MEASI INSTITUTE OF MANAGEMENT
CHENNAI-14
Approved by All India Council of Technical Education,
Affiliated to the University of Madras and ISO 9001:2015 Certified Institution

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STRATEGIC MANAGEMENT COURSE MATERIAL

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VISION & MISSION STATEMENTS OF THE INSTITUTE

VISION;

- To emerge as the most preferred Business School with Global recognition by producing most competent ethical managers, entrepreneurs and researchers through quality education.

MISSION;

- **Knowledge through quality teaching learning process**; To enable the students to meet the challenges of the fast challenging global business environment through quality teaching learning process.
- **Managerial Competencies with Industry institute interface**; To impart conceptual and practical skills for meeting managerial competencies required in competitive environment with the help of effective industry institute interface.
- **Continuous Improvement with the state of art infrastructure facilities**; To aid the students in achieving their full potential by enhancing their learning experience with the state of art infrastructure and facilities.
- **Values and Ethics;** To inculcate value based education through professional ethics, human values and societal responsibilities.

PROGRAMME EDUCATIONAL OBJECTIVES (PEOs)

PEO 1 - Placement; To equip the students with requisite knowledge skills and right attitude necessary to get placed as efficient managers in corporate companies.

PEO 2 - Entrepreneur; To create effective entrepreneurs by enhancing their critical thinking, problem solving and decision-making skill.

PEO 3 - Research and Development; To make sustained efforts for holistic development of the students by encouraging them towards research and development.

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PEO4 - Contribution to Society; To produce proficient professionals with strong integrity to contribute to society.

Program Outcome;

PO1 - Problem Solving Skill; Apply knowledge of management theories and practices to solve business problems.

PO2 - Decision Making Skill; Foster analytical and critical thinking abilities for data-based decision making.

PO3 - Ethical Value; Ability to develop value based leadership ability.

PO4 - Communication Skill; Ability to understand, analyze and communicate global, economic, legal and ethical aspects of business.

PO5 - Individual and Leadership Skill; Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment.

PO6 - Employability Skill; Foster and enhance employability skills through subject knowledge.

PO7 - Entrepreneurial Skill; Equipped with skills and competencies to become an entrepreneur.

PO8 - Contribution to community; Succeed in career endeavors and contribute significantly to the community.

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CORE COURSE – XII

Subject Code	Subject Name	L	T	P	S	C
PMF3R	**STRATEGIC MANAGEMENT**	**4**	**0**	**0**	**1**	**4**
Course Objectives						
C1	To enable the students understand the importance of vision and mission in framing corporate strategy.					
C2	To provide insights on how business is responsible socially and ethically.					
C3	To highlight on the environmental analysis framework.					
C4	To throw light on strategic formulation and strategic choice.					
C5	To understand strategic implementation and strategic control.					

Unit. No.	Details	Hours
SYLLABUS		
Unit I	**Introduction:** Strategy – Strategic Management Process – Developing a Strategic Vision –Mission- Setting Objectives– Strategies and Tactics – Importance of Corporate Strategy – the 7-S Framework- Corporate Governance – Board of Directors; Role and Functions – Board Functioning – Top Management; Role and Skills.	12
Unit II	**Corporate Policy and Planning in India:** Importance – Characteristics – Objectives - Policy Formulation and Development – Types of Business Policies - Implementation of Policies. Society and Business; Social Responsibility of Business – Corporate Governance and Ethical Responsibility	12
Unit III	**Environmental Analysis:** Environmental Scanning – Industry Analysis - The Synthesis of External Factors - Internal Scanning – Value Chain Analysis – SWOT Audit –Scenario planning- Creating an Industry Matrix.	12
Unit IV	**Strategy Formulation and Analysis:** Strategy Formulation – Strategic Factors Analysis Summary Matrix (SFAS) Portfolio Analysis – Business Strategy- TOWS Matrix– Corporate Strategy – Functional Strategy – Strategic Choice – Generic, Competitive Strategies	12

