (July 2003), pp. 12–

13.

3. A. Aston and M. Arndt, "The Flexible Factory," *Business Week* (May 5, 2003), pp. 90−91.

4. F. Keenan, "Logistics Gets a Little Respect," Business Week (November 20, 2000), pp. 112–

116.

5. N.S. Gupta, Business Policy and Strategic Management, Himalaya Publishing House, Mumbai

6. Francis Cherunilam (2000),Strategic Management, *Himalaya Publishing House, Mumbai*

7. P. Subba Rao (2003), Business Policy and Strategic Management, Himalaya Publishing house, Mumbai

8. Wheelen L Thomas and Hunger J. David (2002), Concepts in Strategic Management and Business Policy, Pearson Education Asia, New Delhi.

COM: 106 – STRATEGIC MANAGEMENT

BLOCK 5: STRATEGY IMPLEMENTATION

UNIT 1: STRATEGY IMPLEMENTATION: NATURE AND MODELS

Structure of this unit

1.1. Learning Objectives

1.2. Unit Introduction

1.3. Strategy Implementation

1.4. Who Implements the Strategy?

1.5. Developing Programs, Budgets and Procedures

1.6. Principles of strategic implementation

1.7. Nature of strategic implementation

1.8. Model of strategic implementation

1.9. Strategy formulation vs strategic implementation

1.10. Let us sum up

1.11. Terminal questions

1.12. Suggested readings

1.1. Learning Objectives:

After reading this chapter, you should be able to:

- To know what is strategic implementation & its importance in strategic management
- To know the components of the strategic implementation process
- To understand the principles and nature of strategic implementation process.
- To understand the strategic implementation model.

- To know the difference between strategic formulation and strategic implementation

1.2. Introduction

After the exciting and creative process of formulating the new strategy for the organization, management often feels frightened and lost when it comes to the implementation of their brand-new strategy. Managers always wonder how they can extract the expected results from great plans for a successful future to actions that will actually create these successes for the organization. To help them make the new strategy successful, management incorporates all available experts to implement the new strategy.

However, the expert has to have deep knowledge of the industry, the company, its processes, its culture, internal control, the risks the company is facing and much more. Moreover, he has to possess the necessary skills to add value during a strategy implementation, i.e. he has to be a good communicator, objective, curious, innovative, and critical in attitude[i]. This expert may play the role of an internal auditor or an external auditor and based on his knowledge, expertise and skills, his main aim is to implement the new strategy and make it successful. Thus, the main question arises: How and under which circumstances can the strategy implementation expert help the organization to make her strategy implementation a success?

1.3. Strategy Implementation

In a simple way, strategy implementation can be defined as a process through which a chosen strategy is put into action. Though this definition is very simple but does not specify what action are required in strategy implementation. To elaborate the issues and activities involved in strategy formulation, let us consider other definitions.

Steiner et. al. have defined strategy implementation as follows: “The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes, and resources, in reaching organizational purposes.”

McCarthy et. al. have defined strategy implementation as follows: "Strategy implementation may be said to consist of securing resources, organizing these resources and directing the use of these resources within and outside the organizations."

Strategy implementation is the sum total of all the activities and choices required for the execution of a strategic plan. It is the process by which objectives, strategies, and policies are put into action through the through the development of projects, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation should thus be considered as the two sides of the same coin.

Strategic implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance[ii].

Poor implementation has been blamed for a number of strategic failures. For e.g., studies show that half of all the acquisitions fail to achieve what was expected of them and one out of four international ventures do not succeed, where the most-mentioned problems found to be in post-merger integration are poor communication, unrealistic synergy expectations, structural problems, missing master plan, lost momentum, lack of top management commitment and unclear strategic fit[iii]. Research conducted by Bert, MacDonald, and Herd states that: among the most successful acquirers remainder being realized in year two'[iv].

A survey of 93 Fortune 500 firms revealed that more than half of the corporations experienced the following 10 problems when they attempted to implement a strategic change. These problems are:

1. Implementation took more time than originally planned.
2. Unanticipated major problem arose.
3. Activities were ineffectively coordinated.
4. Competing activities and crisis took attention away from implementation.
5. The involved employees had insufficient capabilities to perform their jobs.
6. Lower-level employees were inadequately trained.

7. Uncontrollable external environment created problems.
8. Departmental managers provided inadequate leadership and direction.
9. Key implementation tasks and activities were poorly defined.
10. The information system inadequately monitored activities.[v]

1.4. Who Implements the Strategy?

Depending on the diversity of the organization, those who implement the strategy will be much more varied from those who formulate the strategy. In most large, multi-industry corporations, the implementers are everyone in the organization wherein the Vice-presidents of the functional areas and directors of divisions or Strategic Business Units (SBUs) work with their subordinates to put together large-scale implementation plans. Plant managers, project managers and unit heads put together plans for their specific plants, departments and units. Therefore, every operational manager down the first-line supervisor and every employee are involved in some way or the other in the implementation of corporate, business and functional strategies.

However, many of the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of the corporate and even business strategy. Therefore, they might be entirely ignorant of the vast amount of data and work that went into the formulation process. Unless changes in mission, objectives, strategies, and their importance to the company are communicated clearly to the operational managers, there can be huge resistance and foot-dragging and thereby, influencing the top management to abandon its new plans and returning to its old ways. This is one reason why involving people from all organization levels in the formulation and implementation of strategy tend to results in better performance[vi].

1.5. Developing Programs, Budgets and Procedures:

Strategy implementation process involves establishing programs to create a series of new implementation activities, budget to allocate funds to the new activities and procedure to handle the day-to-day details.

Programs

The purpose of a program is to make strategy action oriented. The program should target a sequence of anew practices/activities which will aim to accomplish the implementation of the new

formulated strategy. Most corporate headquarters have around 10 to 30 programs in effect at any one time[vii].

For eg. When Xerox Corporation incorporated the turnaround strategy, it aimed to identify and improve the poorly performing processes and significantly reduce its costs and expenses through a program called the Lean Six Sigma. Xerox first trained its top executives in the program and then launched around 250 individual Six sigma projects throughout the corporation. The result was $6 million in savings in one year, with even more expected the next[viii].

However, it is very much important to examine the likely impact of new programs on the existing organization by making a comparative analysis of the proposed programs and activities with the current programs and activities of the organization. Brynjolfsson, Renshaw and Van Alystyne proposed a Matrix of Change to help managers to decide how quickly change should proceed, in what order change should take place, whether to start a new activity and whether the proposed systems are stable and coherent. Target practices (new practices) for a manufacturing plant are drawn on vertical axis and existing programs (current practices) are drawn on the horizontal axis. The Matrix of Change compares new programs with each other (to measure interference), compares new programs with existing programs (to measure interaction), and evaluate the importance of each program. The Matrix of Change provides useful guidelines on where, when and how fast to implement the change[ix].

Budgets

After programs have been developed, the budget process begins. Planning a budget is the last real check a corporation check a corporation has on the feasibility of the selected strategy. An ideal strategy might be found to be completely impractical only after specific implementation programs are evaluated in financial terms in detail.

For eg. Cadbury Schweppes' management introduced the 'Cadbury Cocoa Partnership' on January, 28, 2008 with Ghana for producing 70% of Cadbury's worldwide supply of high quality cocoa for their chocolate products which was budgeted at $87 million for the program over a 10 year period to continue their growth strategy[x].

Procedures

After the program and corporate budgets are approved, procedures must be developed. Defined as the Standard Operating Procedures (SOP), they typically detail the various activities that must be carried out to complete a corporation's programs. Also, known as organizational routines, procedures are the primary means by which organizations accomplish much of what they do[xi]. The procedures must be updated to reflect any changes in technology as well as strategy.

For eg. A company following a differentiation competitive strategy manages its sales force more closely wherein differentiation requires long term customer relationships created out of close interaction with the sales force. An in-depth understanding of the customer's needs provides the foundation for product development[xii]. Therefore, properly planned procedures can help eliminate poor service by making sure that employees do not use excuses to justify poor behavior towards customers.

Achieving Synergy

One of the goals to be achieved in strategy implementation is synergy among and between functions and business units. Synergy is said to exist for a divisional corporation if the return on investment (ROI) of each division is greater than what the return would be if each division were an independent business unit.

According to Goold and Campbell, synergy can take place in one of the following forms:

1. **Shared know-how:** Combined units often benefit from sharing knowledge or skills where leveraging of core competencies takes place among the business units.
2. **Coordinated strategies:** Aligning the business strategies of two or more business units may provide the corporation with significant advantage by reducing inter unit competition and developing a coordinated response on implementing strategies.
3. **Shared tangible resources:** Combined units can sometimes save money by sharing resources, such as common manufacturing facility or R&D lab.
4. **Economies of scale or scope:** Coordinating the flow of products or services of one unit with that of other unit can reduce inventory, increase capacity utilization and improve market access.

5. **Pooled negotiating power:** Combined units can combine their purchasing to gain bargaining power over common suppliers and common distributors to reduce common costs and improve quality.
6. **New Business creation:** Exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combine them into a new unit or establishing joint ventures among internal business units[xiii].

1.6. Principles of Strategic Implementation:

Gavurová (2010) in her publication defines basic principles which could help to achieve an effective implementation of the strategy of the company:

1. **Communication of the strategy through the whole company:** Employees are not inclined to organizational changes that accompany the implementation of the strategy so there is a need for effective communication of strategic goals, their achievement as well as their influence on daily activities of employees,
2. **Involving employees in the implementation of the strategy:** Keeping initiative on employees to find effective way for achieving strategic goals allows company to eliminate employee´s resistance to changes,
3. **Assignment of responsibilities for strategic projects:** Defining responsibilities and financial involvement of employees have a significant impact on success of strategic goals,
4. **Adaption of the organizational structure:** The top management should adjust the organizational structure to company´s processes in connection with outputs from employees and control systems,
5. **Implementation of effective controls:** It is necessary to focus not only on control of the implementation of the strategy but also on the relevance of the strategy given by changing internal and external environment of the company[xiv].

1.7. Nature of Strategic Implementation:

Following are the nature of strategic implementation:

1. **Strategic Implementation is a Coordinated Process**: Strategy implementation covers all the employees of the company. For proper implementation of the strategy, there is a

need for effective communication and coordination among the different functional units of the organization.

2. **Strategic Implementation is a Defined Process**: The action plans and programs/ activities to be carried out for achievement of successful implementation of the strategy need has to be very well defined. The implementation strategy varies on the nature and size of the organization.
3. **Strategic Implementation is an Operational Process**: Strategic Implementation aims to achieve operational effectiveness through its activities. The four areas of operational strategies are productivity, processes, people and pace.
4. **Strategic Implementation is an Anticipated Process**: Strategic Implementation involves understanding and anticipating the external environment of the organization to derive the implications of implementing the strategy.
5. **Strategic Implementation is an Integrated process**: The process of strategic implementation involves an integration of various subsystems of the organization like structure, technological, behavioural, technical and procedural, goals and values and managerial subsystem.
6. **Strategic Implementation is a Controlled process**: Strategic Implementation process is a controlled process as it involves continous monitoring of the performance of the various activities to accomplish successful implementation of the strategy. Evaluation and control process helps the strategic managers in identifying and developing measures to anticipate various obstacles arising in the implementation process[xv].

