

# Strategic management

**Management means** manage and past tense of mend which emphasizes the resources should be ready to use. Manage means to operate with justified utilization of resources for profit maximization and growth. The organization may be profit-making or non-profit making. If we disintegrate the word it will mean manage, me, n and t that enforces everybody's contribution and team spirit (forming, storming, norming and performing). It also means man, age, me, n and t that include experiences/ ego state in workers.

All the organization operates in **business wheel**, **hierarchy intent** and **system management**. The business wheel concentrates on **resources** (7Ms- Money, Machine, Materials, Manpower, Methods, Minutes & Meters), production, distribution and sales & marketing. Hierarchy intent encircles around **vision** along with mission, SBU, goals, objectives, policy, procedures and program. And budget. According to strategic System Management, **strategic input** is processed (**strategic actions**) for the **output** (products and services) with proper, constant and continuous **feedback** (information provision like nervous system) to take care of **resource based internal environment** (**micro/** resources/ asset- tangibles and intangibles) and **industry oriented external environment** (P- Political-legal, E- Economical, S- Socio- cultural, T- Technological/ **macro**).

**Business policy-** Business policy is more meaningful. It is -

- i) Structured, specialized and well developed body of knowledge
- ii) Simplification of complexity to overall task and responsibility
- iii) Cut across functional boundaries and long-term forecast.

According to Hofer and others there re 4 paradigm shift

- a) 1911- case study for students- Harvard business School- Management and General management
- b) 1930- Christenson and others- Problems are part of success. Decisions lead in direction.

Resources need modification. Adverse encircles attainment.

- c) 1930- 40 planned policy formulation ,
- d) 1960 onwards- emerging trend

1959- Two case studies- Gordon and Howell Report sponsored by food foundation and Pierson Report by Carnegie foundation

1969- American Assembly of Collegiate School of Business made it mandatory to include in syllabus of management studies.

**Organization strategy-** is strategy applicable for the concerned entity.

## Strategy-

Strategy is the direction and scope of organization over the long term which achieve the advantage for the organization through the configuration of resources within a changing environment to meet the needs of the market and fulfill stakeholders' expectations.

### Characteristics of strategy

- 1) Concerned with /affect the long term direction
- 2) Achieve advantage, like market positioning
- 3) Concerned with scope of activities. There are 4 grand strategic alternatives- stability, expansion, retrenchment and any combination of these three.
- 4) Matching activities with environment in which it operates and otherwise known as search for strategy fit.
- 5) Building on or stretching value base resources and competencies to create new opportunities and capitalize them.
- 6) May require major resource changes

- 7) Likely to affect the operation decision
- 8) Focal responsibility as a prerequisite for addressing social responsibilities.
- 9) a set of commitments for a given situation

The strategic management can be defined as the art and science of formulating implementing art and evaluating cross functional decisions that enable organization to achieve the objectives. This focuses on integrating personnel, production, research and development, information system aspects of a business to achieve organizational success. It should be based on strategic management models

#### Scope-

- 1) integrates various functions- focal point, common thread, unified, comprehensive
  - 2) Orientation towards achieving organization wide goals-plan, resources, positioning
  - 3) Considers a broad range of stakeholders
  - 4) Entails a multiple type of horizon
- 1) Connected with both efficiency and effectiveness- coordinate action, time, space and environment

### Strategic management process-

Strategic management is not a box of sticks or a bundle of techniques. It is analysis, thinking and commitment of resources to action- Peter Ducker. Good strategy and better execution is the most trust worthy signs of good management. It refers to the managerial process of developing a strategic vision, setting objectives, crafting strategy, implementing and executing efficiently and effectively through evaluation of performance overtime initiating whatever correcting the adjustments in the vision, objectives and strategy and executions are deemed appropriate. They are based on rigorous pragmatic analysis of the variables involved in the enterprise. **Here is**

**A) Organization strategy – rational approach- elements, develop so that it responds effectively to the challenges of new competitive landscape. Firms seek strategic competitiveness and above average returns.**

#### What the company might do:

- 1) Perform external audit (environmental scanning)
- 2) Perform internal audit (organizational scanning)

**B) Environment and resource analysis – A firms strategic inputs provide the foundation for it's strategic actions to formulate and implement strategies.**

#### What the company is able to do:

- 3) Establish company mission
- 4) Establish company goals
- 5) Establish objectives- well concerned

**C) Strategic formulation – analysis and choice- Formulation and implementation must be integrated simultaneously.**

#### What the company wants to do:

- 6) Establish strategies
- 7) Establish policies- no over arching, rationale for molding the actions and divisions across the organization into a cohesive whole, no underlying business basis for uniting cross department operations into a team effort

**D) Implementation, Analysis and Control – based on feedback.**

Allocate resources- analyze performance problems, monitoring, correct appropriate adjustments  
Measure and evaluate performance- coordinated and compatible whole and powerful.

Strategic management process can be **traditional** (as usual) or **contemporary** (present systems like TQM, strategic flexibility, transnational strategy, strategic refocusing i.e., downsizing, down-

scoping, strategic engineering, teamwork and horizontal organization and the importance of business ethics).

### Types of Strategy-

**Stage-** Continued, New, Abandoned,

**Condition-** Adoptive/reactive/ partly planned partly reactive/ entrepreneurial/ intuitive

**Purpose (orientation)** - value, customer, culture, competitor, technology, finance, worker, exit (best price) sale, flexible (operation) Financial- investment, dividend, Production- Roger Schroeder- process, capacity, inventory, human resources and quality, HRM, Research and development, Environment appraisal (contingencies) and organization appraisal lead to generation of strategic alternative

### Level –

Corporate level - marketing- customer, buying, selling, product and service planning (offering), price, distribution, research, opportunities, social responsibility.

Business level / SBU

Functional level

Operational level strategy - (assets, capabilities, competencies)- The resources are employed to carry out the activities, processes or the inter connected system involved accomplishing organized goals.

It involves- product development process-

Demand management process

Order fulfillment process

To improve the process capabilities, the company has to implement core process reengineering (CPR), Total quality management (TQM), QC (Quality Circle) and many techniques for incremental improvement.

### Vision -

Who we are? What we do? Chief architect

**Definition-** It refers to the category of intension which is broad with all inclusive and forward thinking. A vision describes aspiration for future without specifying the means that will be used to achieve those desired ends.

Mental image of future state

Far sight, not written

Inspirational

### Importance / scope

Guidance

Unify

Proactive posture

Alter

Developing-constantly evolving business model' sustained bottom-line

Competitive budget with request comparison

### Components-

Pose a set of questions- portray characteristic

Setting objectives with performance target, concrete and measurable

Stretch and put disciplined effort

Contribute meaningfully- maneuvering, competitive vitality

Draw conclusion- fairly detailed necessarily

Pragmatic relevance

Clear, concise, proactive, intended, deliberate, reactive but adoptive

Reflect management- product, force, technology, customer, future path

**Mission/ mission statement-Definition-** It is the unique character and purpose of the organization which identifies the scope of its activities which distinguishes it from others of this type. It indicates the nature and scope of business operations in terms of product/ services, markets, customer and technology. It provides information to insider and outsider of what the corporation stands for (nature and scope) in terms of products/services, markets, customers and technology. Purpose (direction/what it should be), image and character (significance to all members), Long-run

**Importance- Need-** discerning task of vision

- 1) To ensure unanimity of purpose within the organization
- 2) To provide a basis for motivating the use of organizational resources
- 3) To develop a basis or standard for allocating organizational resources
- 4) To establish a general tone or organizational climate (business)
- 5) To serve as a focal point for those who can identify the organization's purpose and direction. It deter those who can not participate further in the organization's activities.
- 6) It facilitates the transactions of objective and goals into a work structure involving the assignment or task of responsible elements within organization.
- 7) To specify the organizational purposes and the transaction of these purposes into goals in such a way that cost, time and performance parameters can be assessed and controlled

**Scope-**

Industry scope -is the range of industries that the company will consider, i.e. one or many.

Products and application scope- is the range of products and the applications in which the organization will participate.

Competencies scope-is the range of technological and other core competencies that the company will master and leverage.

Market-segment scope-is the range of market or customer s that the company will serve.

Vertical scope- is the number of channel levels from raw materials to finished goods and distribution the company will engage.

Geographical scope- is the range of regions, countries, or country groups where the corporation will operate.

The claimant approach to company responsibilities- is insiders and outsiders approach. Claimants are identified. Their specific claims vis-à-vis the company are understood. Claims are recognized and assigned priorities. Then it is coordinated with other elements of the mission.

**Functions-**It should define what the organization is and for what it stands for.

It should be limited enough to exclude some ventures and broad enough to allow for creative growth

It should distinguish a given organization from all others.

It should serve as a framework for evaluating both current and prospective activities.

It should be clearly stated to be used widely throughout the organization.

**Elements-** are

- 1) Products and services,
- 2) Primary concern for survival and development through profitability,

- 3) Organizational philosophy in terms of beliefs, values, attitudes and aspirations,
- 4) Management styles to be practiced.

Key elements in developing statement-

A mission statement is based on history, distinctive competencies and environment.

It is a

1) Statement of Organizational purpose- The statement should specify the business (products and services) of the organization, its reasons for existence, its products, market and technology.

2) Manuscript of organizational values and beliefs- It works as guidelines on how things are done (organizational philosophy in terms of basic beliefs, values, attitudes and aspirations of corporate business and functional levels). It includes history (critical characteristics, objectives, policies, accomplishments and mistakes, distinctive competencies and environment).responding to wind

3) Description of grand/ Genesis/ generic strategy- It means the way (style) in which the organization attempts to achieve its purpose, survival and growth through profitability. Path for development, avoid possible disaster

4) Summary of organization standard and behavior - is the major policies and procedures used implement the strategy and reinforce the values and beliefs expected within the organization.

5) Signature public Image- is how the organization wishes to be seen by external constituents.

6) Prescription of stakeholders' promises- It is the commitment to all interested parties. Emphasis, feasible

7) Significant ways of communication- clear, exciting terms, commitments, special identity, creative, realistic, influential,

8) Sincere commitment- forcefully demonstrate

Objectives- are the ends that state specifically how the goals shall be achieved. It includes all management process. It should be concrete, specific in contrast to goals that are generalized. It should be quantifiable, elaborated and expressed as operational.

Necessity of formal objectives-

If one does not know where to go any path will lead him there!!!

It defines the organization relationship with its environment

It helps in pursuing its vision & mission in long term.

It provides basis for strategic decision making

It provides standard for performance appraisal.

It considers critical success factors, balanced scorecard approach, value chain, benchmarking, TQM, Quality Circle, Key Performance Indicators, key result areas, key problem areas and so many.

According to Drucker, it covers and correlate 8 vital area: a) market-standing (product, customer service) , b) innovation, c) productivity, d) physical and financial resources, e) profitability, f) managers' performance and development ,g) working employees' performance and attitude (organization structure) and h) public responsibility (CSR)

According to King and Cleland- objectives should have: unanimity, resource base, motivation orientation, generative/climate efficiency, direction/ focal point, work structure, specified purposes like assess cost, performance parameters etc.

## Difference with objectives, goals -

goals	objectives
<b>Plan-</b> broad plan <b>Action-</b> generic action <b>Example-</b> Strategists want to achieve success in the field of quality research and do what no one has ever done. <b>Measure-</b> Goals may not be strictly measurable or tangible. Time frame- longer term <b>Meaning-</b> The purpose toward which endeavor is directed. <b>Principle-</b> based on ideas.	Plan-Narrow plan Action-Specific action <b>Example-</b> The department concerned wants to complete quality analysis by the end of the next month. Measure- must be measured and tangible. Time Frame- short to medium term Meaning- It is something that one's efforts/ Actions are intended to attain or accomplish; purpose; target. Principle- based on fact

Objectives and Goals are used interchangeably for the simple reason they are overlapping connotation.

Q- Hierarchy of objectives

### **Approach to develop strategies/factors/schools of thought.**

Strategies may be based on an executive's intuition, trial and error, philosophy and innovation. On the other hand they may be based on rigorous pragmatic analysis of the variables involved in a problem. Each approach or a combination of approaches is applicable to a given type of situation, depending on the mix of factors.