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Unit V	**Strategy Implementation:** Strategy Implementation - Corporate Culture – Matching Organization Structure to Strategy – Mergers and Acquisitions and Diversifications – Strategic Leadership Strategic Control; Measurement in Performance- Problems in **Measurement of Performance:** Strategy Audit-Strategic Control Process – Du Pont's Control Model– Balanced Score Card – Michael Porter's Framework for Strategic Management – Future of Strategic Management – Strategic Information System.	12
	Total Hours	**60**

Reference Books

1.	Dess, G., Lumpkin, G.T. and Eisner, A., Strategic Management, 3rd Edition, Tata McGraw-Hill, 2009.
2.	Hill, C.W.L. and Jones, G.R., Strategic Management; An Integrated Approach, 9th Edition, Cengage Learning, 2012.
3.	Hitt, Ireland, Hoskisson and Manikutty, Strategic Management, 9th Edition, Cengage Learning, 2012.
4.	Kazmi, A., Strategic Management and Business Policy, 3rd Edition, Tata McGraw-Hill Education, 2008.
5.	Pearce II, J., Robinson, R.B. and Mittal, A., Strategic Management; Formulation, Implementation and Control, 12th Edition, McGraw-Hill, 2012.
6.	Wheelen, T.L. and Hunger, D., Strategic Management and Business Policy.

E-Sources

1.	https://files.eric.ed.gov/fulltext/EJ1068421.pdf
2.	http://universityofcalicut.info/syl/ManagementConceptsBusiness Ethics.pdf
3.	http://www.etcases.com/case-categories/strategic-management-case-studies.
4.	ile;///Users/hemamalini/Downloads/Ba7032%20strategic_Management%20rejinpaul%20notes.Pdf
5.	https://businessjargons.com/strategic-management.htm

Assessment Tools Used

1.	Assignments	6.	Group Discussion
2.	Internal Assessment Tests	7.	Background Knowledge probe
3.	Model Exam	8.	Focused listing
4.	Seminars	9.	Empty Outlines
5.	Case studies	10.	Minute Paper

Content Beyond Syllabus

1.	Managing technology and innovation
2.	Strategic issues for non- profit organizations

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3.	News business models.	
Additional Reference Books		
1.	AdriauHAberberg and Alison Rieple, Strategic Management Theory & Application, Oxford University Press,2008.	
2.	Lawerence G. Hrebiniak, Making strategy work, Pearson, 2005.	
3.	Gupta, Gollakota and Srinivasan, Business Policy and Strategic Management – Concepts and Applications, Prentice Hall of India, 2005.	
4.	Dr.DharmaBir Singh, Strategic Management & Business Policy, KoGent Learning Solutions Inc,wiley,2012	
5.	John Pearce, Richard Robinson and Amitha Mittal, Strategic Management, McGraw Hill, 12th Edition,2012	
Course Outcomes		
CO No.	On completion of this course successfully, the students will;	**Program Outcomes (PO)**
C301.1	Be able to frame vision and mission statements.	PO3, PO4, PO7
C301.2	Be social and ethically responsible.	PO3, PO8
C301.3	Possess insights on making environmental analysis.	PO3, PO8
C301.4	Possess knowledge on learning strategic formulation & strategy choice.	PO2, PO5, PO7
C301.5	Understand on strategic implementation and control.	PO4, PO5, PO7

STRATEGIC MANAGEMENT

Concept, Meaning, Definition:

Strategy is the determination of the long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals. Strategy is management's game plan for strengthening the organization's position, pleasing customers, and achieving performance targets.

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Types of strategy

Strategy can be formulated on three different levels:

- corporate level
- business unit level
- Functional or departmental level.

Corporate Level Strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

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- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- Influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Definition: The term 'strategic management' is used to denote a branch of management that is concerned with the development of strategic vision, setting out objectives, formulating and implementing strategies and introducing corrective measures for the deviations (if any) to reach the organization's strategic intent. It has two-fold objectives:

- To gain competitive advantage, with an aim of outperforming the competitors, to achieve dominance over the market.
- To act as a guide to the organization to help in surviving the changes in the business

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environment.

Here, changes refer to changes in the internal environment, i.e. within the organization, introduced by the managers such as the change in business policies, procedures etc. and changes in the external environment as in changes in the government rules that can affect business, competitors move, change in customer's tastes and preferences and so forth.