Check your progress

1. What is the relevance of budget in strategic implementation?

2. Why is achieving synergy in strategic implementation important?

3. Define the nature of strategic implementation?

1.8. Model of Strategic Implementation:

The model of strategic implementation is as follows:

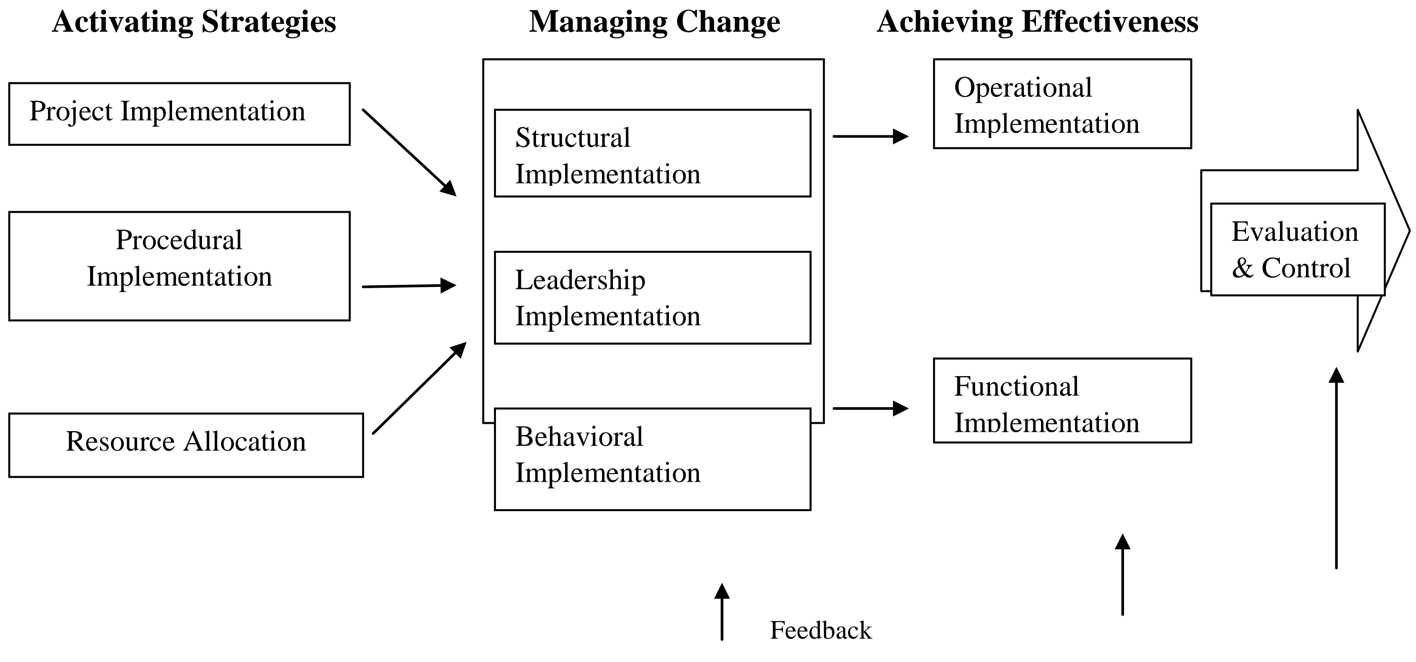


Fig **a**: Model of Strategic Implementation[xvi]

Source: Strategic Management and Business Policy by Dr. Azhar Kazmi (2008), 3rd Edition, Tata McGraw Hill Publication

1. **Activating Strategies:**

   Activation is the process of stimulating an activity so that it is undertaken effectively. It is required as because a very few people are associated with formulation of strategy however, a very large number of people are involved in implementation of strategy.

   i. **Project Implementation**: The first basic role of strategic implementation process is to undertake the strategic implementation project once the formulation of strategy is complete and the feasibility of strategy is assessed. This involves the institutionalization of the strategy. Institutionalization of strategy is very important because without this, a well designed strategy may be undermined. Undertaking the strategy implementation project involves communicating the strategy to organizational members and getting acceptance for implementation from those members.

   ii. **Procedural Implementation**: Once the strategy is institutionalized, the organization may proceed to formulate the action plans and programs, which is termed as procedural implementation.

      (a) Action Plan: Action plan target the most effective utilization of resources so that objectives are achieved. The action plan may be of several types like procuring a

new plant, developing a new product and so on. The type of action plan to be formulated in the organization would depend on the nature of strategy to be implemented.

(b) Programmes: A program is a single use plan that covers a larger set of activities and specifies the major steps, their order and timing and responsibility for each step. These programmes are generally supported by necessary budget and capital. Further the relative importances of the activities are to be identified and the sequence and timing of these activities are also determined so that the programmes are completed well in time. There can be various programmes for implementation of a strategy and these should be well coordinated so that each of them contributes positively to others.

iii. **Resource Allocation:** Resource allocation involves allocating financial and human resources among various organizational units and subunits for proper implementation of strategy. While allocating the resources, the organization should see that resources are allocated at place where it makes maximum contribution to the organization and on need basis. Budgeting is the process through which resources are allocated to organizational units and subunits. Budgeting must be oriented to the objectives of the successful implementation of the strategy and must contribute to the achievement of these objectives.

2. Managing Change:

Implementation of new strategy requires large scale changes, which means that we have to do with here with something that is completely different from the routine actions relating to current improvement in processes. Such changes relating to strategic implementation are of large range and relate to whole of the organization[xvii].

i. Structural Implementation: Research evidence states that structure follows strategy. There is a close relationship between organization strategy and structure. The organization structure must be designed according to the needs of the strategy. Without coordination of strategy and structure, the most likely outcomes are confusion, misdirection and splintered efforts within the organization. If the present organization structure does not adequately fit the need of the chosen strategy in the line of the

strategy structure fit and strategic principles of organizing, the top management should look for reorganization of the organization structure.

ii. **Leadership Implementation:** Strategic Leadership is the process of transforming an organization with the help of its people – so as to put it into an unique position. Strategic Leadership involves:

1. Aligning the people of organization for strategy implementation
2. Having a clear strategy and understanding the implications throughout the company.
3. Communicate the strategy and get buy-in.
4. Align the organization to implement the strategy.
5. Measure and monitor the alignment of people to the strategy[xviii].

iii. **Behavioural Implementation**: Organization culture is another element which effects strategic implementation as it provides a framework within which the behavior of employees takes place. Although organization culture is built over time and therefore, cannot be changed over night; however, ignoring culture in strategic implementation is not a better alternative as it may be dysfunctional. Therefore, it is very important to change the strategy to fit to organization culture or to change corporate culture to suit strategic requirements[xix].

4.<u>Achieving Effectiveness:</u>

Concentration on effectiveness of an implementation strategy is essential for successful implementation of strategy. Effectiveness of an implementation strategy can be achieved by:

I. Operational Implementation: Operational implementation is the approach adopted by organization to achieve operational effectiveness. This is the stage in which most tangible work gets done. The four areas of operational effectiveness are:

a. Productivity: Just in Time manufacturing, Cycle time reduction, Mass customization etc.

b. Processes: Quality Management, Value chain analysis, Business Process Reengineering etc.

c. People: Recruitment and selection, Performance Management, Training etc.

d. Pace: Nature of Managerial work, Time management, Network analysis & activity charts etc

II. Functional Implementation: Functional implementation deals with a relatively restricted plan designed to achieve a specific functional area, allocation of resources among

different functional areas and coordination among the different functional areas for optimal contribution. Functional implementation is important because:

a. To implement strategic decisions across all units of the organization.

b. To control activities across different functional areas of the organization.

c. To reduce time spent by functional managers in decision making.

d. To coordinate across different functions of the organisation.

e. To handle similar situations across different functional areas in a consistent manner[xx].

Check your progress
1. How can strategic implementation be effective?
2. What is functional implementation?
3. How are strategies activated in strategic implementation?

5. Evaluation and Control:

Evaluation and Control ensures that the organization is achieving what it is set out to accomplish. It compares performance with the desired results and provides the feedback necessary for management to take corrective action. Evaluation and control process involves a series of questions for the strategic managers in evaluating an implemented strategy. The evaluation and control information must be relevant to what is being monitored and must be able to identify the obstacles and also develop measures to effectively implement the strategy.

1.9. Strategic Formulation Vs Strategic Implementation

Effective realization of strategy is key to the success of the organization. Successful formulation of strategy does not guarantee successful strategy implementation.

Following are the main differences between Strategy Formulation and Strategy Implementation-

Table - 1

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.

In short, Strategy Formulation is placing the Forces before the action.	In short, Strategy Implementation is managing forces during the action.
Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.	Strategic Implementation is mainly an Administrative Taskbased on strategic and operational decisions.
Strategy Formulation emphasizes on effectiveness.	Strategy Implementation emphasizes on efficiency.
Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative and logical skills.	Strategy Implementation requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy formulation.

Source: https://www.managementstudyguide.com/strategy-formulation-vs-implementation.htm

1.10. Let us sum up:

Environmental scanning and strategy formulation are crucial to strategic management but are only the beginning of the process. The failure to carry out a strategic plan into the day-to-day activities of the workplace is a major reason why strategic planning fails to achieve its objectives. For a strategy to get implemented, it is very much essential to make it action oriented. The strategy implementation process should be carefully designed anticipating the external environment of the organization and also understanding clearly the implications of implementing the strategy. Strategic Implementation process is done through a series of

programs that are funded through specific budgets and contain new detailed procedures. It is very much important to incorporate and communicate with all the employees of the organization for successful implementation process. However, strategy implementation process needs to be continuously monitored and also evaluated as such so that it is relevant to the organization.

1.11. Terminal questions

1. What is strategic implementation?

2. What are the principles in strategic implementation?

3. What is the nature of strategic implementation?

4. What is the process of strategic implementation?

5. What are the major differences between strategy formulation and strategic implementation?

1.12. Suggested readings:

[i]Buul, M.Van (2009), 'Successful Strategy Implementation: A job for the Internal Auditor?' , Executive Master of Internal Auditing, Amsterdam Business School, University of Amsterdam.

[ii] **'**Strategy Implementation - Meaning and Steps in Implementing a Strategy' browsed in the url: https://www.managementstudyguide.com/strategy-implementation.htm

[iii]Gadella, J.W. (1994), 'Avoiding Expensive Mistakes in Capital Investment', *Long Range Planning* (April 1994), pp. 103-110; Voss, B. (1993), 'World Market is not for Everyone', *Journal of Business Strategy* (July/August 1993), p.4

[iv]Bert, A., MacDonald, T. and Herd, T. (2003), 'Two Merger Integration Imperatives: Urgency and Execution', *Strategy and Leadership*, Vol. 31, No. 3, 2003, pp. 42-49.

[v]Alexander, L.D. (1991), 'Strategic Implementation: Nature of the Problem', *International Review of Strategic Management*, Vol. 2, No. 1, edited by D.E. Hussey (New York: John Wiley & Sons), pp. 73-113; Herbiniak, L.G. (2006), 'Obstacles to Effective Strategy Implementation', *Organizational Dynamics*, Vol. 35, Issue 1, 2006, pp. 12-31.

[vi]Herbiniak, L.G. (2006), 'Obstacles to Effective Strategy Implementation', *Organizational Dynamics*, Vol. 35, Issue 1, 2006, pp. 12-31.

[vii] Darragh, J. and Campbell, A. (2001), 'Why Corporate Initiatives get Stuck?', *Long Range Planning* (February. 2001), pp. 33-52.