#### **1. Adoptive/ adaptive search-**

It is found that strategies are developed with the range of activities, actions and decisions taken by people other than the members of the top management. For example a scientist in a laboratory might come up with a new product or sales team efforts can change a position of the company. This type of strategy can be called as pattern or consistency in action. This involves a process of learning over time in which the formulation and implementation begin to emerge. The concept is there are many potential strategies in most organization. The role of leadership is not to create strategy but to manage the process of strategic planning.

Some recognize this as core competencies. It is initially formulating a set of rules to overview. It moves closer and closer for approximation of an appropriate solution. It moves by successive steps to the solution and each step is built upon the previous step. For example, a first step could be of a decision a decision a decision by a chief executive officer to utilize a pragmatic planning and budgeting system in the company. A second step might be a decision whether to implement the system on a trial basis in the particular division or throughout the company at the same time. A third step might be the approach taken to implement the system in the particular division. A fourth step might be the determination of the type of program planning and budgeting system to the company.

**2. Intuition search-** This approach focuses on the mind of the strategists. It is a boot of an individual thinking through what is required and the current opinions along with coming up opinions for emerging designs. The approach and formulation of strategy is a cognitive process- think, strain, filter, decode and map. The inputs flow through all sorts of distorting filter before they are decoded by the cognitive maps.

In this type of approach executives use little or no inference. They move by instinct. They move on the basis of their previous experience in a similar setting. Of course the more the facts are available, the better the intuitive decision will be.

### 3. Strategic factors search-

To determine the strategic factors the executives should look for the critical elements in the organization, in its divisions/ subunits and their strength and weakness responsible for the success or failure of the organization. For example **environmental strategies**- this approach signifies that there is no best way to manage the organization. Everything depends on the situation. The premises can be summed up as follows; 1) Environmental is the central factoring decision making process. 2) Organization must accept to environment or perish. 3) The role of leadership is to read the environment and help the organization for the cutting edge. 4) **Cultural strategies**- organization culture is defined as the beliefs that are reflected in the tradition and habits. This is also reflected in symbols, buildings, colors and dresses. The theory of the premises is strategy formulation is the process of social interaction based on the shared beliefs and values of the members of the organization. Every individual acquires this beliefs and values through the process of socialization and can involve systematic in doctrine. The individual normally can not describe fully these beliefs and values. They are only partly conscious about them. The strategy is deliberate even though not fully consciously thought of and takes the form of collecting perspectives. And ideology The strategies goes with culture and ideology seem discouraging but without it may be heinous and impossible.

### 4. Picking propitious niche-

It is a very old strategy. It dictates to clearly define consumers/ clients' needs and match them uniquely with the product and services system.

**5. Asking right questions-** This approach is frequently missed which is of greatest vulnerability. Companies should examine their strength and weakness, how they can better serve their consumers and what operations can use its strengths in fashioning a strategy.

### 6. Entrepreneurial Approach- individual leader approach-

The leader like an entrepreneur is defined as a creative thinker. He is an individual with judgment, experience, wisdom and insight who combines in himself the role of, innovator and risk bearer. He is tough and pragmatic in disposition and is motivated by a powerful need for achievement and independence. Vision matches strategy that is well known and exists in the mind. Implementations have close control and if necessary the leader reformulates faster.

In some cases the strategy is pushed ahead in the face of environmental odds. The vision and direction are typically provided by young executives and heads of family owned enterprisers. This approach has the following characteristics:

- A) It is dominated by an active search for opportunities. The focus is on opportunities rather than problem solving.
- B) The power rests with one man, the chief executive who is capable of taking bold decisions on the basis of personal power and charisma.
- C) With bold decisions are taken in the face of uncertainty, strategy in the entrepreneurial organization moves forward by unusual leaps and thrive with corresponding gains.
- D) the most dominant goals in this approach consist of growth and expansion in forms of assets, market share and turnover.

**7. Following the leader**- It is another important approach. Some organizations follow the leaders in terms of what other organizations are doing. In many instances, an organization will follow the leader because it has no other option.

**Environment**- The environment of business is the aggregate of conditions, events and influences that surrounds and affects it. – Davis.

**Environmental Analysis**- composes the methods and techniques employed by the organization to monitor their relevant environment and to gather data to derive information about the strength, weakness, opportunities and threats that affect their businesses.

In order to survive and flourish in a highly competitive and turbulent environment every organization must strike a happy balance between environment, values, and resources (Thompson). Because organizations are open systems environmental factors inevitably influence them and it is up to managers to ensure that this influence is harnessed in a positive way leading to organizational success (P. S. Thomas). Environmental analysis is the process of monitoring the organizational environment is also to identify both present and future threats and opportunities

The **classification** of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating and relating the environmental changes to its strategic management process. .

**External environment** – is encouraged for **industrial output oriented organizations**. It is general, competitive and needs detailed look on rivalry, process and influences.

The external environment consists of those factors that affect the firm from outside its organizational boundaries. Of course the boundary that separates the organization from its external environment is not always clear and precise. For example shareholders are part of the organization, but in another sense, they are a part of its environment.

**Internal environment** - importance- Winning Company knows how to do their works better.- Michael Hammer and James Champyre -source based view, framework of assets, methods, comparative figures

Strength and weakness,

The internal environment includes the organization's mission, corporate culture, owners, the board of Directors, employees, other units of the organization and unions, Assets-Factors of production-valuable goods and services, tangible – physical means which are used to provide value to its customer, intangibles, Capabilities, Competence. It is required for **resource based industries**.

**Features:**

The nature of environment analysis is complex, dynamic and challenging. (Schilli)

Complex- the environment comprises of multifarious factors and influences arising from various sources. They interact with each other constantly and often produce an entirely new set of influences. It is not easy to state clearly as to what kind of forces constitute a given environment.

Dynamic- The environment of an organization is dynamic and constantly changing. Changes in technology, government, regulations, competitive forces etc. compel organization to shift gears and change direction quite often. At times there could be so many changes in too little time leading to shocks and surprises in the market place- Toffler.

Challenging - All firms are impacted by political, legal, economic, technological and social systems and trends. Together these elements comprise the macro-environment of business firm. Because these forces are so dynamic their constant changes present myriad of strength, weakness, opportunities and threats, the perspectives and constraints to strategic managers.,

## Need for analysis-

Swimmer needs to be proactive to a flooded river.

Industry, product, services, global approach, quality simulation, strategy freedom,

Accurate diagnosis-It is not that the strongest species to supple nor the most intelligent but one must response to change. Charles Darwin

Emerging industries

Turbulent, high velocity market

Matured, slow growth industries

Stagnant and declining industry

Fragmented industries

Rapid growth

Leading

Runner up

Crisis ridden

## Process of environment analysis

External environment helps to improve a company's position, increase operational efficiency, and win battles in the global economy. It has **4phases** to understand and for the implication.

**a) Scanning-** Identifying early signals of potential environmental changes and trends. It entails the study of all segments in the general environment- the industry and the competitors with the organizational context. It deals with ambiguous, incomplete and unconnected information and the data. It varies with stable, volatile and highly volatile environments.

**b) Monitoring-** is detecting meaning through ongoing observations of environmental changes and trends. In both, analysts are concerned with events in the general environment at a point of time. Analysts observe to see if, in fact, an important trend is emerging.

**c) Forecasting-** is developing feasible projections of anticipated outcomes (what might happen and how quickly) based on monitored changes and trends.

**d) Assessing-** is determining the timing and importance of environmental changes and trends for firm's strategies and their management. Without assessment, analysts are left with data that are interesting but of unknown relevance. Result should include recognition of environmental changes, trends,, opportunities and threats. Opportunities are matched with a firm's core competencies. When these matches are successful the firm achieves strategic competitiveness and earns above average profits.

**Demographic segment** is concerned with population's size, age, structure, geographic distribution, ethnic mix and income distribution. The **economic segment** refers to the nature and direction of the economy in which a firm competes or may compete. Factors of economic health include inflation rates, trade deficits or surpluses, personal and business saving rates and gross domestic products.

The **political segment** is the area in which organization and interest groups compete for attention and resources and the body of laws and regulations guiding these interactions. Essentially this segment represents how organization tries to influence and how and how government's entities influence them. Constantly changing this segment influences change the nature of competition. So firm should analyze carefully a new administration's business related policies and philosophies.

Antitrust laws, taxation laws,, industries chosen for deregulation, labor training laws, and the degree of commitment to educational institutions are areas where an administration's policies can affect the operation and profitability of industries and individual firms. The **socio-cultural segment** is concerned with different societies' social attitudes and cultural values. Because attitudes and values are a society's cornerstone, they often drive other changes in all segments .Firms are challenged to

understand the meaning of attitudinal and cultural changes across global societies. The **global** segment includes relevant new global markets and existing ones that are changing, important international political events and critical cultural and institutional characteristics of relevant global markets

An industry is a group of firms producing products that are close substitutes. In the course of competition these firms influence one another. Typically industries include a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above average returns. The **information provision** (feedback) is always of prime importance.

### Key environmental variable Factors- external

While analyzing the total (macro environment, it is more effective to deal with external forces first and then the internal, although some opine that the reverse is better. While deciding the external-internal order one should not lose sight of aspects that work well in one set of conditions and change color in another set of circumstances.

**Social environment** — The social environment consists of factors related to human relationship and the development, forms and functions of such relationship having a bearing on the business of the organization's Values (education, consciousness), beliefs (religious, ethical and moral factors) and opinions.

Some of the important factors and influences operating in the social environment are-  
Lifestyle- entry of women, customs, rituals and practices

1. Demographic characteristics such as population, its density and distribution
2. Social concerns, such as the role of business society, environmental pollution, use of mass media and consumerism
3. Social attitudes and values, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyles patterns and materialism
4. Family structure and change in it, attitude towards and within the family and family values
5. Role of women in society, position of children and adolescents in family and society
6. Educational levels, awareness and consciousness of rights and work ethics of members in society

**Political environment** - is related to management of public affairs and their impact on the business.

1. Political system and its features like nature of the system, ideology and centers of power
2. Political structure, its goals and stability
3. Political process like operation of the party system, elections, funding of election and legislation with respect to economic and industrial promotion and regulation
4. Political philosophy, government's role in business, its policies and interventions in economic and business development

Businessmen are conscious of the political environment that their organizations face. Most governmental decisions related to business are based on political considerations in line with political philosophy followed by the ruling party at the centre and the state levels.

**Economic environment**- consists of macro level factors related to the means of production and distribution of wealth that have an impact on the business of the organization.

Some of the important factors and influences operating in the economic environment are:

1. The economic stages existing at a given time in the country- Consumption pattern, propensity of people to spend and employment
2. The economic structure adopted such as a capitalistic, socialistic or mixed economy
3. Economic planning such as five year plans, annual budgets etc.

4. Economic policies such as industrial, monetary and fiscal policies
5. Economic indices like national income, distribution of income, rate and growth of GNR, per capita income, disposable personal income, rate of saving and investment, value of export and imports, the balance of payments etc.
6. Infrastructural factors such as financial institutions, banks, modes of transportations, communication facilities, energy sources etc.

Liberalization of the economy had a mixed effect industries in India. While most of the companies have benefited in terms of the resulting freedom to alter product mix and capacities, there have been some adverse effects too.

**Nature** - Natural resources, Weather, Climate- global warming, air pollution, Location – land pollution

Eco friendly products, modify process, redesign equipment, and recycle by-products.

**Legal/ Regulatory environment**- the regulatory environment consist of factors related to planning, promotion and regulating of activities by the government that have an impact on business of an organization.

There are number of administrative controls over business that are exercised through the regulatory mechanism. Some of the important areas of control are:

1. Industrial policy and licensing
2. Monopolies and restrictive trade practices
3. Legislation related to company operation
4. Capital issues control over stock exchange
5. Import and export control and control over foreign exchange
6. Control over foreign investment and collaboration
7. Control over distribution and pricing of commodities,
8. Control over development and regulation of industries
9. Control through consumer protection
10. Control of environmental position

**Technological environment**- The technological environment consist of those factors related to knowledge applied, the materials and the use of machineries in the production of goods and services that have an impact on the business of an organization.

Some of the important factors and influences operating sources and foreign sources, cost of technology environment are as follows:

1. Sources of technology like company sources, external sources and foreign sources, cost of technology acquisition, collaboration, and transfer of technology
2. Technological development, stages of development, change and rate of change of technology and research and development
3. Impact of technology on human beings, the man machine system, and the environmental effects of technology
4. Communication and infrastructural technology in management

The strategic implication of technological change is three. It can change relative competitive position within the business. It can create new markets and new business segments. It can collapse or merge previously independent business by reducing or eliminating their segment cost barriers.

## Key environment variable Factors- Internal

Organizational scanning/ organizational audit/ strategic factors/strategic advantage factors/ strategic advantages / corporate competence factors, organization capability factors:

. The objective is to identify the organization's functional areas. The attributes need to be measurable.

Financial capability factors- are related to the availability, usage and management of funds.

Examples are-

- a) Access to financial resources,
- b) A mixable relation with financial institution,
- c) High level of credit worthiness,
- d) Efficient capital budgeting system,
- e) Low cost of capital as compared to competitors
- f) High level of shareholders' confidence,
- g) Effective management control system,
- h) Tax benefits due to various government policies,
- i) Effective financial information system.

Marketing capability factors- are related to the products and services, their price, promotions, and place. The factors are-

- a) Wide variety and better quality services
- b) Low competitive price as compared to those of similar products in the market
- c) Effective sales promotion
- d) High profile advertising
- e) High quality customer service
- f) Effective distribution system,
- g) Favorable company and product image
- h) Effective marketing management information system.

General management capability factors- are-

- a) Effective system for corporate planning
- b) Control, reward and incentive system for top manager geared to the achievement of objectives,
- c) Entrepreneurial orientation and high propensity for risk taking,
- d) Good rapport with government and bureaucrats,
- e) Favorable corporate image,
- f) Company being perceived as a good organization to work for,
- g) Development oriented organization culture,
- h) Political processes used for consensus building in organization interest and
- i) Effective management of organizational change

J0 geographical scope

Production/ operation capability factors- are

- a) Favorable location
- b) High occupancy rate
- c) High level of vertical integration
- d) Reliable sources of supply
- e) Effective control of operational cost

- f) Existence of good inventory control system
- g) Availability collaboration system, level of technology used and many others deemed fit

**Personnel capability factors-** are

- a) Genuine concern for human resource management and development
- b) Efficient and affective personnel system
- c) The organization perceived as a fair and model employers
- d) Excellent training opportunities and facilities
- e) Congenial working environment
- f) Highly satisfied and motivated work force
- g) High level of organization loyalty and low level of absenteeism.

Marketing

Production/operation

Research and development

Information

**Strength and weakness- (marketing, finance, production, personnel,**

**Organization)** the points discussed above may be: ( + strength or – ( threats) depending on the situation. It is essential for

Strategic Advantage Profile/ core competitive advantage/ Management Information System/ critical success factor

Marketing-

- + Excellent pre-sales and Post-sales services
- + Complete understanding of consumer performance
- + Radical changes to meet the target in Sales Representatives
- close competition

Finance

- + High Rate of profit
- + Credit worthiness is favorable for raising loan
- Low rate of dividend
- Unfavorable stock market condition

Production/ Operation

- + Excellent Technology
- + Excellent Sources of Raw Material
- Poor Quality Control

Human Resources (Personnel)

- + Capable Employees
- + Favorable Compensate Package
- Poor Communication

Organization- (General Management)

- + Top Management with innovative favorable program
- Middle and Junior Management with outdated management styles
- Neutral research and development

Internal + / (strength) Leadership Buyer supplier relation Brand image leadership Distribution Channel Customer loyalty	Internal –(weakness) Facilities Financial resources Marketing skills Partly paralyzed distribution system Variable product Sub-scale low customer retention
External + (Opportunities) Identification of good training Overlooked market segments Changes in regulatory circumstances Technological improvement Improved buyer and supplier relation Changing customer taste Government and politics Population- age and change Lower percent favor New distribution channel	External – (threats) New competition Change in technology Slow market Increased marketing power Key buyers and suppliers Changing regulations Change in government Closing of geographical environment Change in population New distribution Technological advance

## Techniques of environmental analysis / industry analysis -

**SWOT analysis-** is an acronym used to evaluate the internal strengths and weaknesses of a business and environmental opportunities and threats faced. It is systematic identification the factors and the strategy that reflects best match between them. It involves specifying the objective of the business venture or project identifying the internal and external factors, favorable and unfavorable to achieve the objectives. It is based on the logic that an effective strategy maximizes the business's strength and opportunities but is at the same time reduces its weaknesses and threats.

**Strengths-** Strength is a resource, skill or other advantage relative to competitors and the needs of the markets of an organization\_serves or anticipate serving. Strength is distinctive competence that gives leadership and buyer-supplier relations are example.

**Weaknesses-** is a limitation or deficiency in resources and capabilities that seriously impedes effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image could be source of weaknesses.

**Opportunities-** An opportunity is a major favorable situation in an organization's environment. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, logical changes and improved buyer or supplier relationship could represent major opportunities.

**Threats-** A threat is a major unfavorable situation in an organization's environment. The entrance of new competitor, slow market growth, increased bargaining power of key buyers or suppliers, major technical changes and changing regulations could represent the major threats to an organization's success.

Understanding the key strength and weaknesses of an organization, in narrowing the choice of alternatives and selecting a strategy, distinct competence and critical weaknesses are identified in relation to key determinants of successes for different market segment. This provides a useful framework for making the best strategic choice.

Advantages- creative, matching, converting, scanning, decision making, follow up

Drawbacks- involvement in enlisting rather than achieving, critical move, clarity, balance

## Porter's five forces competition analysis- striking the corridors- industry attractiveness-

Michael Porter- Five Forces Model- the competitive environment

The nature and degree of competition in an industry depends on five forces. To establish a strategic agenda for dealing with these competing currents and to grow despite them, a company must understand how they operate in an industry and how they affect the company in its particular situation.

a) Threats to entry/ potential entrant

New entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. Gaining entry is always not easy as there are barriers to entry. It depends on to what extent the barriers protests. Factors taken into account are:

a) Economies to/ of scale-prohibits entry by forcing the aspirant either to come in a large scale or to accept a cost disadvantage.

b) Brand identification/ product differentiation- creates a strong barrier by forcing entrants to spend heavily to overcome customer loyalty.

C) Capital requirement- the need to invest large financial resources in order to compete creates a barrier.

Entrenched companies- may have cost advantages not available to potential rivals, no matter what their size and attainable economies to scale. Examples: are access to raw materials, government subsidies, favorable locations, assets bought at pre inflation prices and many others.

D) Access to distribution channel- price breaks, promotions, intense selling effort are bright examples.

E) Cost advantages, independent of size/ absolute cost advantage- It is difficult for a competitor to break into a market if there is an established operator who knows the market well, has good relationship with the key buyers and suppliers and is aware of how to overcome market and operating problems.

F) Legislation and government action- Legal restraints on competitions vary from patent protection, regulation to control markets (insurance, pharmaceuticals).

G) Expected retaliation- reaction of existing company – If a competitor enters a market believes that the retaliation of an existing firm will be as great as to prevent entry or mean that entry would be too costly this is also a barrier.

H) Differentiation- high price than competitor- It means the provision of a product or service regarded by the user as different from and of a higher value than competitor.

I) Switching Cost- The cost is involved to sacrifice certain things and going for a new one.

The two forces **buyers and suppliers** can be considered together because of their link. All organizations have to obtain resources and provide goods and services. This is known as supply chain, value chain or value system of an organization. Moreover the relationship of buyers and sellers can have similar effects in constraining the strategic freedom of an organization and influencing the margins of that organization.

- b) **Powerful bargaining suppliers**- The competitive pressure stemming up from suppliers –
- I) Seller collaboration and bargaining – means they combine and go for high price.,
  - II) Competitive bargaining- the switching cost is high for specification specialty and dependability,
  - III) Economic battlefield during monopoly situation –is the supplier’s customers are highly fragmented and the bargaining power has gone low.
  - IV) Concentration of suppliers rather than fragmented source of supply is the situation that enforces bulk purchase and capital block.
  - V) Brand of supplier is powerful- links to switching cost because retailer can not manage without that brand.
  - VI) Possibility of supplier is integrating forward- it does not get the prices and seeks margin
- c) **Powerful buyers**- competitive pressure stemming up from buyers-
- I) Seller collaboration and buyers bargain with more substitutes,
  - II) Concentration of buyers means buyer’s power is high and they search for volume purchases
  - III) There are alternative sources of supply
  - IV) Cost of switching supplier is low or involves minimum risk
  - V) Threats of backward integration and it is not difficult to get suppliers
  - VI) Low switching costs create problems.
- d) **Threats of Substitutes**-The market attempts of companies in other industries to win customers over to their own substitute products. It is of different types:
- I) Availability of substitutes (product to product) is a major factor influencing customers’ willingness to pay premium price for the product.
  - II) The price sensitivity (doing without) on the part of the customers is indicated by the price elasticity of demand for the product.
  - III) If there is a close substitute there is a limit to the price the customer is willing to pay
  - IV) The demand is also elastic with respect to price that the customer will respond to a higher price by switching to a substitute and feels the existing one is superfluous.
  - V) Generic substitute- occurs when products and services compete for a need like from furniture to a TV.
  - VI) Inelastic- no substitute- Olympic, Wimbledon, Nobel Prize and many alike.
- e) **Competitive rivalry**- means rivalry among the competing sellers in the industry and there is a need **Jockeying for position i.e.**, rivalry among existing organization and potential entry of new competitors.
- In strategic terms the most competitive conditions will be those in which entry is likely, substitutes threaten and buyers or suppliers exercise control. However, there are likely to be other forces which affect competitive rivalry: -
- I) Seller concentration- Rivalry intensifies as the numbers of competitor increase and the competitors become more equal in size and capability. High capital intensity, high cost of storage needed to cut price and compete.
  - II) Diversity of competition is the extent to which the competitors are in balance if the sizes, intensity of competition market trend are considered. When one or more competitors are dissatisfied with their market position and launch moves to bolster their standing, at the expense of rivals.
  - III) Product differentiation- arises if there is existence of global customer and suppliers try to win on global scale. Again in case of no differentiation, there is little stop customers switching between competitors.
  - IV) Excess capacity – If the addition of extra capacity is in large increments, the competitor making such an addition is likely to create at least short term over capacity and increased competition.

V) Cost condition- high fixed costs need more sales target. . Rivalry is more intense when conditions tempt competitors to use price cuts or other competitive weapons to boost volume in units.

VI) Market growth rates are important from life cycle point of view. Rivalry is usually stronger when the demand for the product is growing slowly and when customers switch to low brand for economy.

VII) Exit barriers- create persistence of excess capacity and consequently increased competition. Balance- the extent to which the competitors are in balance.

The remedy is to concern over 4ps—policy, planning, process and practice.

**Functional Areas Resource Development Matrix / (FARD) Matrix**

This method requires the preparation of a matrix of functional areas with characteristics common to each other. This approach allows the firm to analyze the strategic development of funds and its strength and weakness over times as compared with the competitors.

Each area must be considered with respect to what its policies and approaches were, are and will be.

The analysis can be done on a piecemeal basis with each area and independent of others. However the strength and weakness must be compared in relation to one another

Weakness must be compared with strength with strength as weakness may prevent the company from taking the advantages of an opportunity. Similarly strength and weakness may be compared to the external environmental factors.

Most of the strategies are concerned with how their times are placed strategically in relation to the competitors.