[viii] Arner, F. and Aston, A. (2004), ‘How Xerox got Up to Speed’, *Business Week* (May 3, 2004), pp. 103-104

[ix] Brynjolfsson, E., Renshaw, A. A. and Alystyne, M. Van (1997), ‘The Matrix of Change’, Sloan Management Review (Winter 1997), pp. 37-54.

[x] The Economist (2008),‘Cocoa Farming: Fair Enough?’,*The Economist* (February2, 2008), p. 74

[xi] Feldman, M. S. and Pentland, B. T. (2003), ‘Reconceptualizing Organizational Routines as a Source of Flexibility and Change’, *Administrative Science Quarterly* (March 2003), pp. 94-118.

[xii] Slater, S. F. and Olson, E. M. (2000), ‘Strategy Type and Performance: The Influence of Sales Force Management’, Strategic Management Journal, August, 2000, pp. 813-829.

[xiii] Goold, M. and Campbell, A. (1998), ‘Desperately Seeking Synergy’, *Harvard Business Review* (September-October 1998), pp. 131-143.

[xiv] Gavurová, B. (2010) ‘Meranie výkonnosti v organizáciách s dôrazom na aplikáciu systému Balanced Scorecard’. *Košice: Technická univerzita v Košiciach.*

[xv] http://management4best.blogspot.com/2010/03/nature-of-strategy-implementation.html

[xvi] Kazmi, A. (2008), ‘Strategic Management and Business Policy’, 3rd Edition, Tata McGraw Hill Publication, New Delhi

[xvii] Markiewicz, P. (2011), ‘Change Management in the Strategic Implementation Process’, Intellectual Economics, Vol. 5, No. 2(10), pp. 257-267.

[xviii] Tapscott (2008), ‘Leadership for strategy implementation and change management’, browsed in the url: https://millian.nl/artikelen/leadership-for-strategy-implementation-and-change-management

[xix] http://www.iibmindialms.com/library/management-basic-subjects/strategic-management/

[xx] http://www.authorstream.com/Presentation/aquariousswadeep-1768789-functional-operational-implimentation/

COM: 106 – STRATEGIC MANAGEMENT

BLOCK 5: STRATEGY IMPLEMENTATION

UNIT 2: BUSINESS PROCESS MANAGEMENT

Structure of this unit

2.1. Learning Objectives

2.2. Introduction

2.3. Business Processes

2.4. Business Process Management (BPM)

2.5. Business Process Management Lifecycle

2.6. Types of Organizational Structures and Systems

2.7. Value Chain Analysis

2.8. Conclusion

2.9. Terminal questions

2.10. Suggested readings

2.1. Learning Objectives

After reading the chapter, you should be able to:

- To know what is business process and types of business processes in an organization.
- To define business process management and its importance in strategic management.
- To know the steps in business process management or the lifecycle of BPM.
- To know the different organizational structures and systems.
- To understand value chain analysis and steps in Corporate value chain analysis.

2.2. Introduction:

Implementation of strategy takes place through the processes/activities of major functional business areas such as marketing, manufacturing, finance etc. Processes or methods are basically the courses of action or activities for carrying out business operations. Business Process Management involves managing the business processes so that it can be improved over time. The Business Process Management Lifecycle is a continuous set of activities carried to design, monitor and modify the business processes for adapting the processes to changes in the external environment that impact on the proper implementation of strategy.

Although there is a big debate continuing in the strategic management literature: Is formulation of strategy more important or its implementation? But, the success or failure of a company is determined by the implementation. Even the most perfect strategy may fail if it is not implemented properly. There is a mutual interrelationship between the 3 Hard Ss of the McKinsey 7S Framework: Strategy, Structure and Systems. In the implementation of strategy, organizational structures are supported by systems. Therefore, it is very important for the strategist to make appropriate decision in selection and combination of structure and systems for successful implementation of the strategy.

2.3. Business Processes:

Business Processes are methods or courses of action in sequential steps for carrying out tasks for achieving certain organizational objectives. All the functional areas of the production, marketing, finance, HR and MIS/IT operate on the basis of established processes. Processes, however, evolve and change over time, and thus, effect on the operational implementation of corporate strategies.

Many processes which have been developed by strategic analysts, consultants and companies have influenced strategic management in a significant manner. Major processes influencing strategic management are[i]:

a. **Value Chain Analysis:**

Value Chain Analysis as a process links a set of value creating activities in a company. It includes both primary activities (inbound logistics, production, outbound logistics,

marketing, sales, services) but also support activities (R&D, HR, MIS etc.). Relative effectiveness of the individual value creating activities, particularly the primary activities, has direct impact on operational implementation, and therefore, on the overall strategy implementation. We will study about value chain analysis in detail in this unit.

b. Supply Chain Management (SCM):

Supply Chain Management is one of the developments, which emerged from value chain analysis. SCM is a process in business logistics which lends logistical support to the activity-based value chain. Supply chain is a process that manages the entire movement of raw materials/inputs and finished goods from procurement to sales. Each stage in SCM is crucial for the company and also for stakeholders like vendors, transporters, channel members and customers. Process improvements in SCM benefit all the parties concerned and also improves the operational implementation of strategies.

c. Enterprise Resource Planning (ERP):

Enterprise Resource Planning (ERP) provides a vital connectivity within an organization. ERP system integrate the entire business operations of a company including manufacturing, marketing, finance, HR, logistics, warehousing etc. to coordinate different operations and reduce cost. Many large organizations use the ERP process to increase the operational efficiency. HPCL, among others, has installed an adapted ERP system to optimize communication or linkages among various functional departments/activities of the company.

d. Benchmarking:

Benchmarking is a practice to develop an organization’s resources and competencies in comparison with the existing and potential competitors. Different companies in the same industry have different financial resources, technical knowhow, managerial talent, marketing skills, operating facilities etc. These resources and competencies can become relative strengths or weaknesses depending on the strategy a company chooses. In selecting a strategy, the management should compare the organization’s key capabilities with those of competitors for securing competitive advantage.

e. **Business Process Reengineering:**

Business Process Reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed. Business Process Reengineering involves analyzing the current processes, identify non-value adding activities and redesign the process to create value for the customer, and then reformulate strategies to suit the organizations requirements.

f. **Business Process Outsourcing (BPO):**

Business Process Outsourcing involves contracting the operations and responsibilities of a specific business process to a third-party service provider. The main advantage of BPO is it increases company's flexibility. It helps the company to focus on its core competencies and release from the burden of non-performing or administrative processes, and also helps t reduce cost[ii].

2.4. Business Process Management (BPM):

The term business process management covers how we study, identify, change, and monitor business processes to ensure they run smoothly and can be improved over time. Often framed in terms of the daily flow of work.

BPM is best thought of as a business practice, encompassing techniques and structured methods. It is not a technology, though there are technologies on the market that carry the descriptor because of what they enable: namely, identifying and modifying existing processes so they align with a desired, presumably improved, future state of affairs. It is about formalizing and institutionalizing better ways for work to get done.

Successfully employing BPM helps the organization in the following ways:

1. Helps in organizing processes around outcomes and not tasks to ensure the proper focus is maintained.
2. Correcting and improving processes before (potentially) automating them; otherwise all you've done is make the mess run faster

3. Standardizing processes across the enterprise so they can be more readily understood and managed, errors reduced, and risks mitigated
4. Enabling continuous change so the improvements can be extended and propagated over time
5. Improving existing processes, rather than building radically new or "perfect" ones, because that can take so long as to erode or negate any gains achieved BPM should not be a one-time exercise.
6. Enables a company to cost effectively and quickly model and change its business processes to meet the specific needs of the business.

It should involve a continuous evaluation of the processes and include taking actions to improve the total flow of processes. This all leads to a continuous cycle of evaluating and improving the organization.

Check your progress

1. What are the various business processes in strategy?
2. What is BPM?

2.5. Business Process Management Lifecycle:

Business Process Management involves a set of activities for continuous evaluation of business processes, which is called the Business Process Management Lifecycle. The diagram of business process management lifecycle is shown in Fig. 1.

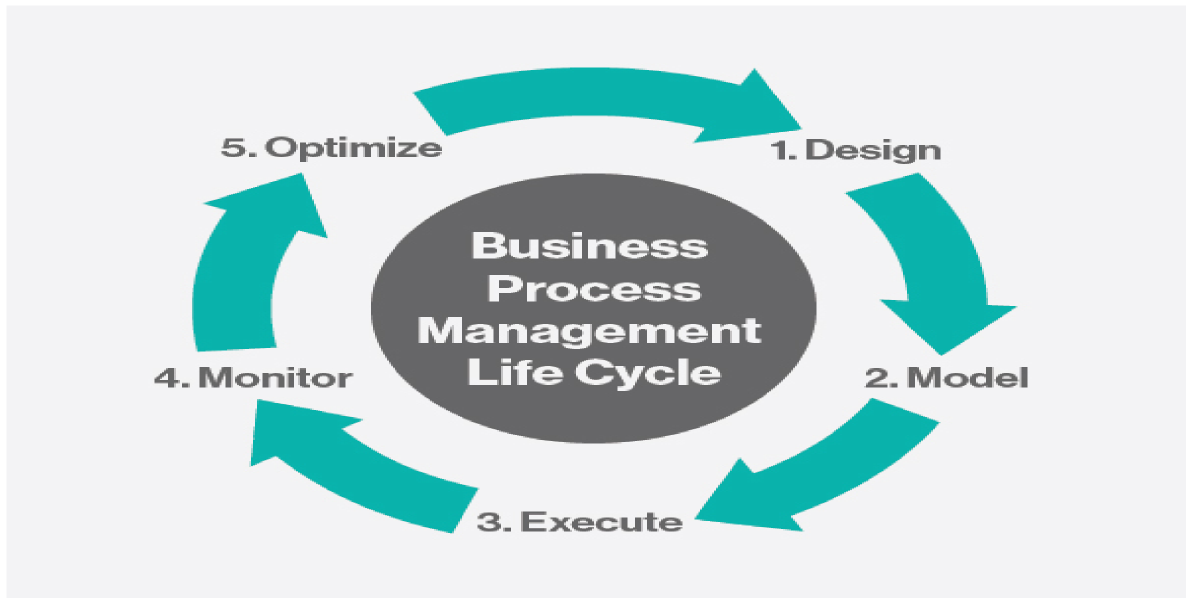


Fig. 1

Source: https://www.businessprocessincubator.com/content/the-digital-effect-on-the-bpm-lifecycle/

The steps in BPM are:

a. **Process Design**: Process Design encompasses both the identification of existing processes and the design of "to-be" processes. The aim is to ensure that a correct and efficient theoretical design is prepared. The proposed improvement could be in human-to-human, human-to-system, and system-to-system workflows, and might target regulatory, market, or competitive challenges faced by the businesses.

b. **Process Modelling**: Modeling takes the theoretical design and introduces combinations of variables (e.g., changes in rent or materials costs, which determine how the process might operate under different circumstances).

c. **Process Execution:** This involves bringing the theoretical design of strategy into action.

d. **Process Monitoring**: Tracking of individual processes, so, that information on their state can be easily seen, and statistics on the performance of one or more processes can be provided. The degree of monitoring depends on what information the business wants to evaluate and analyze and how business wants it to be monitored, in real-time, near real-time or ad-hoc. Process mining is a collection of methods and tools related to process monitoring. The aim of this is to analyze event logs extracted through process

monitoring and to compare them with an a priori process model. It allows to detect discrepancies between the actual process execution and the priori model.

e. **Process Optimization**: Process optimization includes retrieving process performance information from modeling or monitoring phase; identifying the potential or actual bottlenecks and the potential opportunities for cost savings or other improvements; and then, applying those enhancements in the design of the process[iii].