<b>Functional areas</b>	<b>Resource development Emphasis</b>	<b>5Yrs ego</b>	<b>4Yrs ego</b>	<b>3Yrs ego</b>	<b>2 Yrs ego</b>	<b>1 Yrs ego</b>	<b>This Year</b>	<b>Next year</b>
Marketing	Development outlay % & amount, forces & efforts							
Finance	Development outlay % & amount, forces & efforts							
Production/ Operation	Development outlay % & amount, forces & efforts							
Human Resources	Development outlay % & amount, forces & efforts							
Research development	Development outlay % & amount, forces & efforts							
Management	Development outlay % & amount, forces & efforts							

**Strategy formulation**- is useful to identify, evaluate and select strategies. After analyzing the environment and assessing the internal environment the next step in the strategic planning process is to develop strategic alternatives to help the organization in achieving its objectives. The **factors** are:

Role of strategy operation

Approaches to manage the operation level

Similarities of total quality management and core process re-engineering and how they complement

Guidelines for management like TQM, CPR

Shared guidelines for improvement

Uniqueness

Competitiveness- product management, demand management, order fulfillment

Grand strategies/ strategic alternatives/ general alternatives- After analyzing environment and assuming the pros and cons the next step is to develop strategic alternatives to help the organization in achieving its objectives. Strategic alternatives revolve around the question whether to continue or change the business enterprise currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

Gluek and Lauch- have identified four grand strategies or generic ways in which alternatives can be considered.

**a) Stability Strategies**- mean a) maintenance of status quo – Firms attempt to maintain their size, level of production and scales, serving almost the same customer groups as defined in its business definition and b) sustainable growth, that is focusing on incremental improvement of functional performances by marginally changing one or more business in terms of customer groups, customer function or alternative technologies either singly or collectively.

They serve the same market with the present products using the existing technology /technologies. These firms do not attempt to grow either through increased scales or through the development of new products, market or technology. In an effective stability strategy a company will concentrate on its present resources so that it can rapidly develop a meaningful competitive advantage in the narrow possible product- market function scope considered with its resource and market requirements. It may be encouraged to make defensive moves in obtaining a patent to reduce competition.

Disadvantages- The danger is that environment may change and cause the firm and its products obsolete.

**b) Expansion/growth Strategies** are followed when the organization aims at high growth and profitability, substantially broadens the scope of one or more business in terms of their customer groups, customer function and alternative technology singly or jointly to improve the performance. The growth may be internal, external or both. A firm implement this strategy by redefining the business either adding to the scope of activity or substantially increasing the efforts of current business. The firm pursues this strategy When / reasons-

- a) It serves the public in additional product or service lines
- b) It focuses on major increase in the pace of activity within the present business definition
- c) In volatile industries a stability strategy can mean short-term success but may cause long term death. Expansion may be necessary for survival.
- d) Many executives equate expansion with effectiveness.
- e) Some believe that society benefit from expansion.
- f) Managerial motivation- executives are encouraged.
- g) Belief in the expansion curve.
- h) The growth will give monopoly power.
- i) External pressure from stakeholder or securities analysis.
- j) Gain popularity
- k) Belief to face the rapid environment change.

. Internal growth, concentration, merger, takeover /acquisition, horizontal integration, vertical integration, forward integration, backward integration, conglomerate diversification and joint venture methods are followed.

## **Integration**

**Forward integration**- A growth strategy by which a company acquires business that is closer to the ultimate consumer as concerned with outputs. It envisages acquiring and creating a company that purchases its products and services. Ex. - an hotel acquire a chain of travel agents

### **Advantages-**

Firms can acquire greater control over sale, prices and level of output

Firm can improve their competitor's position

Firm can reduce their overall cost

Quantity control can be improved

Firm can develop their own network for consumer feedback

Firms can have their own facilities for providing sales and post-sales services

### **Disadvantages-**

Firms produce final products with its own components and sell the final product as well as the components. The firm may involve in a conflicting situation of competing with its own customer

Difficulties to cope up with the change in technology

The firm may face the financial problems as the strategy demands for large scale operation

**Backward integration**-is a growth strategy by which companies acquire, create or purchase business that supplies them with the raw material inputs. Ex., – A restaurant purchasing a bakery, a big hotel group purchasing an equipment company.

### **Advantages-**

Regular and uninterrupted supply of raw materials, components and other inputs

Quality control of the raw materials, components, and parts can be ensured daily. Firm can even achieve higher rate of return on investment in view of better rate of return on investment in view of better use of overhead facilities and spread of overhead cost.

Firm can increase its power of negotiation with other suppliers in view of access to information on costs

Indirect taxes payable in purchase of inputs can be minimized

Firm can enjoy the economies of scale operation

### **Disadvantages:**

Technological up-gradation in one of the firms makes backward integration technically not possible.

Technological up-gradation forces the management to upgrade the technology results in heavy capital investment

Adverse economic condition in the main firm also affects the firm's raw materials supply

Transfer policy may be a problem if the supplying firm does not have freedom

**Horizontal integration**-(acquisition or merger of competing business) is a growth strategy by which a company acquire competitiveness such as - an hotel purchase another hotel.

### **Reasons-**

To increase market share

To reduce the cost of operation per unit of business through EOS

To get greater leverage to deal with the customer and suppliers

To promote the products and services more efficiently to a larger audience

To have greater access to channel of distribution

To enjoy increased operation flexibility

To take the advantage of synergy

**Vertical integration**- (acquisition or merger of supplier or customer business)It is a type of growth strategy which new product and/ or services which are complimentary to the existing products

and/or service lines are added when an organization involves the acquisition of business, that either supply the organization with inputs (such as raw materials etc) or serve as customer for the organization output (such as warehouse for finished products, Selling outlets etc)

Vertical integration is characteristically the extremes of the company's business definition in three possible directions.

A petroleum company- Original- refinery

Backward integration- petroleum exploration, petroleum production

Forward integration- Sales to wholesaler, dealer, and retailer

#### Reasons

To increase market share

To reduce the cost of operation per unit of the business through EOS (economies of scale)

To get greater leverage to deal with the customers and suppliers

To promote the products and services ore efficiently to a larger audiences

To have a greater access to the channel distribution

To enjoy increased operation Flexibility

To take the advantage of the benefits of synergies

#### **Market penetration / penetration strategy-** strategy clock

It means seeking increased market share for present products in present market through greater marketing efforts. They can be achieved in 3 ways:

##### Increasing the customer rate of usage-

Increasing the size of the product

Increasing the rate of product obsolescence

Giving price incentive for increased use

##### Attracting competitors' customer-

Establishing sharper brand identification

Increasing promotional effort

Initiating price cuts

#### **Market development-**

It specifies introducing present product in new market or new geographical areas: regional, national and international expansion.

Example: The hotel group determines international expansion if potential of domestic growth is decreasing.

**Product development-** the steps taken to develop the product for acceptability, future growth, profitability and market share.

It means seeking increased sales by developing new products for present market by:

Developing new product feature

Adapt other ideas and developments

Modify change: color, motion, sound, odor, form shape etc.,

Magnify stronger, longer, thicken, extra value add on

Minify smaller, shorter, more tight strategy

Substitute other ingredients, processes and power

Rearrange other partners, layouts, sequence and components

Developing quality variation

Developing additional models and sizes (product proliferation)

**Concentric diversification-** adding new but related products even though the product may appeal to a new class of customer.

Achieve the distinctive competitive advantage

Improve the price earning ratio

This can be explained by the example based on Hotel Holiday inn. The best way to view is to look at selected decisions made- expansion to the free-can not grow business that dominate the core business, standing restaurant business,

**Conglomerate diversification**- It exists at the opposite extreme where there is no relationship between the existing business and proposed diversification option in other words company seeks new business that have no relationship to company's current technology, product or market. It is very difficult to have pure cases. It occurs when the resulting firm creates another business unit in the same industry. In other words, a firm creates new business units that are unrelated to its original business, technology or market.

Benefits- reduction of risk

Economies of scale operation

Financial stability

Increase in profit

Attain managerial improvement

Why-

Achieve growth rate higher than what can be realized through exigencies

Effective use of financial resources

Availability of potential opportunities

**Horizontal diversification**- same line of action.

**Joint venture** – When turnover made independent, firms mutually device to participate in a business venture and contribute to total equity capital and establish a new organization. Two or more firms carry out a project in specific project or selected area of business. It can be temporary, remain unchanged or dismantle after the concerned project work is over. Most of the firm may not last for ever. It is of different types with purpose, place and practices and has several advantages and disadvantages.

Reasons-

When an activity is uneconomical for an organization alone

When the risk of business is shared

When the distributors' competence of two or more organization can be pulled together

Characteristics-

It has a scheduled life cycle which will end sooner or later

It has to be dissolved when it has outlived its lifecycle

With changes in the environmental force, joint venture to be redesigned regularly

Transnational seek their partners' competencies

Types-

Formation of joint venture between two firms of the same country

Between two firms of different country but of same venture

Between the two firms of two countries but locating the business and locating the business in the foreign country

Between the two firms of the two countries and locating the business in the third country

Strategic issues-

It is sharing the strength of each other in participating firm and eliminating the weakness of both the firms by acquiring other's strength.

Eliminating or reducing competition by forming a joint venture by the competing firm.

To acquire the strength of the other firm like technology, marketing and management  
Increasing market share more than the sum of the market share of the individual firms.  
Unfavorable condition (threats) in the existing industry may face the firm to join with other firm of other industry  
Favorable condition (Opportunities) may encourage the firm to join with other firm of that industry.

#### Advantage-

Spread development  
Expertise in different field to combine their knowledge and resources  
It acts as a trial marriage to see if firm can work.  
Useful in entering in international market  
Provide quickness to channel of distribution  
Minimize the commercial-business risk.

#### Disadvantages-

Problems of equity participation by the foreigner and home partner arise.  
Foreign exchange by regulation imposed by both the government  
Absence of proper coordination  
Division of the firm  
Loss of control over firm  
Possible conflict and beaming each other at the time of failure  
Differences of culture and customers of both the partners,

**Liquidation-** When an organization has debts which are out of control the organization suffers liquidation. Assets are sold under the supervision of the court and the debtors are paid a proportion of what they are paid. Ultimately the organization ceases to exist.

**Concentration strategy-**Firms pursue concentration strategy to grow while remaining relatively simple. The total efforts of the firm are concentrated in a limited combination of customer groups, customer functions, alternate technologies and products.

Example- Focus on customers- Increase usage by present customers, improved product locations, expands product lines, expand shelf life etc. Attract competitors' customer- Increase promotional efforts, initiate price cuts etc. Attract non user of the product- Advertise in new course, offer special prices and promotions etc. Focus on product- Differentiate product from competitors, , changes styles, change option, change colors, improve products, improve after sales service and Focus on technology- Developing new equipments, improve efficiency, develop new products.

**Merger-** Many firms prefer to grow through merger (i.e. combination of two or more firms).

When the firm has similar objectives and similar strategies they combine to one firm.

It may be a combination of two or more business in which one acquires the assets and liabilities of the other in exchange for stock or cash or both.

It may happen within one nation or across nation

Horizontal merger- same business

Vertical merger- engaged in activities complementing each other.

Concentric merger- related to each other in terms of customer groups or customer functions or alternate technology.

Conglomerate merger- it is the combination of firms unrelated to another in terms of customer group, customer functions and alternative technology.

Reasons for (buyer-seller )

Availability of readymade built in manufacturing facilities

Brand loyalty

Captive market share  
Loyal customers  
Advanced technology  
Efficient distribution channel

#### Advantage-

The firm will enjoy economies of scale operation.  
The firm can utilize the fund to the maximum extent and get the benefit of proper growth  
Increase in the level of operation and level of benefits  
Effective and efficient utilization of resources will result in higher productivity  
Easy access to the services of raw material, finance and human resources  
Procuring of skill employees and developing them  
Life cycle can be expanded

#### Disadvantages-

Psychological problem of the top management  
Negative attitude of the senior partner may result in failure  
Chances of monopoly get increased.

#### **Takeover /acquisition strategy –**

Sometimes firm want to grow through the strategy of take over or acquisition acquiring ownership or control over another firm against instructions of latter's management. It is currently the most popular strategy and in India particularly after the economic liberalization.

#### Advantages- It assures management accountability

It provides easy growth opportunities  
It creates mobility of resources from one activity to another activity  
It avoids gestation period and problems involved in new project.

#### Disadvantages-

Professionalism in management may be replaced by money power.  
It does not create real assets to society  
It results in monopoly and concentration of economic power.  
Interests of minority shareholders are not protected

### **Retrenchment/ Retrench Strategies**

Stability and growth strategy are generally adopted by firms that are in satisfactory position. But when a firm's position is disappointing or at the decline stage or extreme point, when its survival is at stake then retrenchment strategies may be appropriate.

#### Reasons

It sees the desirability or necessity for reducing its products or service lines / markets or functions  
It focuses on its strategic decisions on functional improvement through the reduction of activities in unit with negative cash flows

Prevalence of poor economic conditions as the firm is not doing well or perceives it

The firm has not met its objectives by following one of the other generic strategy and there is pressure from stockholders customers or others to improve performance

Operating and production efficiency

Competitive pressures may also cause the firms to pursue

The environment is seen to be so threatening that internal strength are insufficient to meet the problems

Inability of the firm to implement the latest technology caused by technological revolution

Better opportunities in the environment are perceived elsewhere where a firm's strength can be utilized

Retrenchment/ Retrench Strategies—are followed when an organization substantially reduced the scope of customer groups, customer functions or alternative technologies jointly or singly for example it has less customer focus, it substantially reduces/ trims fat the scope of customer groups, customer functions or alternative technologies jointly or singly to improve performance. **Turn around, captive company, transformation, investment, liquidation, divestment** are different ways. Both physical and human resources are withdrawn to reduce operation and maintain its cost effectiveness.

Note- Any strategy if chosen at the right time and implemented properly will be effective. The retrenchment strategy is the best strategy for the firm which has tried everything, has made more mistakes and is ready to do something about its problem.

**Turn around**- Its aim is to transfer the organization into a learner or more effective business. It means to reverse its negative trend. Surgical- It is mostly mechanic and requires tough attitude of the top executive. The executive issues direction for change, fires employees, drops the product lines, replace the machineries, issues production, marketing and finance control etc. Human Resource Development Approach- conduct a series of meetings, encouragement to managers and staff, mutual understanding, brain storming for acquiring skills, modifying behavior, maintaining team spirit, implementing solution.

**Captive Company**- It is pursued when a firm sells the majority of its product to one customer (wholesaler/ dealer), who in turn prefers some of the functions normally done by an independent firm. This strategy also aims at reducing labor cost, reducing some of the employees

**Liquidation**- Where an organization has debts which are out of control, the organization normally falls into/ placed into/ suffer from liquidation. Its assets are sold under the supervision of the court and paid a proportion of the shares what they own.

**Divestment/ Divestiture/ divestiture**-

It is the selling off of assets which are either not contributing to the financial health of the company or are not consistent with its other areas of business. It can take in three ways:

**Sell off**- It usually occurs when an organization identifies that some of its assets, skills and resources are not contributing to its business and these are sold to the appropriate buyer.

**Spin off**- a spin off occurs when an organization deliberately develops an asset of its operation into a separate business for the purpose of selling this business for a profit once it is established.

**Split off**- It occurs when an organization requires a part of its operation to deal separate, (needed to operate independently), if it is to be successful.

- e) **Combination strategies/different mixed strategies** are followed when organization adopts the mix either at the same time (simultaneous) in its different business or at different times (sequential) with the same customer groups to improve its performance. The ideal way of combination strategy is **portfolio restructuring**. It is the %make up of different types of business portfolio. This strategy targets at combination of several grand strategies: stability, growth and retrenchment. During the period of rapid environment change adoption of combination strategy could be necessary. Firms may liquidize one unit, develop another unit, and allow the third unit to survive as it is simultaneously to improve the efficiency of the business and maximize its profitability.

Reasons-

A combination strategy is not an easy strategy to use. It is much easier to keep a firm in one set of values or one strategy at a time. But when a company faces many organization faces many environments and

these environments are changing at different rates and the companies products are in different stages of life cycle then only combination strategy is solicited to manage over.

This strategy is best for a firm when divisions perform unevenly or do not have the same future potential.

## STRATEGIC ANALYSIS AND CHOICE-(allocation of resources)The strategy formulation – Analytical framework-

**Factors influencing choice:** How can we lead, if we do not know where we are going?

George Newman. Management job is not to see the company as it is.... but as it can become. John W. Teets, CEO, Grey bound Corporation, A strategy is commitment to undertake one set of actions rather than the other. Sharon M. Oster, professor, Yale University The best given plan in the world is never blocked or tackled anybody. Vince Lambardi. Strategies are intellectually simple not their execution. Lawrence Bossioly, former CEO, Allied Signal Useful in identifying, evaluating and selecting strategies

**Input stage- Stage-I** The first stage of analytical framework is called input stage because the **three tools** (IFEM,EFEM & CPM) summarize the basic “input” information needed to generate feasible alternative strategies. Three tools summaries the basic input information needed to generate alternate strategies.

**Internal Factor evaluation matrix ( IFE Matrix)**It summarizes organization’s keys- management, marketing, finance, production, research and development strength and weakness.

Steps are

What are the organization’s key strength and weakness? What is relative importance of each strength and weakness to the organization overall performance? Does each factor represent a major weakness (rating 1), minor weakness (rating 2), minor strength (rating 3), or a major strength(rating 4) to the organization.

IFE matrix: a sample

Key Internal factor	Weight	Rating	Weighted score
The level of productivity has dropped to 55%	20	1	20
The organization structure is totally revamped	05	2	10
EPs was only Rs2.50, second lowest in the industry	10	2	20
ROI was only 22%, the second lowest in the industry	10	2	20
The boosting of R& D expenditure to 10 % of sales	15	3	45
Excellent customer services in 34 locations	15	3	45
Technical excellence-	25	4	100
	100		260
Total			

Experience and research needed to execute. It positions an organization in a **nine** all display. The matrix is similar to BCGM. First both tools involve placing organization divisions in a schematic diagram. This is why they are both called portfolio matrices. Secondly, the size of each circle represents the % of sales contribution of each division. The difference between the BCGM & IEM IS THE axes are different.

The IFM can be divided into three major regions that have different strategy implications. First, in the presentation divisions, the cells I, I. III and IV can be “grow and build”. Intensive matrix penetration by market development, and product development or forward, backward and horizontal integration strategies can be more appropriate. The second divisions fall into cells III, V and VII. It can best be managed with hold and maintain strategies. Market penetration and product development suit best. Third common prescription falls in VI, VIII and IX. It is categorized as harvest and divest. Successful organizations are able to achieve a portfolio of business that are positioned around.

The IFM total weighted score	Strong 3.0-4.0	Average 2.0-3.0	Weak 1.0-2.0
High 3.0-4.0	I	II	III
Medium 2.0-3.0	IV	V	VI
Low 1.0- 2.0	VII	VII I	IX

### External factor evaluation matrix (EFE Matrix)

This technique is analogous to the IFE matrix except that the focus is on the economic, social, cultural, demographic, political, government, legal, technological and competitive opportunities and threats rather than internal strength and weakness. Specific steps are-

Listing the organization’s key opportunities and threats

Weight is assigned from ranges from 0.0 (not important to a given factor indicates the relative importance of that factor to success in a given industry)

Assigning a one to four rating to each factor to indicate whether that variable represents a major threat (rating 1), a minor threat (rating 2), a minor opportunity(rating 3), or a major opportunity (rating 4) to the organization.

Multiply each factor weight by rating to determine a weighted score for each variable

A sample of EF PROFILE MATRIX

Key external factor	weight	Rating	Weighted score
Rising in price	0.20	1	0.20
Population shift	0.10	4	0.40
Government deregulation	0.30	3	0.90
Major expansion	0.20	2	0.40
Computerized information system	0.20	4	0.80
total	1.00		2.70

### Difference EFE & CPM

Critical success factor in CPM are broader. They do not include specific or factual data and even may focus on internal issues. The critical success factors in CPM are also not grouped into opportunities and threats as they are in EFE.

### Competitive profile matrix (CP matrix)

Strategies need to identify the key success factors in the industry

A weight is assigned to each factor to indicate the relative importance

Weight is assigned from ranges from 0.0 (not important to a given factor indicates the relative importance of that factor to success in a given industry)

Assigning a one to four rating to each factor to indicate whether that variable represents a major threat (rating 1), a minor threat (rating 2), a minor opportunity(rating 3), or a major opportunity (rating 4) to the organization.

Multiply each factor weight by rating to determine a weighted score for each variable

**Corporate capability profile**

**Strategic advantage profile- internal analysis with + , 0 & -**

Internal area	Competitive strength(+)/ weakness(-)
Marketing	+ Excellent pre sales and post sales service + Complete understanding of customer preference changes to sales representatives
Finance	- close competition + selling at consumer door step + high rate of profit + credit worthiness for raising loans - low rate of dividend - unfavorable stock market condition
Production/ operation	+ excellent technology + excellent source of raw materials - poor quality control
Human resources	+ capable employees -managers are not professionals + favorable compensation package
Research and development	0 picking up now
General management	+ top management with progressive ideas - middle and junior management with outdated management styles

**Matching stage- Stage II**

Focuses on generating **feasible alternative strategies** and strive to **match** internal and external strategies like: bigger market share, quicker design to quit rivals, quality, cost, product, economics, sale, brand, customer, global recognition, market and many others.,

**TOWS Matrix**- Albert Humphrey, research on 500 fortune companies- Stanford University- 1960-70

Composed of 9 cells, four key factor cells (S, W, O and T), four strategy cells ( SO, WO, ST and WT) and one cell is always left blank(the upper left cell)

Steps involved:

List key internal strength

List key internal weakness

List key external opportunities

List key external threats

Match internal strength with external opportunities

Match internal weakness with external opportunities

Match internal weakness with external threats

Match internal strength with external threats

The tows matrix

Ways level blank	Strength S 1 2 3 4 5 6list 7strength 7 8 9 10	Weakness W 1 2 3 4 5 6list 7weakness 8 9 10
Opportunities O 1 2 3 4 5 6 7 8 9 10	SO 1 2 3 4 use strength 5 to take advantage of 6 opportunities 7 8 9 10	WO 1 2 3 4 overcome weakness by taking 5 6 7 8 9 10
Threats- T 1 2 3 4 5 6 7 8 9 10	ST 1 2 use strength 3 to avoid threats 4 5 6 7 8 9 10	WT 1 2 minimize weakness 3 and avoid threats 4 5 6 7 8 9 10

Matching and converting- strength to opportunities.

Internal- operational level, Business level Executive officers Board of directors Stockholders employees	Strength-(distinctive competence- leadership) Resource Skill, style of management Needs of market (buyer and supplier relationship) Leading brand	Weakness (seriously impedes effective performance) Deficiency of resources, skills, Capabilities, sub scale Facilities
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	Distribution Customer loyalty Economies to scale	Finance, low return Market, unreliable Image, low profile
External- corporate level, international level Not controllable Customers, suppliers, Creditors, governments, Unions, competitors, General public, local combi	Opportunities Previously overbooked market segment Supporting competencies Regulation, circumstances, Improved buyer or supplier relationship	Threats New competitor Slow market growth Increased bargaining power of key buyers, suppliers Major technical changes Change in regulation

**SPACE Matrix- Strategic position and action evaluation matrix-**

It consists of four quadrants. The axes of the matrix represent two internal dimension- financial strength and competitive advantage. It considers two external dimension- environment stability and industry strength. Put 6 grades (+-). Add two scores and portray. Draw a vector joining two points. The vector reveals the strategic positioning- aggressive (++), competitive (+-), defensive (--), and conservative (- +).

O-x Financial strength (FS)- ROI, Leverage, Liquidity, Working Capital, Cash Flow, ease of exit from the market	O-y Competitive advantage (CS)- technological change, rate of inflation, demand variability, price range, competition, barriers to entry
O-x Environmental stability( ES)- market share, product quality, customer loyalty, competitor's capacity utilization, technological know how, control over supplier distribution	O-y Industry strength (IS)-growth potential, profit potential, profit potential, financial stability, technology, resource, capital intensity, easy of entry, productivity, capacity utilization

**Steps required**

- the financial strength(FS), and industry strength (IS), assign a numerical value ranging from worst(10 to best(6) to each of the variable that comprise these dimension
  - For environmental stabilities (ES), and competitive advantage (CA) assign numerical value ranging from best (-1), to worst (-6) to each of the variable that comprise these dimension
  - Comprise an average score for FS, CA, IS and ES by summing each dimension and dividing the numbers of variables included in the respective dimension
  - Plot the average scores for FS, IS and CA on the appropriate exit in the space matrix
  - add the two coxes on the horizontal X- axis and plot the resultant point on X. add the two scores on vertical axis and plot the resultant point on Y axis.
  - Plot the intersection of the new XY point
- Draw a directional vector from the origin of the space matrix through the new intersection point. This vector reveals the type of strategies – aggressive, competitive, and defensive or conservative- most appropriate for the company.