2.6. Types of Organizational Structures and Systems:

For proper implementation of strategy, or before plans can lead to actual performance, a corporation should be adequately staffed, and activities should be directed towards achieving the desired objectives. Any change in corporate strategy is very likely to require some sort of change in the way an organization is structured and the systems through which the organization processes. Therefore, it is very important to examine the organizational structure and systems for effectively implement a strategy. Strategy, Structure and Systems form the interrelated hard Ss of the organization in the McKinsey 7S Model as shown in Fig. 2[iv].

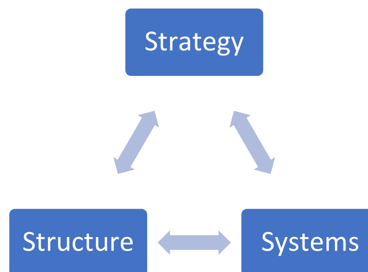


Fig. 2

I. Organizational Structure:

Organisational structure refers to the mechanism of distribution of authority and responsibility among the various managerial positions in the organization. The different types of organizational structure are:

a. **Simple Structure:** It is the elementary form of organization structure also known as entrepreneurial structure. The individual owner/entrepreneur assumes/discharges most of the responsibilities of management with some managers and staff assisting him. This is used in small, single product business or service which caters to local or regional markets. The major advantage is prompt and timely response to environmental

changes, which lead to fast implementation of strategy. However, the major disadvantage is there is bias involved in single individual in corporate decisions and moreover, important strategic decisions may be ignored.

b. **Functional Structure:** Functional structure involves differentiation and allocation of primary functions such as production, marketing, finance and HR along with certain delegation of powers. Each of these functions are headed by a general manager or director at board level, and are headed by a CEO or MD. The major advantage is it focus on functional specialization. It improves functional efficiency and simplifies control mechanism by assigning tasks and job responsibilities to specialists at senior and middle management levels. The disadvantage is it may lead to functional conflict between line and staff functions. Moreover, it may lead to narrow specification and compartmentalization which may affect organizational efficiency and growth prospects.

c. **Divisional Structure:** A divisional structure consists of separate divisions constituted on the basis of products, services or geographical area. Need for a divisional structure arises because of the inadequacy of a simple functional structure to deal with the complexities of business as the organization grows very large. However, within divisions functional allocations still continue. The major advantage of this structure is it enables concentration on major business areas of an organization i. e. products (product-based divisions) and/or markets (geographical divisions). Co-ordination among the intra-divisional operations becomes easy and also enables quick responses to environmental changes effecting divisions. The disadvantage is it may lead to confusion over authority and responsibility in terms of centralization (top management) and decentralization (divisions). Moreover, it may also lead to inter-divisional conflicts and also the issue of inter divisional trading arises.

d. **SBU Structure:** Strategic Business Units (SBUs) are used in large business organizations where independent product/market segments are present which requires distinctive strategies. Each of the independent product/market segments faces a different environment, and therefore, they need separate and distinct strategies. The major advantage of SBU structure is it is an improvement over divisional structure, as it has clear strategic focus enabling assessment of performance of individual SBUs. The major disadvantage is there may arise problem in effective management of all units

simultaneously and also, there may be a problem of defining autonomy of the SBUs and striking a proper balance between SBU autonomy and corporate parenting.

e. **Matrix Structure:** A matrix structure is a need based or project-based structure that does not follow the conventional hierarchy or control. It is a combination of different divisions or functions designed to complete a project like launching of a new product, development of a new market etc. The matrix structure has a defined duration, that is, the project period. After the completion of the project, the managers go back to their respective divisions/functional areas. The major advantage of matrix structure is that it fosters an interdisciplinary approach to organizational business and encourages teamwork. It helps in harnessing talents for optimum utilization of limited resources. The major disadvantage of matrix structure is it replaces formal hierarchy and therefore, may result in ambiguity of relationship, responsibility and authority.

II. Organizational Systems:

Organizational systems are the linkages or networks that are required to be established and some controls to be enforced among the organizational constituents like business units, departments, divisions, projects etc. for proper implementation of strategy.

The different organizational systems are:

a. **Planning System:** Planning system represents the planning process, which basically includes the strategy formulation. Planning system can be centralized planning system or decentralized planning system. In centralized planning system the formulation of corporate strategies are developed by the top management and the functional strategies are delegated to functional departments. Implementation directives are also given by centralized planning system. However, in decentralized planning system, planning, strategy formulation and implementation are decentralized at division or SBU level.

b. **Management Information System (MIS):** The planning system in any organization depends heavily on MIS. The MIS provides critical inputs to the planning system regarding the all-important aspects of organizational functioning and performance. It also provides connectivity across different constituents of

organizational structure in terms of information flow and feedback. MIS helps the managers in two important ways: firstly, it helps the managers to equip with all relevant data which they require to perform their tasks better and second, to coordinate their activities with other managers/departments through centralized mechanism. MIS also greatly helps the top management in strategic decision making.

c. **Management Development System (MDS):** Management Development System (MDS) is essentially concerned with the development of individual managers and preparing them better for organizational activities such as planning, strategy making and implementation. The objective of MDS is to nurture managers and build human capital. The focus should be on the orientation and development programmes with particular reference to strategic tasks, planning skills and implementation strategies. MDS should regularly modify or update existing programmes or design new development programmes to prepare managers for changing tasks and responsibilities. Thus, MDS plays a very important role in strategy development and implementation process

d. **Motivation System:** The motivation system can contribute greatly to the management development system. Many companies follow the policy of 'carrot and stick' i.e. rewards and punishment. Incentives are the most important motivational factor. Incentives are of two types: common monetary incentives are salary increase, productivity or performance bonus, profit sharing, welfare allowances etc. and non-monetary incentives are special rewards, certificate of excellence, nomination to a prestigious training programme, foreign tours, foreign postings etc. Both are used by progressive organizations to motivate their employees.

e. **Evaluation System:** Evaluation or appraisal system also has a role parallel to motivational system, as because it is very necessary to ascertain whether employees/managers are actually performing or performing satisfactorily. The evaluation system assesses managerial performance in terms of organizational objectives, priorities, and strategies. The purpose of a positive appraisal system is to remind managers how they are discharging their tasks and responsibilities, particularly in relation to strategy implementation. However, for development of an

effective evaluation system, the choice of evaluation factors to be used in appraisal becomes a critical issue. Therefore, it is important to include multiple criteria both quantitative and qualitative factors which makes the assessment system objective and broad.

f. **Control System:** The management control system runs parallely to the evaluation system, and also to some extent, complements the evaluation system. The objective of the control system is to ensure that implementation of strategy takes place according to the plan. The 5 Step Feedback Model for Evaluation and Control (shown in Unit 4) represents the control system. The management control system basically evaluates the performance of employees/managers with respect to the prescribed organizational standards, in which, corrective actions are initiated to correct the deviations which arises during the evaluation. [v]

Check your progress

1. Name the types of organizations structures.
2. What are the various organizational systems?

2.7. Value Chain Analysis:

A value-chain is a linked set of value creating activities that begin with basic raw materials coming from suppliers, moving to a series of value-added activities involved in producing and marketing of a product or service, and ending with distributors getting the final goods and services into the hands of the customer.

An industry can be analyzed in terms of the profit margin available at any point on the value chain. A company's center of gravity is the part of the chain that is most important to the company and the point where its greatest expertise and capabilities lie- its core competencies. After a firm successfully establishes itself at this point by obtaining a competitive advantage, one of the first strategic moves is to move forward or backward along the value chain in order to reduce costs, guarantee access to key raw materials, or to guarantee distribution. This process is called as vertical integration. [vi]

Figure 3 represents a typical value chain of a manufacturing product. The focus of value chain analysis is to examine the corporation in the context of overall chain of value creating activities, of which the firm may only a part.

Fig. 3

Corporate Value Chain Analysis:

Each corporation has its own set of internal value chain of activities. In a manufacturing firm, primary activities usually involve inbound logistics, operational processes and then continue to outbound logistics, to marketing and sales and finally to service. Several support activities such as procurement, R&D, human resource management and firm infrastructure (such as accounting, finance, strategic planning) ensure that the primary activities operate effectively and efficiently. Since most corporations make several different products and services, therefore, an internal analysis of a firm involves several different value chains.

Acording to Porter, 'Differences among competitor value chains are a key source to competitive advantage'. Therefore, a systematic evaluation of individual value chain activities can lead to better understanding of a corporation's strengths and weaknesses[vii]. Corporate value chain analysis involves the following three steps:

a. **Examining each product line's value chain in terms of the various activities involved in producing that product or service:** It involves the identification of those prime activities in the value chain which can be considered strengths (core competencies) or weaknesses (core deficiencies). It also involves determining whether the core competencies provide significant competitive advantage over others i.e. can they be labeled as distinctive competencies.

b. **Examining the 'linkages' within each product line:** Linkages are the connections between the way one value adding activity (for e.g. marketing) is performed and the cost of performance of another activity (for e.g. quality control). In seeking ways for a corporation to gain competitive advantage in the marketplace, the same function can be performed in different ways with different results.

c. **Examining the potential synergies among the value chains of different product lines or business units:** Each value element, such as advertising or manufacturing, has an inherent economy of scale, in which activities are conducted at their lowest possible cost per unit of output. If a particular product is not being produced at a high enough level to reach economies of scale of distribution, another product could be used to share the same distribution channel. This is an example of economies of scope, which result when the value chains of two separate products or services share activities, such as same marketing channels or manufacturing facilities. The cost of joint marketing of multiple products shall be obviously lower than the cost of separate marketing.[viii]

2.8. Let us sum up:

Managing the business processes is very important for proper implementation of strategy as because it is through these business processes that the strategy is implemented. For proper implementation, it is very important that these business processes are monitored continuously and also modified with the changing external environment. Business process management helps to streamline the process flows, decrease cycle time, reduce costs etc. and thus, contribute largely to increased productivity and efficiency.

From the above, we have learnt that organizational structure and systems have a very important role in strategy implementation. It is very necessary for the organization to have the right structure and systems for successful implementation of strategy. Value chain analysis has a direct impact on the operational implementation of strategy. The examination of corporate value chain helps to identify the functional resources and capabilities for analysis of potential strengths (core competencies) and weaknesses (core deficiencies). Thus, the value chain analysis forms a very useful instrument for optimum utilization these

resources and capabilities to serve as strengths to carry out value added activities and support strategic decisions in strategy implementation process.

2.9. Terminal questions

- How Business Process Management is considered as the strategy implementation tools?
- How value chain analysis helps in understanding strategic implementation and business process management?

2.10. Suggested readings:

[i] Nag, A. (2012), 'Implementation: Functional and Operational', *Strategic Management and Business Policy*, Vikas Publishing House, pp. 395-396.

[ii] https://en.wikipedia.org/wiki/Business_process_outsourcing

[iii] https://ics.upjs.sk/semanisin/AIS/BPM.ppt

[iv] Waterman. R, Peters', T & Philips, J.R. (1980), 'Structure is not Organization', *Business Horizions*, Vol. 22, Issue 3, pp.14-26.

[v] Kazmi, A. (2005), *Business Policy and Strategic Management*, 2nd Edition, Tata McGraw Hill, 2005, pp. 342-344.