**First portfolio matrix:**

It used industry growth rate on the vertical axis and relative market share on the horizontal axis. Each business unit appears as a circle on the four cell matrix with the size of each circle scaled to the per cent of revenues it represents in the overall corporate portfolio.

## BCG Matrix- Boston Consulting Group Matrix (BCGM)

A leading management consultancy firm devised a four square grid.

It graphically portrays differences among division in terms of relative market shares (x- axis) position and industry growth rate(y axis). The BCGM allows a multinational organization to manage its portfolio of business by exercising the relative market share position and industry growth rate of each division to position all other divisions in the organization.

Relative market share position is defined as the ratio of a division's own market share in a particular industry to the market share held by the largest rival firm in the industry. mid point(.50)

Industry growth rate- .20 (+,-), mid point (0.0)

star	Question mark
Cash cows	dogs

Relative market share

Question marks- These have low relative market share yet compete in high growth rate industries. Generally these firms' cash needs are high and their cash generation is low. Division should have significance strategies through increased allocation company resources or alternatively they should be divested. Question mark signifies the organization must decide whether to reduce the customer or diverse the division.

Stars- These businesses represent the organization with best long run opportunities for growth and profitability. Divisions with a high relative market share and a high industry growth rates should receive substantial investment to maintain or strengthen this dominant position. The company follows forward integration, backward integration, horizontal integration, market penetration, market development, product development and many other appropriate strategies.

Cash cows- These have a high relative market but computed in a low growth industry. Many of cash cows today were yesterday's stars. Due to their dominant position and minimal need for additional resources these business generate cash in excess of their needs. To keep this position as long as possible company follows concentric diversification for strong cash cows. Retrenchment and diversification are more appropriate for weak cash cows. Today's cash cows are the dogs of tomorrow.

Dogs- They have a low relative market share and compete in a slow or no market growth industry. Their internal and external position is weak. These are liquidated, divested or trimmed down (retrenched).

The company analyses for positive moves to move clockwise. When it goes anticlockwise remedial measures are undertaken.

### Advantages-

It makes definite contribution to the strategic tool kit

Provides strategic directions

Guidelines for performance

Highlight interaction

Priorities resource allocation

### Disadvantages-

Ignores averaging  
Ground and base  
Reality  
No quantitative approach  
Generalization

### Internal-External Matrix-

In actual practice, since both external and internal forces interact and impact organizational survival and growth, managers would do well to examine both set of factors at the same time.

It is based on two dimensions- internal factor evaluation matrix and external factor evaluation matrix. IFEM and EFEM, The IFEM total weighted average scores are plotted on the horizontal axis and EFEM total weighted scores are plotted on the vertical axis. Corporate level IE can be constructed based on the total scores of all business of a company.

On the horizontal axis of the IE matrix, the IFE total weighted scores of

-2 to -1 represent weak internal position,

-1 to +1 represent average position and

+1 to +2 represent strong position.

On the vertical axis an EFE total weighted scores of

-2 to -1 represent low position,

-1 to +1 represent medium position and

+1 to +2 represents high position.

Strategy implication: The IE matrix has 9 cells 3x3 display. The business falling in the left upper three cells I, II and IV are accorded top investment priority. The strategy can be Grow and build intensive- market penetration, market development and market product development or integrative- forward, backward and horizontal.

Internal- strength, weakness- operation level (assets, capabilities and competencies), business level (execute, experience, research)

External - opportunities, threats- corporate level, international level

### Grand Strategy Matrix / Generic Strategic Alternatives-

The grand strategy matrix has become a popular tool for formulating alternative strategies. All organization positioned in one of grand strategy matrix's four quadrants.

The GSM is based on two evaluative dimension- competitive position and market growth.

Quadrant I- Firms located in this quadrant are in an excellent strategy position. For these firms continued concentration I current market (market penetration and market development) and product (product development) are appropriate strategies. When a quadrant I organization has excessive resources then backward or horizontal integration may be effective strategies. When A quadrant I firm is too heavily committed to a single product then concentric diversification may reduce the risks associated with a narrow product line. Quadrant I firms can afford to take advantage of external opportunities in several areas. They can take risks aggressively when necessary.

Quadrant II- Firms' positions in quadrant II need to evaluate their percent approach to the market place seriously. Although their industry is grooming they are unable to compete effectively and acquire other business or buyback shares and stock. They need to determine why the firms' current approach is ineffective and how the company can best change to improve its competitiveness.

Quadrant I firms are in a rapid-market growth industry. An extensive strategy is usually the first option that should be considered. However if the firm is lacking discipline and competence or competitive advantages, then horizontal integration is often desirable alternative.

Quadrant III- Quadrant III organizations compete in slow growth industries and have weak competitive positions. These firms must make some drastic changes quickly to avoid further demise and possible liquidation. Extensive cost and asset reduction (retrenchment) should be pursued first. An alternative strategy is to shift resources away from the current business into different areas. If all else fails the final option for quadrant III business are divestiture or liquidation.

Quadrant IV- Quadrant IV business have a strong competitive position but in a slow growth industry. These firms have the strength to launch diversified performance into more promising growth areas. These firms have high cash flow level and internal growth needs. They pursue concentric horizontal or conglomerate diversification successfully. Viable information for the quadrant IV firm is to form a joint venture.

The X- axis – The competitive position axis of the grand strategy matrix is analogous to competitive advantage (CA) axis of the space matrix. The 0 to 6 CA scale derived earlier for the SPACE matrix could be used with the grand strategy matrix.

Recall that 0- strong competitive position, 6- weak competitive position and # - could represent an average competitive position on the grand strategy position on the grand strategy matrix. The X-axis intersection point on the grand strategy matrix could therefore be -3.

The Y- axis – the market growth axis of the grand strategy matrix is analogous to the industry scale growth axis on the BCG. The -20 to +20 present scales described earlier for the BCG Matrix could be used for the grand strategy matrix. Recall that +20 present equal rapid market growth and -20 represent equals rapid market decline with a zero percent growth being the intersection point on the grand strategy matrix.

Rapid Market Growth

<p>Quadrant II Market development Market penetration Product Development Horizontal integration Divestiture Liquidation.</p>	<p>Quadrant I Market development Market Penetration Product development Forward integration Backward integration Horizontal integration Concentric diversification</p>
<p>Quadrant III Retrenchment Concentric diversification Horizontal diversification Conglomerate diversification Divestiture Liquidation</p>	<p>Quadrant IV Concentric diversification Horizontal diversification Conglomerate diversification Joint venture</p>

### Decision Stage- Stage III

It reveals the relative attractiveness of alternate strategies by **evaluation** and **select**.

Strategic decisions are likely to be concerned &/or affecting the long term direction of the organization

Strategic decisions are normally about trying to achieve.

Strategic decisions are likely to be concerned with the scope of organization activities: stability, expansion, retrenchment, combination

Strategic decision can be seen as the matching of the activities of an organization to the environment in which it operates (search for strategy fit). Strategy can also be seen as building or stretching an organization al resources and competencies to crack new opportunities or capitalize them.

Strategies may require major resources changes for an organization  
Strategic decisions are likely to affect operational decision.

## Quantitative Strategic Planning Matrix (QSPM)

QSPM uses input information derived from stage1, to evaluate feasible alternatives identified in stage 2.

It reveals the relative attractiveness of alternative strategies, thus providing an objective basis for selecting specific strategies.

After the input stage and matching stage the decision stage follows. The QSPM is an important technique in 3<sup>rd</sup> stage in strategic formulation and analytical framework.

QSPM determines the relative attractiveness of various strategies based key internal and external factors. The relative attractiveness of each strategy within a set of alternatives is computed by determining the cumulative impact of each key internal and external critical success factors.

QSPM suggests which alternative strategies are best. It is the most current approach for the strategic formulation analysis. The QSPM uses input information from stage-1 analysis and match results from stage2 analysis to evaluate alternative. Strategies quantitatively based on specific organizational capabilities and limitation. That is, the EFE matrix and IFE matrix, competitive profile matrix make up stage 1 completed with SWOT matrix, SWOT analysis. Space analysis, BCG matrix, IE matrix and grand strategy matrix make up stage 2 and provide the needed information for setting up the QSPM matrix. In stage3 these matching tools normally generate feasible alternative strategies similar to each other. QSPM requires subjective decisions in assigning weights and ratings.

Though any set of alternative strategies can be included in a QSPM and any number of strategies can make up or comprise a given set but only strategies within a given set are evaluated relative to each other. For example: one set of strategies may include concentric, horizontal and conglomerate diversification where as another set may include issuing stock and selling a division to raise needed capital. There are six steps required to develop a QSPM

Step I-List the firm's key internal strength and weakness and external opportunities and threats in the left column of QSPM. The information should be taken directly from the IFE matrix and EFE matrix. A minimum of 5-10 key internal factors and 5-10 key external factors should be included in the QSPM. Each factor should be stated in specific terms.

Stage II- Assign a weights or rating to each key internal and external factor. These rates are identified to those in the EFE matrix and the IFE matrix. The ratings are presented in a straight column just to the right of the external and internal critical success factors.

Step III – Examine the stage II (matching) matrices and identify the alternative strategies that the organization should consider implementing. Record these strategies in the top row of the QSPM. Group the strategies into mutually exclusive sets if possible.

Set IV: Determine the attractive score (AS) defined as numerical values that indicate the relative attractiveness of each strategy in a given set of alternatives, Attractiveness scores are determined by examining each key internal and external factors one at time and asking the question Does this factor affect the choice of then strategy being made? If the answer to this question is yes, then the

strategies should be compared relative to that key factor. Specifically attractiveness score should be assigned to each strategy in the given set of alternatives. The range for attractiveness score is:

1. Not attractive or acceptable
2. Somewhat attractive
3. Reasonably attractive
4. Highly attractive or acceptable.

However if the answer to the question is (NO), indicating that the respective key factors has no effect upon the specific choice being made then do not assign attractiveness score to the strategies in that set.

Note- Use a dash to indicate the key factors do not affect the change being made. If you assign an AS(attractive score) to one strategy then assign AAS to the other. In other words if one strategy receives a dash then all other must receive a dash in a given row.

Step V- Compute the total attractive score. Total AS are defined as the product multiplying the ratings (step II) and AS (step IV) in each row. The total attractive score indicate that the relative attractiveness of each alternative strategy reminding only the impact of the adjacent external and internal such factor , The higher the total AS the more attractive are the strategic are the alternatives (considering the adjacent critical success factor).

Step-VI- Compute the sum total AS. Add total AS in a strategy column of the QSPM. The sum total attractive score in a strategy column reveals which strategy which is most attractive in a given set of attractiveness.

Higher score indicates more attractive strategy considering all the relevant external and internal factors that could affect the strategic decisions. The magnitude of the differences between the total attractiveness score in a given set of strategic alternatives indicates the relative desirability of one strategy over another. Limitation of QSPM-

- a) It always requires intuitive judgments and educated assumptions.
- b) It can be only as good as the prerequisite information and matching analysis upon which it is based.

Positive Features-

- a) QSPM can be examined sequentially or simultaneously. For example: corporate level strategy could be evaluated first followed by division level strategy and then function level strategy. There is no limit to the number of strategies that can be evaluated.
- b) It requires strategies to integrate pertinent internal and external factors into the decision process.
- c) It enhances the probability that the final strategic decision will be the best for the organization.
- d) It can be adopted for use by small and large for profit to non-profit organizations and can be applied virtually in any type of organization/s.

## Sample

## Strategic alternatives

Key Factors	Acquired. Finance Corporation					
	Acquired		Acquired			
Services	Ratings	AS	TAS	AS	TAS	
Internal factors						
Top management team has 15years experience	3	4	12	4	12	
We have excess working capital to \$2 million	4	2	8	3	12	

All of four twenty plants are located in NE US	1	2	2	4	4
Our R&D is outstanding	3	-	-	-	-
Our ROI ratio 0.12, is lowest in industry	1	2	2	4	4
External factors:					
Internal rates are expected to rise to 15% in 2017	2	3	6	4	8
Population of South is expected to grow by 15.3 million between 2012 and 2020	3	4	12	2	6
The financial services industry is expected to grow by 40% by 2016	4	4	16	2	8
Two major foreign competitors are entering	1	1	1	3	3
President is expected to deregulate the industry	2	-	-	-	-
<u>SUM TOTAL ATTRACTION SCORE</u>			<u>59</u>	<u>56</u>	

Rationale for attractive score-

- A.A 15 years experience in financial services.
- A.B Food services is valued at \$2 billion
- A.C Food services are located in the sun-belt.
- A.D This item does not affect the strategic choice
- A.E ROI at food services is higher than at financial services
- B.A Rising rates will hurt the financial service business
- B. B Many new houses and apartments will be built and financed.
- B.C The 40% growth is in financial services.
- B.D Food services is not affected by this entry
- B.E This team does not affect the strategic choice

**Policies-** are directives designed to guide thinking, declarations and actions of managers and their subordinates in implementing strategies. It provides guidelines for establishing the control on going operations.

Purpose- These are:

- 1) Indirect control over independent action,
- 2) Promotes uniform handling of similar activities,
- 3) Ensures quicker decisions,
- 4) Helps institutionally basic aspects of organizational behavior,
- 5) Reduce misunderstanding in repetition and day to day activities,
- 6) Counteract resistance to or reject certain strategies by the organization members,
- 7) Offer predetermined answers to routine problems, and
- 8) Offers managers a maximum to avoid hasty and ill concerned decisions

## POLICY FORMULATION

**Operation level-** unite, unified, coherent, supportive pattern, The pieces /layers should fit together like a **jigsaw puzzle** (situation, performance, goodness, competition).

Business level-(response to change, craft, competitive, connected, relevant) competitive advantage, cost, planned (proactive), change, geography, patch up (collaboration, functional).

**Corporate level-** (move-action- pursue- establish) leader, diversified, scope, position (new, old), divest weak, capture, business strategy fit, allocation, diversification

International level

## Policy formation

**Meaning-** Policies are directives designed to guide thinking, decisions and actions of managers and their subordinates in implementing the organization's strategies. It provides guidelines for establishing control on ongoing operation in a manner consistent with firm's strategic objectives.

**Need- purpose-** Policies establish indirect control over independent action,  
Promote uniform handling of similar activities,  
Ensure quicker decisions,  
Help to maintain institutionally the basic aspects of organizational behavior,  
Reduce misunderstanding and confusion in day to day or repetitive decisions,  
Counteract resistance to rejection of certain strategies by the organization members,  
Offer predominant answers to routine problems  
Offer managers a maximum for avoiding hasty and ill conceived decisions  
Exhibit enviable ethical business practices

## Different functional areas of policies

### Personal policies

The development of competent and motivated employees  
Employment facilities- package, compensation, regulations  
Administration policies- recruitment, selection, orientation, career development  
Feedback policies- discipline, control and valuation  
Human capital- performance evaluation, training and development  
Human resource development  
Welfare- public relation, protection, care, feelings  
Reducing turnover  
Working environment  
Future growth  
Work study  
Time and motion study

### Financial policies

Growth in resources  
Growth in earnings  
Higher dividends  
High return on invested capital  
Bigger profit margins  
Attractive economic value added (EVA)- cost advantage- economies and diseconomies of scale, learning and experience curve effects, cost of key resource inputs, link, sharing, integration, time, first movers, outsourcing)  
Strong bond and Credit rating  
Market value added (MVA)  
Bigger cash flows  
Recognition as a blue chip company  
Substantial rising in stock price  
More diversified revenue base

## Marketing policies

Marketing takes care of product, place, price and promotion and service p that look into package, passion, physical evidence, process & people.

Production policies/ product operation management policies must be coordinated with marketing policies for the firm to succeed. Careful integration with financial components such as capital budgeting and investments prove much better.

Operation decision areas are:

Low cost provider of goods and services,

Quality provider,

Stress customer service,

Rapid and frequent introduction of policies,

Strive for absolute growth,

Seek vertical integration,

Maintain revenue capacity

Marketing in its simplest form is process of winning the customers for its products and services.

Research and development identifies market in terms of size, characteristics of customers in terms of lifestyle, income, rate of growth and many others. It promises getting and keeping with customers for attracting the new customers, building customers' loyalty ,brand management, measuring customer satisfaction, adopting product or service design, a packaging to meet the changing customer requirements and so many.

Product policies- production operation management- Operating policies must be in coordination with marketing policies to succeed. Careful integration with financial policy components such as capital budgeting, investment decision is essential. It considers:

Low cost provisions

Providers of goods and services- quality, quantity, cost and convenience,

Stress Customer services,

Provide rapid and frequent introduction of policies,

Strive for absolute growth,

Seek vertical integration,

Maintain revenue capacity,

Guide marketing managers- decision, product lines, packaging, accessories, quality and product development, elements of marketing

## Public relation policies

Corporate social responsibility

Public Image

Background

Advertisement and publicity

Relation with leaving employees

Response of employees working in other organization

Facilitation

## Strategic implementation, review and evaluation:

To review underlying bases of strategy the 5 generic competitive advantages: The factors are target, product line, production emphasis, marketing emphasis and sustaining capacity utilization.

Methods: to review again and again to bring to expectation level with the help of

Strategic choice and operating decisions

Strategic level- consistency of the strategy with the environment  
Operation level- How well the organization is pursuing the strategy.  
There can be **four phases of strategic control**.

Formulation

Implementation

Strategic surveillance

Special alert control

The purpose of the strategic evaluation is to evaluate the effectiveness of the strategy in achieving the organizational objective. Thus the strategic evaluation and control can be defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking the corrective action where ever necessary. In having such frames and basic mind set the following two questions can be raised: Is there any need to change? If yes, then how?

Are the basic nature of strategy formulation is correct? Are the organization and the managers doing things what ought to be done? Is there a need to change and reformulate the strategy? How the organization is performing? Is the time schedule being maintained? Are the resources are being utilized properly? What needs to be done to ensure that to meet the objectives?

## Measure organizational performance

Participants

Management

Ability and development (growth)

Environment

Finance

Utilization

### **STRATEGIC IMPLEMENTATION, REVIEW AND EVALUATION-**

Challenges of changes and organization learning

Context levers, system levers, action levers

Effective strategy evaluation allows an organization

- a) to capitalize on internal strength
- b) To expeditiously exploit external opportunities
- c) To recognize and defend against environmental threats
- d) To improve internal weakness before it becomes detrimental
- e) To deliberately and systematically formulate, implement and evaluate strategies.

The strategy evaluation process consists of three activities:

- a) Revising underlying internal and external factors that represent the bases of current strategies
- b) Measuring organizational performance
- c) Taking corrective action.

These activities review the conclusion reached during strategy formulation, examine the actions taken during strategy implementation. Compare results expected and actual result and make needed changes to continue operation.

## MCKINSEY'S 7S framework- strategic formulation-

The 7S framework was developed towards the end of '70s by the Mc Kinsey Company, a very reputed management consultancy firm in the USA, to diagnose the causes of the organizational problems and formulate programs.

According to waterman and others, organizational change is not simply a matter of structure, although structure is a significant variable in the management of change. Again, it is also not a simple relationship between strategy and structure although strategy is a critical aspect. In that view, effective organizational change may be understood to be a complex relationship between strategy, structure, system, style, skills, staff and super ordinate goals. The 7S model emphasizes that in practice the development of strategies possess less of problems than the execution.

**Strategy** is a set of decisions aimed at sustainable competitive advantage. An organization's capacity is to execute its strategy depends on the hard structure and system in original and the soft infrastructure of culture norms. ( **Amaar Bhiole**). The concept of strategy includes purposes, missions, objectives, goals, and major action plans and policies.

**Structure-** is organization chart and the associated information that flows how the jobs are integrated- who, whom, when and why. Basically organizational structure prescribes the formed relationship among various position and activities. Arrangements for reporting relationship and what rules and procedure exist to guide the various activities performed by members are all part of the organizational structure. It performs four major functions: (I) it reduces external uncertainty through forecasting, research and planning in the organization. (II) It reduces internal uncertainty arising out of variable, unpredictable, random human behavior within the organization through control mechanisms; (III) It undertakes a wide variety of activities through devices such as departmentalization, specialization, division of labor and delegation of authority; (IV) It enables the organization to keep its activities coordinated and to have a focus in the midst of diversities in pursuit of its objectives.

The design of organizational structure is a critical task for the top management. The McKinsey consultant s strongly felt that in today's changing business environment, a successful organization may make need based structural changes to cope with specific strategic tasks without abandoning basic structural divisions throughout the organizations.

**System-** is a flow of activities involved in daily operations of the business including core process. It refers to all regulations and procedures – formal and informal those compliment the organization structure/ infrastructure. Systems include all those procedures and methodologies which are framed by the organization and followed by the operating personnel in the respective functional area, e.g., financial accounting system, recruitment, training and development system, production planning and control system, quality management (TQM) computerization etc. In all these functional areas some traditional system may be in existence which needs to be reviewed and changed as per requirements in view of advanced technology and processes developed.

**Style-** is how managers collectively spend their time and attention and hoe they use symbolic behavior, how management act is more important than what management says. Culture needs to strengthen and conveyed through rites, rituals, myths, legends and actions.

It is one of the seven levers which top management can use to bring about organizational change. With the change of systems and procedures, the style of functioning in different workplaces and situations will automatically be changed. In fact the old outdated style of work can hardly bring any result or play any role for material contribution in today' s complex and sophisticated world. The McKinsey framework considers style as – more than the style of management. Aspects of organizational culture also seem to be encompassed by the term style. Rue and Byers have drawn up

an analogy between cultures in an organization with the personality of a person. Human can be warm, aggressive, friendly, open, innovative conservative and so forth. So organizations can do it. Organization culture is expressed in a variety of ways, unwritten rules and traditions; shared norms about what are important, prejudices standards of social etiquette and demeanor, established ways of relating with peers, subordinates and superiors etc. The culture that organization wishes to develop is conveyed through rite, rituals, myths, legends and actions.

**Staff-** is how company develops with employees and shape basic values.

Staffing is the process of acquiring human resources for the organization assuring that they have the potential to contribute to the achievement of the organizational goals. Staffing involves placement of the right man in the right job. But since the job profile is getting changed day by day because of radical changes and developments in science and technology, continuous improvements and updating of knowledge and skills of all category of staff is very essential to achieve the desired output and results.

**Skills-** signify organization's dominant capacity- capability and competencies.

If the system is to be changed for the better it demands improvement of the skills and aptitude of the concerned personnel for higher productivity. They must be imparted necessary training and exposure for orientation, updating and development of their own potentialities. They should be acquainted with any state of the art technology and improvised methods and practices. If the concerned personnel of an organization can improve their skill, it will lead to skill development of the entire organization which will help in establishing goodwill and image in the business world. Proctor and Gamble s best known in business world for its skill in product management; Hindustan lever and Richardson Hindustan for their marketing skill; BHEL, TELCO, L&T for their engineering skill; DCL, Mecon and M.N. Dastur & Co for their project consultancy skill and IBM for its marketing orientation and in systems development and management.

The dominant skills and distinctive competence of an organization are part of the organizational character which is to be acquired with continuous efforts. When an organization plans for strategic shift it becomes necessary to consciously, consistently plan for acquiring and developing new skills.

**Shared values/super ordinate goals-** (organization climate)

Super ordinate goals are the fundamental ideas around which a business is built. They are its main values. They are the broad notions of future direction. That is why the top management as a team wants to express itself which may be considered as organizational objectives, According to McKinsey framework, super ordinate goals refers to a set of values and aspirations that goes beyond the conventional formal statement of corporate objectives. All targets and attention of all activities and exercises of the other six levers of any organization should be directed towards accomplishment of the best possible goals. This is the ultimate and terminal point where the organization will have to reach. Super ordinate goals have deep meaning within the organization.

**Leadership and management style**

**Leadership- Meaning:**

Leadership is the relationship in which one person (the leader) influences the others work together on a related task to attain goals devised by the leader and/ or the groups. Leaders require and use three skills in influencing and interacting with people: technical skills, human relation skill and conceptual skill.