[vi] Galbraith, J. R. (1991), 'Strategy and Organization Planning', *The Strategy Process: Concepts, Contexts, and Cases,* 2nd Edition, Edited by H. Mintberg and J. B. Quinn, Englewood Cliffs, N.J.: Prentice Hall, 1991, pp. 315-324.

[vii] Porter, M. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: The Free Press, 1985, p. 36.

[viii] Wheelen, T. L. and Hunger, J. D. (2008), 'Strategy Evaluation and Control', Chapter 11, *Strategic Management and Business Policy*, 11th Edition, Prentice Hall. Inc, pp. 153-155.

COM: 106 – STRATEGIC MANAGEMENT

BLOCK 5: STRATEGY IMPLEMENTATION

UNIT 3: RESOURCE ALLOCATION AND REENGINEERING

Structure of this unit

3.1. Learning Objectives

3.2. Introduction

3.3. Preparation of a Strategic Budget

3.4. Allocation and Management of Resources

3.5. Business Process Reengineering (BPR)

3.5.1.Principles of Business Process Reengineering (BPR):

3.5.2. Steps in Business Process Reengineering(BPR)

3.6. Let us sum up

3.7. Terminal Questions

3.8. Suggested Readings

3.1. Learning Objectives

After reading the chapter, you should be able to:

- To know what is resource analysis and its importance in strategic management.
- To understand the preparation of a strategic budget for resource allocation.
- To understand the processes of allocating and managing different resources in strategic implementation and how to integrate these resources.
- To know what is Business Process Reengineering (BPR) and the features of BPR.
- To understand the underlying principles and importance of BPR.

- To know the steps in Business Process Reengineering (BPR).

3.2. Introduction:

Between formulation of a strategy and its implementation, there exist another major step. This step is the Activation of Strategy which involves the institutionalizing the strategy and mobilizing, allocating and managing resources for execution of strategy. The starting point of allocation and management of resources is the preparation of a strategic budget. In strategic management three types of resources are considered: financial, human resource and technology or innovation. The allocation of resources is the decision of the top management.

I. Resource Analysis: Its Importance in Strategic Management:

Resources create competencies. Resources also limit competencies because for developing certain types or levels of competencies or capabilities, commensurate resources may not be always forthcoming. This derives that competency analysis and resource analysis are intrinsically related.

In strategic management analysis, organizational resources may be classified into four types:

a. **Physical Resources:** Physical resources are buildings (factory or office), machines or production capacity. The nature and quality of physical resources depend on age, condition, location and capability of these resources.
b. **Financial Resources:** Financial resources includes cash, capital, debtors, creditors and suppliers of funds (shareholders, banks, financial institutions etc.). Financial resources are the source of all investment of the company.
c. **Human Resources:** Human resources are the people. Human resources include skills, knowledge applications and adaptability of people or employees in the organization. In knowledge-based economies and today's highly complicated business management systems, human resource has become the most valuable asset of any organization.
d. **Intangible Resources:** Intangible resources also defined as intellectual capital, are of late, being recognized as of strategic importance to companies. Intangible resources include knowledge or intellectual capital in the form of patents, brands, business systems, customer databases and relationship with strategic partners. Intangible resources include knowledge or intellectual capital in form of patents, brands, business systems, customer databases and

relationship with strategic partners. Intangible resources or intellectual capital include 'good will' or 'corporate image' of an organization which is thereby, a very important asset for the organization.[i]

Importance of Resource Analysis in Strategic Management:

Like competencies, resources can also be of different levels of adequacies and effectiveness. Threshold resources, like threshold competencies, is the minimum level required for entry into the market. But to stay in the business, the threshold level has to increase over time because of the actions of the competitors and/or new entrants. So, the threshold resource level is always relative to the market position of a particular product. In contrast, unique resources like the core competence or distinctive competence enable the organization to establish or sustain the product or business better than competitor's resources.

Moreover, resources may have to be continuously developed and/or adjusted to competence levels to secure a sustained competitive advantage. Due to the development of technology and changes in competition levels, some resources may become redundant over time. Unless organizations are able to dispose of or abandon redundant resources and develop new resources, they may not be able to stay in the competition[ii].

Therefore, it is very much important for the organization to change their resource base as competitive situation demands. Thus, resource analysis is of great importance in strategic management as it guides the proper mobilization, allocation and utilization of resources for successful implementation of strategy.

3.3. Preparation of a Strategic Budget:

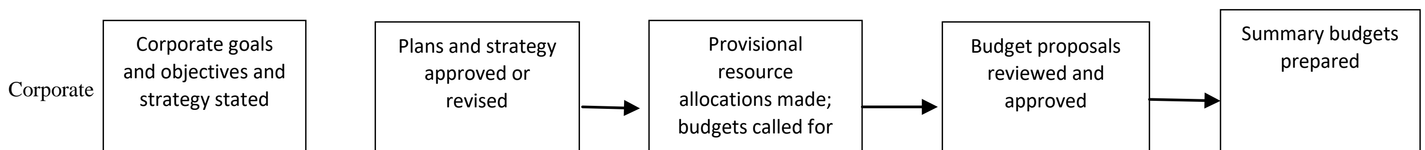
Budget is the instrument for resource allocation. For strategic planning and executing strategies, an organization needs strategic budgeting. As we have studied that the proper allocation of resources is significant for successful implementation of strategy, therefore, it is very important for the top management as well as functional and operational managers to develop a proper strategic budget so as to properly allocate the resources.

A strategic budget is different from the conventional accounting budget. In accounting budget, emphasis is on various financial entries for expenditure of a company many of which are of an operational or routine in nature; some maybe of developmental in nature. A strategic budget, in contrast, is prepared with particular reference to a strategic plan and its implementation. It is based on certain assumptions made by the strategic analysts. It involves a number of steps and factors and therefore, strategic budget is often an iterative process.

The steps for preparation of strategic budget is shown below:

- **i.** The starting point is the preparation of different position papers- on environment, internal competence/resources and performance of past strategies, where the CEO/ top management also issues some guidelines for preparation of position papers.
- **ii.** Based on these inputs (position papers) and corporate policy or philosophy, planning objectives are set by CEO/top management.
- **iii.** The budget is being prepared by the senior/middle/functional management along with the planning/strategic analysts subject to resource availability. This budget is submitted to the CEO/top management for approval.
- **iv.** The budgeting process is complete and the strategy is ready for implementation. However, during implementation, there may be a need for budgetary review which may result in revision of budgetary process.

In large multi-business organizations, strategic budgeting becomes an interactive or iterative process between the corporate organization and the Strategic Business Units (SBUs). The budgetary process is initiated at the corporate level with corporate goals and objectives. The SBU's goals and objectives follow from, or have to be compatible with or complementary to, corporate and organizational objectives. But, the SBUs give their own planning and feedback inputs and the budgetary process starts. Both the corporate organization and the SBUs become equal partners or participants in the preparation of the final SBU budgets. The interactive budgetary process is shown in Fig. a.[iii]



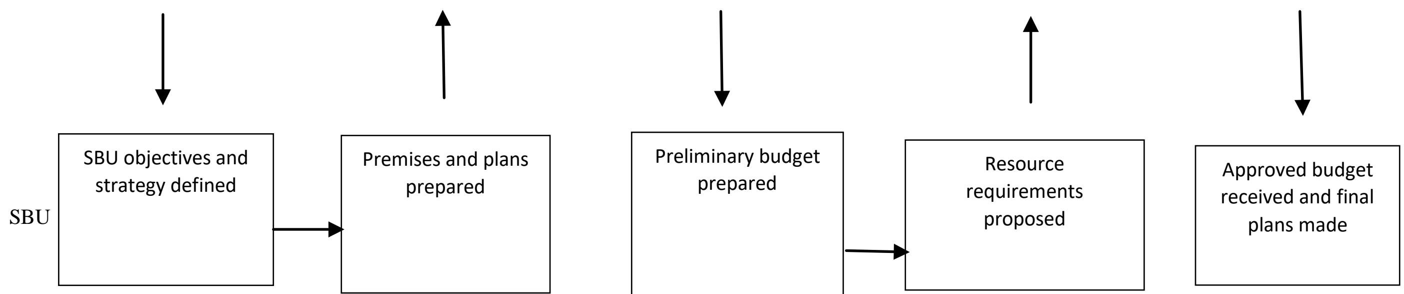


Fig. a

Source: Nag, A. (2012), Strategic Management and Business Policy, Vikas Publishing House: New Delhi

3.4. Allocation and Management of Resources:

Allocation and management of resources are major factors in activation and implementation of strategy. Although resource allocation is done as per the decision of the CEO/top management, in practice, resource allocation proposals may originate from the planning/ strategy team or the SBUs (as shown in Fig. a) based on the strategy and implementation programmes. The planning/ strategy team may also take the view of the functional/ operational managers which form an important input in the resource allocation process. But final approval or allocation will be always by the CEO/ top management.

Financial resource is not the only resource relating to allocation and management of resources as commonly perceived. In allocating and managing resources, three types of resources are generally considered: financial, human or managerial and technological or innovation. Some strategic analysts also consider information resources as the fourth resource factor while organizing and managing human resources.[iv]

The process of allocating and managing the various resources are described below:

(a) **Financial resource allocation**:

All organizations face a basic decision problem on how their businesses will be financed. An organization will have a particular financial requirement if it is planning fast growth of its business through diversification – product/market development or acquisition. The funding requirement will be different if a company is trying to

consolidate its business, i.e., pursuing a stability strategy. The funding requirement would also be different during different stages of development of an SBU.

Ward (1993) has analyzed the funding strategy along with business risk and financial risk of an SBU, using a BCG matrix as shown in Fig. b.

Market Growth \ Market Share	High	Low
High	Growth (Star) Business Risk: High Financial risk: Usually Low Funding: Equity (growth investors)	Launch (?) Business Risk: Very High Financial risk: Needs to be low Funding: Equity (Venture capital)
Low	Maturity (Cash Cow) Business Risk: Medium Financial Risk: Medium Funding: Equity and Debt (retained Earnings)	Decline (Dog) Business Risk: Low Financial Risk: Can be high Funding: Debt

Fig. b

Source: Ward, K. (1993), Corporate Financial Strategy, Chapter 2, Oxford: Butterworth- Heinemann

In fig. b the relationship between business risk, financial risk and funding policy of a strategy is shown, where the analysis shows the need of matching the financial risk and financial return (linked to business risk) to investors while deciding the financial resource allocation for implementation of a strategy. The greater the risk to shareholders or investors, the higher the return they expect. Debt (borrowing) has a higher financial risk than equity because of interest and also repayment obligations. The strategic funding policy in different phases of BCG matrix (as shown in fig. b) is described below:

a. In case of cash cows (maturity phase), the financing is through internal accruals (retained earnings), shareholders may not be so concerned. Businesses in maturity stage usually generate enough surplus which can contribute to retained earnings, which in turn, can be reinvested.
b. In case of stars (growth phase), financing is through equity, where the investors may look for immediate returns/ profits.

c. In case of question marks (launch phase) with high business risk, financing is through equity in the form of venture capital which may be required for the development of new business, the investors expect high returns.
d. In case of dog (decline phase), financing is through debt as equity funding is difficult as because investors may not like to risk their capital in a declining or sinking business.[v]

Thus, mobilization, allocation and management of financial resources is a complex job. There are various problems associated with it. Firstly, scarcity of investible resources is a common phenomenon. Moreover, all businesses of a company do not strictly fall in the BCG categories of stars, cash cows, question marks and dogs, e.g., FMCGs and consumer durables. There is also a choice between long term and short-term financing and the issue of debt servicing. An organization has to consider all these factors in organizing and managing financial resources.

(b) **Human resource Allocation:**

Human resources are the most important factor in activating strategies. People can make a major difference in success or failure of a corporate strategy. Knowledge, skills and experience can significantly contribute to strategic success as poor human resource can hinder adoption or implementation of successful strategies. HR systems plays a vital role in organizing and managing human resources. For various functional/operational strategies to support a chosen organizational strategy, the right kind of people should be deployed in right positions or recruited to fill up the resource gap. For e.g. if a company's chosen strategy is diversification, and if it involves innovative products and processes, requisite skills or expertise may not be available in the company. Therefore, the HR department has an important role to play in recruiting the right talent, providing or creating proper work environment and helping to increase managerial productivity.

For effective implementation of corporate strategy, the HR professionals need to orient and familiarize themselves with the organization's strategic process or a particular strategic initiative and human resource requirements in terms of competence

and commitment. Some of the HR activities or human resource management needed in the pursuit of successful implementation of strategies are:

(a) HR audit to assess resource requirements and availability in terms of competence and also to analyze skills and capabilities of individual managers which can form as a useful input to future strategic planning process.
(b) Fostering team building attitude and rewarding team work approach as most strategies require a team approach rather than individual approach.
(c) Performance assessment of individuals and teams should have a clear focus on strategic inputs rather than pure functional and operational inputs.
(d) Devising appropriate training and development programmes which becomes important developmental inputs for individual managers if the organizational strategies are changing more regularly.
(e) Institutionalization of individual competence or expertise through proper succession planning.[vi]

(c) Technological Innovation Allocation:

Technology or technological innovation renders credibility or completeness to the implementation of strategies. So, as organizations have to match and manage financial and human resources, they also need to acquire, organize and manage technology to activate strategy, particularly if the strategy pertains to product innovation or new product development. Technology affects product quality, productivity and cost efficiency and can significantly contribute to strategic advantage of an organization. Coping with technological advances is necessary even if a company pursues a stability strategy, let alone a growth strategy.[vii]

Integrating Resources:

Owing the resources- financial, human and technological- and deploying them in isolated ways are not enough because these do not ensure strategic capability. Strategic capability, in real sense, involves the integration of these resources to produce a synergetic effect. This means integrating the resources for competence building.

The first step in resource development is to obtain the threshold levels of individual resources- financial, human and technological. In a highly competitive environment the threshold levels are shifting upwards. To maximize the contribution of resources i.e. to create a unique strategic capability (core competence or distinctive competence), resources is to be combined in right proportion to create the required synergy. Enterprise Resource Planning (ERP) is a good method for integrating and optimizing resources. In fact, many companies are using ERP solutions to optimize resource allocation in a integrated way. It is not enough to be competent in individual resources. It is the ability of a organization to integrate these resources effectively which determines the success or failure of a particular strategy or a set of strategies.

Check your progress

1. What is the relation between resource analysis and strategic implementation?
2. How are resources identified?
3. What is resource allocation?

3.5. Business Process Reengineering (BPR):

Reengineering is the radical redesign of business processes to achieve major gains in cost, service and time. It is not itself a type of structure, but it is an effective program to implement a turnaround strategy.

BPR or Business Process Reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed. Business Process Reengineering strives to break away from the old rules and procedures that develop and become ingrained in every organization over the years. They may be combination of policies, rules, and procedures that have never been seriously questioned because they were established earlier. These rules of organization and work design may have been based on assumptions about technology, people, and organizational goals that may no longer be relevant. Rather than attempting to fix the existing problems through minor adjustments and fine tuning of existing processes, the key to reengineering is asking, ‘If this were a new

company, how would we run the place?'. It involves replacing the old systems with completely new and effective systems to run the business.[viii]

Features of Business Process Reengineering are as follows:

1. Enhances effective communication among the employees.
2. Focuses more on training and education of the employees.
3. Effective rethinking and reengineering of business process.
4. Enhances the decision-making process for the managers and executives.
5. Accurate information system integration.
6. Consolidation of various activities into one component of the organization.
7. Multiple processes are done simultaneously in the organization.
8. Focused contact point is provided to customers.
9. Commitment to strong leadership.
10. Empowerment of the processes in organization
11. Emphasis on involvement of people in the organization.

3.5.1.Principles of Business Process Reengineering (BPR):

Hammer, M. (1990) who popularized the concept of reengineering, suggests the following principles of reengineering:

1. **Organize around outcomes, not tasks:** Design an individual's or a department's job around an objective or outcome instead of a single task or series of tasks.
2. **Have those who use the output of the process perform the process:** With computer-based information systems, processes can now be reengineered so that the people who need the result of the process can do it themselves.
3. **Subsume information-processing work into the real work that produces the information:** People or departments that produce information can also process it for use instead of just sending raw data to others in the organization to interpret.
4. **Treat geographically dispersed resources as though they were centralized:** With modern information system companies can provide flexible service locally while keeping the actual resources in a centralized location for coordinating purposes.

5. **Link parallel activities instead of integrating their results:** Instead of having separate units perform different activities that must eventually come together, have them communicate while they work so that they can do the integration.
6. **Put the decision point where the work is performed and build control into the process:** The people who do the work should make the decisions and be self-controlling.
7. **Capture information once and at the source:** Instead of having each unit develop its own database and information processing activities, the information can be put on a network so that all can access it.[ix]

   Several companies have had success with business process reengineering. Corporations implementing reengineering has succeeded in reducing operating expenses and increasing productivity. A study of 134 large and small Canadian companies found that reengineering programs resulted in an increase in productivity and product quality, reduced cost and increase in overall organizational quality, for both large and small firms[x]. A study in the reengineering process of Mahindra and Mahindra (M&M) farm equipment sector showed that the benefit of reengineering was reduction in rework and rejections at supplier's end as well as at customer's end. It also led to decrease in customer complaints to a huge extent.[xi]

3.5.2. Steps in Business Process Reengineering(BPR):

The various steps in business process reengineering are:

a. **Visioning:** Defining corporate visions and business goals.
b. **Identifying**: Identifying business processes to be reengineered.
c. **Analyzing:** Analyzing and Measuring the performance of existing business processes.
d. **Redesigning:** Involves identifying enabling tools and techniques and generate a alternative and effective process redesign.
e. **Evaluating:** Evaluating the performance of newly generated process redesign.
f. **Implementing:** Implementing the reengineered process.
g. **Improving:** Involves continuous improvement of the implemented processes.

3.6. Let us sum up:

From the above, we have learnt that resource allocation is a very important step before implementation of strategy. This is because the allocation of resources forms the base of implementation. The most important resources to be allocated, managed and organized for strategic implementation are - financial, human and technological. However, owing them and deploying them in isolated ways are not enough. For successful implementation of strategy, it is very important to develop strategic capability, which in real sense, involves the integration of these resources to produce a synergetic effect. The organization should be able to integrate these resources effectively which determines the success or failure of a particular strategy or a set of strategies.

Strategy is implemented by modifying structure (organizing), selecting the appropriate people to carry out the strategy (staffing), and communicating clearly how the strategy can be put into action. Business Process Reengineering (BPR) is a planning and implementation program which is very effective in implementation of strategy. The benefits of reengineering can be identified as increase in productivity and product quality, reduced cost and increase in overall organizational quality.

3.7. Terminal Questions

1. What is the relation between strategic implementation and resource analysis?

2. Why is resource allocation necessary?

3. When is Business Process Re-engineering done?

4. How is BPR implemented?

3.8. Suggested readings:

[i] Porter, M. E. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: The Free Press.

[ii] Johnson, G. and Scholes, K. (2005), *Exploring Corporate Strategy*, 6th Edition, Pearson Education, p. 154.

[iii] Nag, A. (2012), *Strategic Management and Business Policy*, Vikas Publishing House: New Delhi

[iv] Johnson, G. and Scholes, K. (2005), *Exploring Corporate Strategy*, 6th Edition, Pearson Education, pp. 490-500.

[v] Ward, K. (1993), *Corporate Financial Strategy*, Chapter 2, Oxford: Butterworth- Heinemann

[vi] Johnson, G. and Scholes, K. (2005), *Exploring Corporate Strategy*, 6th Edition, Pearson Education, pp. 480-481.

[vii] Johnson, G. and Scholes, K. (2005), *Exploring Corporate Strategy*, 6th Edition, Pearson Education, p.514.

[viii] Wheelen, T. L. and Hunger, J. D. (2008), 'Strategy Evaluation and Control', Chapter 11, *Strategic Management and Business Policy*, 11th Edition, Prentice Hall. Inc, pp. 297-298.

[ix] Hammer, M. (1990), 'Reengineering Work: Don't automate, obliterate', *Harvard Business Review*, July-August 1990, pp. 104-112.

[x] Raymond, L. and Rivard, S. (1998), 'Determinants of Business Process Reengineering success in Small and Large Enterprises: An Empirical Study in the Canadian Context', *Journal of Small Business Management*, January 1998, pp. 72-85.

COM: 106 – STRATEGIC MANAGEMENT

BLOCK 5: STRATEGY IMPLEMENTATION

UNIT 4: STRATEGY EVALUATION, FEEDBACK AND CONTROL

Structure of this unit

4.1. Learning Objectives

4.2. Introduction

1.3. Evaluation and Control in Strategic Management

4.4. Measuring Performance – 5 Step Feedback Model

4.5. Types of Controls for Strategy Evaluation

4.6. Measures for Corporate Strategic Performance

4.7. Types of Strategic Controls

4.8. Characteristics of an Effective Evaluation System

4.9. Issues in Strategy Evaluation Process

4.10. Conclusion

4.11. Terminal questions

4.12. Suggested readings

4.1. Learning Objectives

After reading the chapter, you should be able to:

- To understand the importance of strategy evaluation and the five-step feedback model
- To classify the different types of controls for strategy evaluation.

- To choose among the different measures to assess corporate strategic performance.
- To know the types of strategic controls in the strategy implementation process.
- To understand the characteristics of an effective evaluation and control system.
- To understand the issues in evaluating and controlling performance of strategy.

4.2. Introduction

The evaluation and control process ensure that a company is achieving what it is set out to achieve. It compares performance with desired result and provides the feedback necessary for management to evaluate results and take corrective action. Absence of a proper control system to monitor and evaluate the performance of strategy may lead to unfortunate results. A proper control and feedback system will monitor the performance of the implemented strategy and also anticipate the upcoming obstacles in the strategy implementation process. The control mechanism should not only be able to tell- what is happening but what will happen.

4.3. Evaluation and Control in Strategic Management

Evaluation and Control in strategic management involves an established evaluation and control system which monitors the performance of the implemented strategies and provides appropriate measures to effectively control the obstacles arising during the implementation of the strategy. Evaluation and control information provides the top management with the performance results in terms of performance data and activity reports. This information must be relevant to what is being monitored.

If undesired performance results arise due to strategic processes were inappropriately used, operational managers must know about it so as to correct the employee activity. However, if undesired performance results arise from the strategic processes themselves then, the top managers and operational managers must know about it so as to develop new implementation programs and procedures.

4.4. Measuring Performance – 5 Step Feedback Model

Performance is the end result of activity. The objectives that were established earlier in the strategy formulation part of strategic management process should certainly be used to measure the corporate performance once the strategies have been implemented.