Manager exhibits leadership when he or she secures the cooperation of others in accomplishing objectives. Organizational leadership plays a significant role in the changing and competitive

business environment. It provides pace and energy to the work and empowers employees and employers. However the appropriate style of leader helps for successful implementation of strategy.

## Characteristics

### Functions

#### **Consider Environmental changes-**

Internationalization

Deregulation

Maturation of markets

Technological development

Competitive intensity

High level of performance

#### **Taking care of Organizational changes-**

Growth of firms

Product diversification

Sophisticated technology

International expansion

Increasing complexity

Effective guidelines

#### **Transformational and transactional Strategic**

This includes chief entrepreneur, crisis solver, task master, figurehead, spokesperson, persons responsible for resource allocation, negotiator, motivator, advisor, inspiring person, consensus builder, policy maker, mentor and head cheer anchor. They stay on top to observe what is happening and well thing are going, promoting a culture in which a organization is energized to accomplish strategy and perform a high level

Keep the organization responsive to changing conditions, alert for new opportunities and bubbling with innovative ideas.

#### **Dealing with company politics**

#### **Entering ethical behavior**

#### **Leading the process of making corrective adjustments**

**Leadership implementation:** is seen by (Lawrence R. Lauch and William F. Glueck)

Managing walking around

Fostering a strategy supportive climate and culture

Keeping the internal organization responsive and innovative and

Empowering champions

## Different leadership and management styles-

**Free rein/ Laissez-faire style-** Leader avoids authority and responsibility. They mostly depend on group to establish objectives and goals, formulate policies and programs. The group members train and motivate themselves contrary to autocratic style. The leaders play minor or negligible roles and depend on groups. There is no direction and control by the leader.

**Autocratic Styles-** The leaders following this style centralizes power for decision making in themselves. The followers have almost no say either in decision making or implementation. The employees have to completely obey and follow the instructions of the autocratic leaders. The leaders take full authority and responsibility.

Strict autocrat- allows complete autocratic where the method of influencing subordinate is completely negative.

Benevolent autocrat- typically gives awards to subordinates and motivates to achieve the goal.

Incompetent autocrat- adopts this style to hide his incompetence.

### **Participative style-**

These leaders decentralize authority and encourage subordinates to express their opinion in decision making as well as in implementing decisions. Leaders solicit the opinions and ideas of the subordinates and make the decisions by themselves. The authority to make decisions is reserved by the leaders. However decisions are arrived at by consultation.

**Democratic style**- Democratic leader decentralizes authority and encourage subordinates to participate and involve in decision making and implementation process. Decisions are made jointly by the leaders and the subordinates as a group.

**Situation Approach**- Hersey and Blanchard- incorporated the maturity of followers into heir model by the degree of achievement, motivation, willingness to take responsibility and amount of education and/ or experiences The key of effectiveness is to match up the situation with the appropriate style. Four styles are:

Telling Style- fits high risk, low relationship and effective when followers are at low level of maturity.

Selling style- is valid for high risk and high relationship where followers are on the low side of maturity

Participative style-fits low task and high relationship where followers are on high side of maturity.

Delegating style fits low task and low relationship where followers are on very high level of maturity.

## **Blake and Mouton's managerial grid**

A popular framework for thinking about a leader's task versus person orientation was developed by Robert Blake and Jane Mouton in the early 1960s, called the Management grid or leadership Grid. It plots the degree of task centered ness versus person centeredness and identifies five distinct combinations as distinct leadership styles.

The management grid is based on two behavioral dimensions. Concern for people- This is the degree to which a leader considers the needs of team members, their interests and areas of personal development when deciding how best to accomplish a task. Concern for production- This is the degree to which a leader emphasizes concrete objectives, organization's efficiency and high productivity when deciding how best to accomplish a task.

**Using the axis** to plot leadership concerns for production versus concern for people Blake and mouton defined five leadership styles.

**Country club leadership**- high people and low production- This style of leader is most concerned about the needs and feelings of members of his team, These people operate under the assumption that as long as the team members are happy and secured then they will work hard, what tends to result is a work environment that is very relaxed and fun but where production suffers due to lack of direction and control.

**Produce or perish leadership**- high production and low people- authoritarian or compliance leaders – People in this category believe that employees are simply a means to an end. Employee needs are always secondary to the need for efficient and productive workplaces. This type of leader is very autocratic. They follow strict work rules, policies and procedures and views punishment as the most effective means to motivate employees.(refer Theory X and Theory Y).

**Impoverished leadership**- low production and low people

This leader is mostly ineffective. He has neither a high regard for creating a system to get the job done nor for creating a work environment that is satisfying and motivating. The result is a place of disorganization, dissatisfaction and disharmony.

**Middle- of- the road leadership-** medium production and medium people-

This style seems to be a balance of the two competing concerns. It may at first appear to be an ideal compromise. Therein lays the problems, though when you compromise, you necessarily give away a bit of each concern so that neither the production nor people needs are fully met. Leaders who use this style settle for average performance and often believe that this is most anyone can expect.

**Team leadership-** high production and high people-

This is the pinnacle of managerial style. These leader stress production needs and the needs of people equally and highly. The premise here is that employees are involved in understanding organizational purpose and determining production needs. When employees are committed to and have a stake in the organization's success, their needs and production needs coincide. This creates a team environment based on trust and respect, which leads to high satisfaction and motivation and as a result high production.

Application- It is the situation that matters. Result is awaited by every stakeholder. The blames go to managers and of course credits. If the company is in the midst of a merger or significant change, it is often acceptable to place a higher emphasis on people. But in case of economic hardship or physical risk people concerns may be placed on the back burner, forte short term , at least to achieve high productivity.

**Concern for production** (low to high, x- axis)

High country club team leader

Middle of the road

Low impoverished produce/ perish

**Concern for people** (low to high-y- axis)

## Likert's leadership styles

Rensis Likert identified four main styles of leadership in particular around decision making and the degree to which people are involved in the decision.

Exploitive authoritative- In this style the leader has low concern for people and uses such methods as threats and other fear base methods to achieve conformance. Communication is almost entirely downward and the psychologically distant concerns of people are ignored.

Benevolent Authoritative- when the leader adds concern for people to an authoritative position, a benevolent dictatorship is formed. The leader now uses rewards to encourage appropriate performance and listens more to concerns lower down the organization, although what they hear is often rose-tinted, being limited to what their subordinates think that the boss wants to hear. Although there may be some delegation of decisions almost all major decisions are still made centrally

Consultative- the upward flow of information here is still cautious and rose tinted to some degree, although the leader is making genuine efforts to listen carefully to ideas. Nevertheless major decisions are still largely made.

Participative- At this level, the leader makes maximum use of participative methods engaging people lower down the organization in decision making. People across the organization are psychologically closer together and work well together at all levels.

## Lewin's leadership styles-

In 1939, a group of researchers led by psychologist **Kurt Lewin** set out to identify different styles of leadership. While further research has identified more specific styles of leadership, this early study was very significant, influential and established three major leadership styles.

Schoolchildren were assigned to one of three groups with an authoritarian, democratic or laissez-fair leader. The children were then led in an arts and craft project while researchers observed the behavior of children to the different styles of leadership.

### Authoritarian leadership- (autocratic)

Authoritarian leaders provide clear expectations for what needs to be done, when it should be done and how it should be done. There is also a clear division between the leader and the followers. They make decisions independently with little or no input from the rest of the group.

Researchers found that the decision making is best applied to situations where there is little time for decision making or where the leader is the most knowledgeable person of the group.

### Participative leadership- (democratic)

Lewin's study found that participative leadership is generally the most effective. Leaders offer guidance to group members, participate in the group and allow input from other group members. Children in this group were less productive than the members of the authoritarian group but their contributions were of much a higher quality.

Participative leaders encourage group members to participate, but retain the final say over the decision making process. Group members feel engaged in the process and are more motivated and creative.

**Delegate (laissez- faire) leadership-** Researchers found that children under delegate leadership were the least productive of all three groups. The children in this group also made more demands on the leader, showed little cooperation and were unable to work independently. . . .

### Intensive growth opportunities and strategic clock

It is important to know who the participants are and what role they will play in strategic evaluation and control. Theoretically all the members of the organization are responsible to the shareholders. Investors and government are concerned about the security and return rather than the long term assessment of strategic success. The board of directors enact a general formal role of reviewing and screening the executive decision in the light of environmental conditions, business and organization implication. In this way the BOD performance is more generalized forming the strategic evaluation. Chief executives are ultimately responsible for all aspects of strategic evaluation and control. Normally the CEOs should not set over the judgment of organization's performance and should be evaluated on the basis of own performance. This leads to the question what should be done in a group in a group and each individual should know to whom to report.

The **conventional measures** in many manufacturing companies are primarily financial and are mostly generated by long run manufacturing cost accounting system. Cost accounting is developed many years ago and manufacturing system and practices have changed enormously since then. Particularly in the last three decades in many cases accounting system has not been kept up. Traditionally cost accounting system carefully calculates and reports the labor cost allocates the overhead cost based on direct proportion to a product's labor costs. This approach can lead to a major cost distribution particularly if there is a large variation in the use of resources among the products of the firm. Percent development activity based costing is aimed at fixing this flaw.

**Benchmarking-** In defining what to measure some companies used benchmarking to review the practices of the best class and compare these to their own. The aim of benchmarking is to compare

measures of such performance indicators as defects per million. The comparison is usually carried out in industry basis. The system is well established in automatic industry resulting in clear standard, what is mint by world class performance. Initially it can be compared with the performance of key process with other companies. Then it is followed up comparing with world class levels in the similar industries. The measurement process is followed by the programs to implement so as to attain the comparability with the best practice. The best practice the benchmarking can be broken down to following stages:

Deciding which processes to benchmark

Deciding which measures to employ in respect of these processes

Choosing o companies against which to benchmark

Obtaining relevant comparable data from other companies

Measuring the competitive gap between the company's current performance level and best practice

Implementation of measures to close the gap

### Take corrective actions.

The external and internal environments in which the organization operates today are more complex and dynamic than ever before. They threaten people at work and organizations with future shock.

Future shock occurs when the nature, type and speed of changes overpower an individual or organization's ability and capability to adopt. Strategic evaluation enhances an organization's ability to adopt successfully with changing circumstances which Brown and Agnew refers as, "Corporate Agility".

Taking corrective action raises employees and manager's anxieties. Research suggests that participation in strategy evaluation of activities is one of the best way to overcome individuals' resistance to change. Individuals accept change best, when they have a cognitive understanding of the changes, a sense of control over the situation and the awareness that necessary actions will be taken to implement the changes.

Strategic evaluation can lead to strategy formulation changes, strategy implementation changes or both. Top managers can not escape from revised strategy and implementation approaches. Corrective action should place an organization in a better position:

To get correct decisions,

To get right information in right time (awareness)

To think and enact with preventive and remedial measures,

To capitalize on internal strength, consistent, socially responsible

To take advantage of external opportunities,

To avoid, reduce and mitigate external threats,

To overcome the internal weakness and

To cope with changes to happen (**corporate agility**, future shock)

To reduce anxieties

**Profit centers** may be involved in performance evaluation

**Operational control**- Financial analysis, budget, reports-financial comptrollers, company secretaries, external and internal auditors

**Middle level managers** may participate in strategic information and feedback as recipient and direction from above to take the corrective action.

**Functional strategy**- Manufacturing was somewhat considered as a strategic asset that has a major impact on achievement on competitive priorities. Adopting excellent manufacturing practices require a major overhaul of manufacturing system and operation which brings major changes in the structure and processes that subsequently leads to significant mobilization of organizational

behavioral and external aspects of organization. Creating such major changes demands constant attention from top management.

Total Quality Management- The quality of Japanese product was revolutionized by technique introduced in Japan by US Consultancy Company. Notably W. Edwards Deming advocated a mix of statistical technique and the adoption of total quality philosophy. Xerox Company is one of the first western companies to adopt the quality approach and won Deming price Award in 1980. The total quality management involves the combination of techniques including the adoption of business model statistical quality control certification by ISO (International Standard Organization) setting quality terms in short term level.