This process can be viewed as Five Step Feedback Model as shown below:

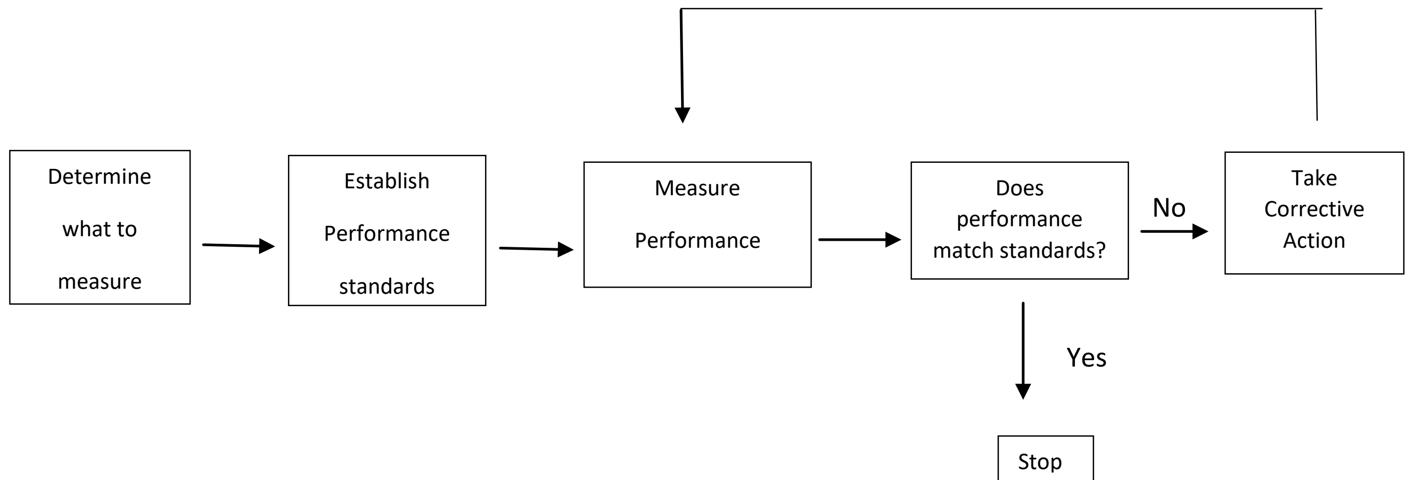


Fig a: The Five Step Feedback Model

Source: Wheelen, T. L. and Hunger, J. D. (2008), 'Strategy Evaluation and Control', Chapter 11, Strategic Management and Business Policy, 11th Edition, Prentice Hall. Inc

The above diagram shows the five-step feedback model for evaluating performance based on the objectives to be achieved:

1. **Determine what to measure:** Top managers and operational managers need to specify what implementation processes and results will be monitored and evaluated. The processes and results must be capable of being measured in a reasonably objective and consistent manner where the focus should be on the most significant elements of the process.
2. **Establish standards of performance:** Standards used to measure performance are detailed expression of strategic objectives. They are measures of acceptable performance results. Standards can be set not only for final output but also for intermediate stages.
3. **Measure actual performance:** Measurement must be made at pre-determined times.
4. **Compare actual performance with the standard:** If actual performance results are within the desired tolerance level then the measurement process stops here.
5. **Take corrective action:** If deviation from the desired tolerance level arises, then the reason for deviation needs to be identified. The top managers and operational managers need to take action to not only correct the deviation but also prevent its happening again[i].

4.5. Types of Controls for Strategy Evaluation:

Controls can be established to focus on actual performance results (output), the activities that generate the performance (behavior), or on resources that are used in performance (input).

There are basic three types of controls:

a. **Output controls:** Output controls specify what is to be accomplished by focusing on the end result of the behaviours through the use of objectives and performance targets. Output controls are effective when specific output measures have been agreed on but the cause effect connection between activities and results are not clear.

   E.g. of output controls are sales quotas, specific cost reduction or profit objectives, Return on Investment (ROI), Earnings per share (EPS) etc. Such as, ROI and EPS can be computed only after profits are calculated for a period.

b. **Input controls:** Input controls emphasizes on resources, such as knowledge, skills, abilities, values and motives of employees. Input controls are more appropriate when output is difficult to measure and there is no clear cause effect relationship between behavior and performance (such as college teaching).

   E.g. of input controls are number of years of education, experience, IQ level, EQ level, inventory turnover ratio etc.

c. **Behavioral controls:** Behavioral controls specify how something is to be done or act through policies, rules, standard operating procedures and orders from superior. Behavioral controls are most appropriate when performance results are hard to measure, but the cause effect connection between activities and results are clear.

   E.g. of behavioral controls are following company procedures, making sales call to potential customers, getting work on time etc.[ii]

   Corporations following the strategy of **Conglomerate Diversification** tend to emphasize on output controls with their divisions and subsidiaries as because they are independent of each other; whereas corporations following **Concentric Diversification** use all three types of controls (input, output and behavioral) as because they are interdependent across each other. As a multinational organization moves through its stages of development, its emphasis on control should shift from being primarily output at first, to behavioral and finally to input control.[iii]

An example of an increasing popular behavioral controls are ISO 9000 and 14000 Standards Series on quality and environmental assurance developed by International Standard association, Geneva, Switzerland. The ISO 9000 Standard series (9000 to 9004) is a way of objectively documenting a company's high level of quality operations while ISO 14000 Standard Series is a way to document the company's impact on environment. Although the average cost for a company to be ISO Certified is close to $250,000, the annual savings are around $175,000[iv].

Check your progress

1. What is the 5 step model for strategic evaluation?
2. What are the types of strategic evaluation?

4.6. Measures for Corporate Strategic Performance:

Earlier, simple financial measures like ROI and EPS were used alone to assess corporate performance. Today, analyst recommend a broad range of methods to methods to measure the success or failure of a strategy. Research indicates that companies pursuing strategies founded on innovation and new product development now tend to favor non-financial measures over financial measures[v]. Thus, the current trend is clearly towards more complicated financial measures and an increasing use of non-financial measures (such as *stickiness* (length of Website visit), *eyeballs* (number of people visiting the Website), *footfalls* (number of people visit), *mindshare* (brand awareness) etc.) of corporate performance.

Traditional Measures: Traditional measures are stems from the standpoint of financial performance. They are -

a. **Return on Investment (ROI):** The most commonly used measure of corporate performance (in terms of profits) is ROI. It is simply the result of dividing the net income before taxes by total amount invested in the company (total assets). Although ROI gives the impression of objectivity and precision, it can be easily manipulated, as it is affected by depreciation policy, inventory practices, inflation[vi].

b. **Earnings Per Share (EPS):** EPS involves dividing net earnings by amount of equity shares. However, EPS has several deficiencies in evaluating present and past performance. First, because alternative accounting principles are available, EPS can have several different but equally acceptable values, depending on the principle selected for its computation. Secondly, as EPS is based on accrual income, the conversion of income to cash can be near term or delayed, which implies that EPS does not consider time value of money.
c. **Return on Equity (ROE):** Return on Equity involves dividing net income by total equity. It has limitations because it is also derived from accounting data.
d. **Operating Cash Flow:** Operating cash flow is the amount of money generated by a company before the cost of financing and taxes. This s a broad measure as it is the company's net income plus depreciation, depletion, amortization, interest expense and income tax expense (basically termed as Earnings Before Interest and Taxes (EBIT)) [vii].
e. **Free Cash Flow:** Free cash flow is the amount of money a new owner can take out of the firm without harming the business. This is net income plus depreciation, depletion and amortization less capital expenditures and dividends. This is a narrower term. The free cash flow ratio is very useful in evaluating the stability of an entrepreneurial venture[viii]**.**

   There are also other traditional financial measures such as:

a. Price-Earnings Ratio: It is market price per share to earnings per share.
b. Profit to Sales Ratio: Gross or Net profit to total sales.

There are many holistic approaches those connects the controlling aspects of strategic evaluation. These are as follows-

1. **Stakeholders Measures:**

   Each stakeholder has its own set of criteria to determine how well the corporation is performing. These criteria typically deal with the direct and indirect impact of corporate activities on stakeholders' interests. For e.g. for the customers, the possible short-term measure may be no. of customer complaints resolved, no. of new

customers incorporated etc. and long-term measure may be turnover of customer base, ability to control price etc.[ix].

2. **Shareholders Value:**

Shareholder value can be defined as the present value of the anticipated future stream of cash flows from the business plus the value of company if liquidated. Since the purpose of the company is to increase shareholder's wealth, shareholder value analysis concentrates on cash flow as the key measure of performance. The net value of a corporation is thus the value of its cashflows discounted back to their present value, using the business cost of capital at the discounted rate. As long as the returns from the business exceeds its cost of capital, the business will create value and be worth more than the capital invested.

For e.g. Deere and Company charges each business unit a cost of capital of 1% of assets every month, however, each business unit is required to earn a shareholder value-added profit margin of 20% on average over the business cycle[x].

The different methods to measure shareholder value are:

a. **Economic Value Added (EVA):** EVA is an extremely popular method to measure shareholder value and is a useful measure of corporate and divisional performance. EVA measures the difference between the pre-strategy and post-strategy values for business. Simply put, EVA is after tax operating income minus the total annual cos of capital.

   EVA = after tax operating income – (asset investment x weighted average cost of capital)[xi]

   If the difference is positive, the strategy is generating value for the shareholders. If it is negative, the strategy is destroying shareholder value[xii].

b. **Market Value Added (MVA):** MVA is the difference between the market value of the corporation and the capital contributed by the shareholders. Like net present value, it measures the market's estimate of the net present value of the firm's past and expected capital investments. As such, MVA is the present value of future EVA[xiii].

   If the company's market value is greater than the capital invested in it, the firm has positive MVA- meaning that the strategy is creating wealth. In some cases, if

the market value of the company is actually less than the capital put into it, which means strategy is destroying shareholder's wealth.

Research reveals that EVA and MVA may be more appropriate measure of the market's evaluation of a firm's strategy and its management than are the traditional measures of corporate performance[xiv]. However, these measures consider only the financial interests ignore other stakeholders such as environmentalists, customers and employees.

3. **Balanced Scorecard Approach: Using Key Performance Measures**:

Rather than evaluating a corporation using a few financial measures, Kaplan and Norton developed the 'Balanced Scorecard' approach that includes non-financial as well as financial measures[xv]. The balanced scorecard combines financial measures that tell the results of actions already taken with the operational measures on customer satisfaction, internal processes, and the corporation's innovation and improvement activities-the drivers of future financial performance.

In the balanced scorecard, management develops goals/objectives in each of the four areas:

a. **Financial:** How do we appear to shareholders?
b. **Customer:** How do customer view us?
c. **Internal business perspective:** What must we excel at?
d. **Innovation and Learning:** Can we continue to improve and create value?[xvi]

For e.g. a company could include –

a. Financial perspective: Cash flow, quarterly sales growth, ROE as financial measures,
b. Customer perspective: Market share, Customer satisfaction, percentage of new sales.
c. Internal business perspective: cycle time, unit cost reduction.
d. Innovation and Learning: Next generation products.

This approach is especially useful given that research indicates that non-financial assets explains 50% to 80% of firm's value[xvii]. These measures can be defined as key performance measures-measures that are essential for achieving a desired strategic option[xviii]. A survey by Bain and Company reported that 50% of Fortune 1000 Companies in North America and 40% in Europe use a version of the balanced

scorecard[xix]. A study of the Fortune 500 firms in US and the post 300 firms in Canada revealed that most popular non-financial measures are to be customer satisfaction, customer service, product quality, market share, productivity, service quality and core competencies. New product development, corporate culture and market growth are not far behind[xx].Corporate strategy along with adoption of the balanced scorecard helps the firm to tailor the system to suit the situation. When the balanced scorecard complements corporate strategy, it improves performance[xxi].

4.7. Types of Strategic Controls:

In most companies, evaluation and control are exercised during the strategy implementation process itself. These are basically called strategic controls. Strategic controls take into account the required changes in assumptions, continuously monitor and review the strategic evaluation process, and suggest or undertake changes in the strategy to adapt to new developments. Schreyogg and Steinman (4987) have defined four types of controls:

a. **Premise Control:**

   This is the first stage of control. All plans and strategies are based on certain assumptions or premises, where the objective of premise control is to identify key or critical assumptions, and during the implementation process, either to maintain consistency of the assumptions or modify or drop some of them or reformulate the strategy, if changes of assumptions warrant this. These premises or assumptions may relate to organizational factors (resource availability, new product development, new technology etc.) and/or industry factors (industry structure, competitive position, industry growth etc.) and/or environmental factors (environmental policy, government rules and regulations, inflation, depression etc.) because these are the factors which govern or influence strategy building.

b. **Strategic Surveillance:**

   This is a more generalized strategic control over the entire period spanning from finalization of strategy to completion of the implementation process. This is designed to monitor a broad range of events inside and outside the company that are

likely to influence the course of firm's strategy. Through strategic surveillance, a firm can keep eye over organizational factors, industry factors and also environmental factors. The objective of strategic surveillance is to monitor the factors and if any change arises, it will assess its impact on the strategy and, accordingly undertake control measures – maybe in form of reformulation of strategy or in its implementation.

c. Implementation Control:

Implementation control is focused on the actual process of implementation. The implementation control consists of programmes, plans, activities, actions etc. relating to different functional and organizational areas. Some of these programmes/ activities/ actions are undertaken simultaneously and some incrementally in steps or stages, over a period of time. The objective of implementation control is to evaluate and monitor these steps/stages and if the observed results are not following the predetermined course, then controls are designed for necessary course corrections.

For effective implementation control, two methods have been suggested:

1. Monitoring strategic thrust: In this approach, critical actions or steps are identified as 'thrust' which need to be constantly monitored to assess the impact of change in any of these on the implementation process.
2. Milestone Review: In this approach, all critical actions/steps are identified as milestones. Each milestone has a cost factor and a time factor associated with it, and it is assessed in terms of these two parameters.

d. Special Alert Control:

Strategic surveillance and Implementation control may not be sufficient for all situations. For extraordinary developments or emergency situations, special alert control is necessary. Special Alert Control used as crisis or contingency management strategy that works through a contingency plan which partially or wholly replaces the original strategy and plan of implementation[xxii].

Check your progress

1. How are balanced score cards used for measuring strategy?

2. What do you understand by strategic surveillance?

4.8. Characteristics of an Effective Evaluation System:

Strategy evaluation and control process is an elaborate and at times, a complex process. It can also be a sensitive process because of human factor involved. The evaluation system should be balanced and follow some norms and standards. Strategic analysts have laid down certain basic requirements which evaluation should comply with to be effective.

a. Strategic evaluation process should be meaningful, which means the evaluation process must have clear set of objectives/targets and no ambiguity.
b. Strategy evaluation process should be economical, which means the process should be cost-effective.
c. Strategy evaluation process should conform to a proper time dimension for control and information retrieval or dissemination.
d. Strategy evaluation process should give a true picture of what is happening or should be relevant to current processes.
e. Strategy evaluation process should not dominate or curb decisions, it should promote mutual understanding, trust and common cause.
f. Strategy evaluation process should be simple. Complex evaluation process may confuse managers and may result in lack of accomplishments[xxiii] .

It is true that there may not be any ideal or the only strategic evaluation system. All organizations are unique in themselves in terms of vision/mission, objectives, size, management style, strengths, weaknesses, organizational culture etc. All these together determine the exact nature of the evaluation system, and also the implementation process, which is most suitable for the organization.

4.9. Issues in Strategy Evaluation Process:

Strategic evaluation and control is a complex process. The lack of quantifiable objectives or performance standards and the inability of the evaluation system to provide timely and valid information are two obvious control problems. The frequent negative side effects of the strategic evaluation process are:

a. **Short term Orientation:**

Top executives report that in many situations, the company does not analyze neither the long-term implication of present operations on the strategy they have adopted nor the operational impact of a strategy on the corporate mission. Many accounting-based measures such as EPS and ROI, encourage a short-term orientation in which managers consider only the current tactical or operational issues and ignore long term strategic ones. Because growth in EPS (earnings per share) is an important driver of near-term stock price, top managers are biased against investments that might reduce short term EPS[xxiv].

b. **Goal Displacement**:

Goal displacement is the confusion of means with ends and occurs when activities originally intended to help managers attain the corporate objectives are adapted to meet the needs other than those for which they were intended. There are two types of goal displacements:

a. **Behavior Substitution**: It refers to a phenomenon where people substitute activities that do not lead to goal accomplishments for activities that do lead to goal accomplishment because wrong activities are being rewarded. Managers also tend to focus more on measurable activities than those that are not. However, easy to measure activities might have little or no relationship with the desired good performance, but employees would tend to substitute the behaviors that are rewarded for behaviors that are ignored, without regard to their contribution to goal accomplishments.

b. **Sub optimization**: It refers to the phenomenon of a unit optimizing its goal accomplishments to the detriment to the organization as a whole. To the extent that a division or functional unit views itself as a separate entity, it might refuse to cooperate with other units or divisions in the same corporation, if the corporation in some way negatively effect its performance evaluation. E.g. the competition between divisions to achieve high ROI can result in one division's refusal to share a new technology or work improvements. This may negatively affect the overall corporate performance[xxv].

4.10. Let us sum up:

Strategy Evaluation and Control is a very crucial part of strategic management, however, it is the most difficult part of strategic management. Without objective and timely measurements, it would be extremely difficult to make strategies operational. The 5-Step Feedback Model of Strategy Evaluation clearly shows that the measured results of performance of strategy allows us to take corrective action i.e. decide whether we need to reformulate the strategy, improve its implementation etc. It is important that the company should not only concentrate on traditional measures of financial performance such as net earnings, EPS, ROI, but also need to concentrate on EVA, MVA or a more comprehensive approach such as the Balanced scorecard. Also ignoring long term orientation of the adopted strategy and goal displacement may lead to negative affects in the overall corporate performance.

4.11. Terminal questions

1. Write in brief on "strategy evaluation" as a process of strategic management in organization.
2. Explain in brief about the control for strategy evaluation. Explain various types of control used for strategy evaluation.
3. Write an essay various approaches for measurement strategic evaluation.
4. As an strategist in an organization, what are the issues would you consider for strategy evaluation of your organization?

4.12. Suggested readings:

[i] Wheelen, T. L. and Hunger, J. D. (2008), 'Strategy Evaluation and Control', Chapter 11, *Strategic Management and Business Policy*, 11th Edition, Prentice Hall. Inc

[ii] Ouchi, W.G. (1977), 'The Relationship between Organizational Structure and Organizational Control', *Administrative Science Quarterly*, Vol. 20, pp. 95-113
Ouchi, W.G. (1979), 'A conceptual framework for the Design of Organizational Control Mechanisms', *Management Science*, Vol. 25, pp. 833-848

[iii] Muralidharan, R. and Hamilton III, R.D. (1999), 'Aligning Multinational Control Systems', *Long Range Planning*, June, 1999, pp. 352-361

[iv] Barnes, F.C. (1998), 'ISO 9000 Myth and Reality: A Reasonable Approach to ISO 9000', *SAM Advanced Management Journal*, Spring, 1998, pp. 23-30

[v] Low, J. and Siesfield, T. (1998), 'Measures that Matter: Wall Street Considers Non-Financial Performance More Than You Think', *Strategy and Leadership*, March-April, 1998, pp.24-30.

[vi] Higgins, J. M. (1983), 'Advantages and Limitations of ROI as a measure of Corporate Performance', *Organizational Policy and Strategic Management: Text and Cases*, South-Western College Publishing.

[viii] Greenberg, H. (2002), 'Don't Count on Cash Flow', *Fortune*, May, 2002, p.176

[ix] Freeman, R. E. (1984), *Strategic Management: A Stakeholder Approach,* Boston: Ballinger Publishing Company, 1984, p. 179.

[x] The Economist (2007), 'Green Revolutionary', *The Economist* (April 7, 2007), p.66

[xi] Brewer, P. C., Chandra, G. and Hock, C. A. (1999), 'Economic Value Added (EVA): Its Uses and Limitations', *SAM Advanced Management Journal* (Spring 1999), pp. 4-11.

[xii] Stewart III, G. B. (1995), 'EVA Works – But Not If You Make These Common Mistakes', *Fortune,* May 1, 1995, pp. 117-118.

[xiii] Ehrbar, A. (1999), 'Using EVA to Measure Performance and Assess Strategy', *Strategy and Leadership*, May/June, 1999, p. 21.

[xiv] Lehn, K. and Makhija, A. K. (1996), 'EVA & MVA As Performance Measures and Signals for Strategic Change', Strategy and Leadership, May/June, 1999, pp. 34-38.

[xv]Kalpan, R. S. and Norton, D. P. (1996), 'Using the Balanced Scorecard as a Strategic Management System', *Harvard Business Review*, January-February, 1996, pp. 75-85.

[xvi] Kaplan, R. S. and Norton, D. P. (2006), 'How to Implement a New Strategy without disrupting the Organization', *Harvard Business Review*, March, 2006, pp. 100-109.

[xvii]Goldenberg, D. I. (2000), 'Shareholder Value Debunked', *Strategy and Leadership*, January-February, 2000, p. 34

[xviii] Brancato, C. K. (1995), *New Performance Measures*, New York: Conference Board, 1995.

[xix] Gumpus, A. and Lyons, B. (2002), 'The Balanced Scorecard at Phillips Electronics', *Strategic Finance*, Vol. 84, 2002, pp. 92-101.

[xx] Stivers, B. P. and Joyce, T. (2000), 'Building a Balanced Performance Management System', *SAM Advanced Management Journal*, Spring, 2000, pp. 22-29.

[xxi]Braam, G. J. M. and Nijssen, E. (2004), 'Performance Effects of Using the Balanced Scorecard: A Note on the Dutch Experience', *Long Range Planning*, August, 2004, pp. 335-349

[xxii] Schreyogg, G. and Steinmann, H. (1987), 'Strategic Control: A New Perspective', *Academy of Management Review*, Vol.12, Issue 1, pp. 91-103.

[xxiii] David, F. R. (2003), *Strategic Management: Concepts and Cases* (2003), p. 312

[xxiv] Christensen, C. M., Kaufman, S. P. and Smith, W. C. (2008), 'Innovation Killers: How Financial Tools Destroy Your Capacity to do New Things', *Harvard Business Review,* November, 2001, pp. 94-101.

[xxv] Wheelen, T. L. and Hunger, J. D. (2012), 'Strategy Evaluation and Control', *Concepts in Strategic Management and Business Policy*, 12th Edition, Pearson Publishing, pp. 359-362.