Strategic Management Process

1. Defining the levels of strategic intent of the business:
   - Establishing vision
   - Designing mission
   - Setting objectives
2. Formulation of strategy
   - Performing environmental and organizational appraisal
   - Considering strategies

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- Carrying out strategic analysis
- Making strategies
- Preparing strategic plan

3. Implementation of strategy
   - Putting strategies into practice
   - Developing structures and systems
   - Managing behavioral and functional implementation
4. Strategic Evaluation and Control
   - Performing evaluation
   - Exercising control
   - Recreating strategies

Strategic Management is all about specifying organization's vision, mission and objectives, environment scanning, crafting strategies, evaluation and control.

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Importance of Strategic Management

- It guides the company to move in a specific direction. It defines organization's goals and fixes realistic objectives, which are in alignment with the company's vision.
- It assists the firm in becoming proactive, rather than reactive, to make it analyse the actions of the competitors and take necessary steps to compete in the market, instead of becoming spectators.
- It acts as a foundation for all key decisions of the firm.
- It attempts to prepare the organization for future challenges and play the role of pioneer in exploring opportunities and also helps in identifying ways to reach those opportunities.
- It ensures the long-term survival of the firm while coping with competition and surviving the dynamic environment.
- It assists in the development of core competencies and competitive advantage that helps in the business survival and growth.

The basic purpose of strategic management is to gain sustained-strategic competitiveness of the firm. It is possible by developing and implementing such strategies that create value for the

company. It focuses on assessing the opportunities and threats, keeping in mind firm's strengths and weaknesses and developing strategies for its survival, growth and expansion.

Strategic management is defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable the organization to achieve its objectives." Generally, strategic management is not only related to a single specialization but covers cross-functional or overall organization.

- Strategic management is a comprehensive area that covers almost all the functional areas of the organization. It is an umbrella concept of management that comprises all such functional areas as marketing, finance & account, human resource, and production & operation into a top level management discipline. Therefore, strategic management has an importance in the organizational success and failure than any specific functional areas.
- Strategic management deals with organizational level and top level issues whereas functional or operational level management deals with the specific areas of the business.
- Top-level managers such as Chairman, Managing Director, and corporate level planners involve more in strategic management process.
- Strategic management relates to setting vision, mission, objectives, and strategies that can be the guideline to design functional strategies in other functional areas
- Therefore, it is top-level management that paves the way for other functional or operational management in an organization

Definition:

"The determination of the basic long-term goals & objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals" –Chandler

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STRATEGIC MANAGEMENT MODEL / STRATEGIC PLANNING PROCESS

The term strategic management process refers to the steps by which management converts a firm's mission, objectives and goals into a workable strategy. In a dynamic environment, each firm needs to tailor its strategic management process in ways that best suit its own capabilities and situational requirements. The firm must engage in **strategic planning** that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

A simplified view of the strategic planning process is shown by the following diagram:

a) STRATEGIC INTENT

Strategic intent takes the form of a number of corporate challenges and opportunities, specified as short term projects. The strategic intent must convey a significant stretch for the company, a sense of direction, which can be communicated to all employees.
Strategic intent gives a picture about what an organization must get into immediately in order to use the opportunity. Strategic intent helps management to emphasize and concentrate on the priorities. Strategic intent is vision, mission and objectives, the influencing of an organization's resource potential and core competencies to achieve goals in the competitive environment.

b) Environmental Scan

The environmental scan includes the following components:

- Analysis of the firm (Internal environment)
- Analysis of the firm's industry (micro or task environment)
- Analysis of the External macro environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis

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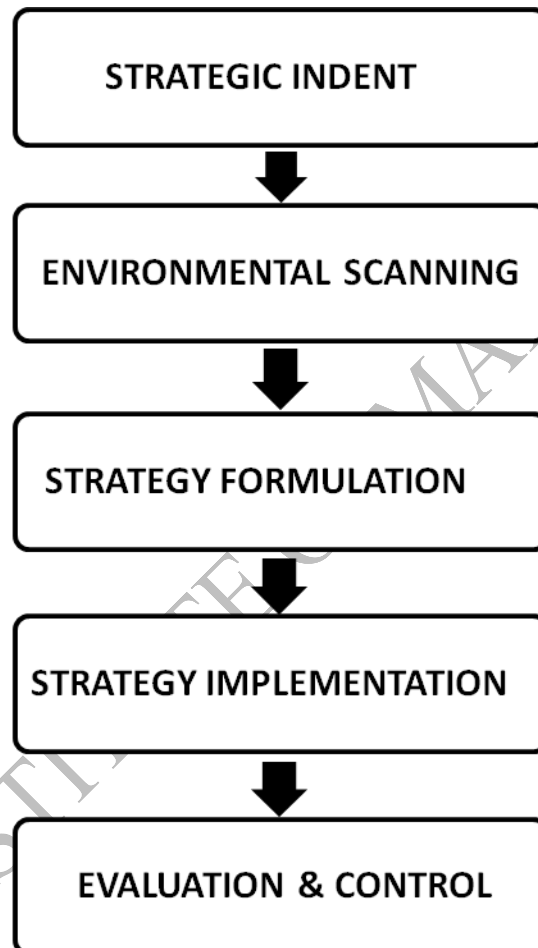
An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.



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c) Strategy Formulation

Strategy formulation is the process of offering proper direction to a firm. It seeks to set the long-term goals that help a firm exploit its strengths fully and encash the opportunities that are present in the environment.

Strategy Formulation is the development of long-range plans for the effective management of

environmental opportunities and threats, in light of corporate strengths & weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategy & setting policy guidelines.

Vision: vision is a picture of the organization-the core values for which an organization stands and a clear description of what the organization wishes to become in the years ahead.

Mission: Mission is the purpose or reason for the organization's existence. It tells what the company is providing to society, either a service like housekeeping or a product like automobiles.

Objectives: Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified, if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission.

Strategies: Strategy is the complex plan for bringing the organization from a given posture to a desired position in a future period of time.

Policies: A policy is a broad guide line for decision-making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions & take actions that support the corporation's mission, objectives & strategy.

d) Strategy Implementation

It is the process by which strategy & policies are put into actions through the development of programs, budgets & procedures. This process might involve changes within the overall culture, structure and/or management system of the entire organization.

i) Programs:

It is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture or beginning a new research effort.

i) Budgets:

A budget is a statement of a corporations program in terms of dollars. Used in planning & control, a budget lists the detailed cost of each program. The budget thus not only serves as

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a detailed plan of the new strategy in action, but also specifies through proforma financial statements the expected impact on the firm's financial future

i) Procedures:

Procedures, sometimes termed Standard Operating Procedures (SOP) are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete

e) Evaluation & Control

After the strategy is implemented it is vital to continually measure and evaluate progress so that changes can be made if needed to keep the overall plan on track. This is known as the control phase of the strategic planning process. While it may be necessary to develop systems to allow for monitoring progress, it is well worth the effort. This is also where performance standards should be set so that performance may be measured and leadership can make adjustments as needed to ensure success.

Evaluation and control consists of the following steps:

i) Define parameters to be measured
ii) Define target values for those parameters
iii) Perform measurements
iv) Compare measured results to the pre-defined standard
v) Make necessary changes

STAKEHOLDERS IN BUSINESS

A corporate stakeholder is a party that can affect or be affected by the actions of the business as a whole. Stakeholder groups vary both in terms of their interest in the business activities and also their power to influence business decisions. Here is the summary:

The stake holders of a company are as follows

- Shareholders
- Creditors

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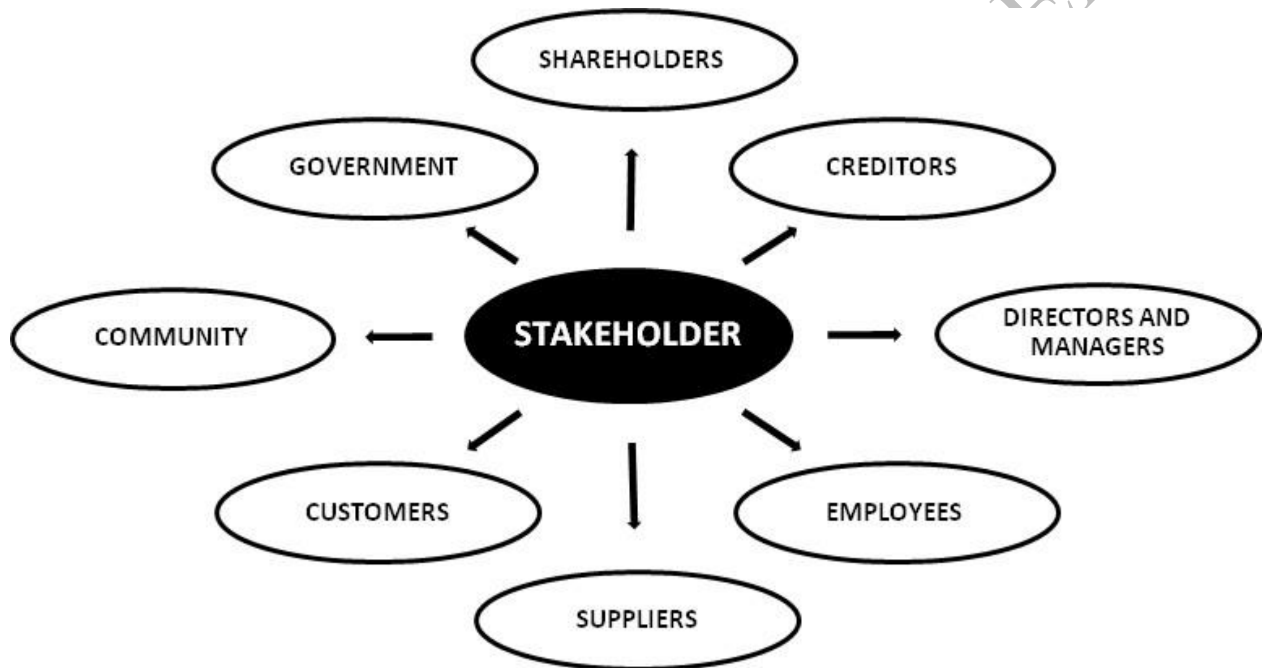
- Directors and managers
- Employees
- Suppliers
- Customers
- Community
- Government



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Stakeholder	**Main Interests**	**Power and influence**
Shareholders	Profit growth, Share price growth, dividends	Election of directors
Creditors	Interest and principal to be repaid, maintain credit rating	Can enforce loan covenants and Can withdraw banking facilities
Directors and managers	Salary ,share options, job satisfaction, status	Make decisions, have detailed information
Employees	Salaries & wages, job security, job satisfaction & motivation	Staff turnover, industrial action, service quality
Suppliers	Long term contracts, prompt payment, growth of purchasing	Pricing, quality, product availability
Customers	Reliable quality, value for money, product availability, customer service	Revenue / repeat business, Word of mouth recommendation
Community	Environment, local jobs, local impact	Indirect via local planning and opinion leaders
Government	Operate legally, tax receipts, jobs	Regulation, subsidies, taxation, planning

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VISION, MISSION AND PURPOSE

VISION STATEMENT

Vision statement provides direction and inspiration for organizational goal setting. Vision is **where you see yourself at the end of the horizon** OR milestone therein. It is a **single statement dream** OR aspiration. Typically a vision has the flavors of 'Being Most admired', 'Among the top league', 'being known for innovation', 'being largest and greatest' and so on.
Typically 'most profitable', 'Cheapest' etc. don’t figure in vision statement. Unlike goals, vision is not SMART. It **does not have mathematics** OR timelines attached to it.

Vision is a **symbol, and a cause** to which we want to bond the stakeholders, (mostly employees and sometime share-holders). As they say, the people work best, when they are working for a cause, than for a goal. Vision provides them that cause.

Vision is **long-term statement and typically generic & grand**. Therefore a vision statement does not change unless the company is getting into a totally different kind of business.
Vision **should never carry the 'how'** part. For example ' To be the most admired brand in Aviation Industry' is a fine vision statement, which can be spoiled by extending it to' To be the most admired brand in the Aviation Industry by providing world-class in-flight services'. The reason for not including 'how' that ‘how’ is may keep on changing with time.

Challenges related to Vision Statement:
Putting-up a vision is not a challenge. The problem is to make employees engaged with it. Many a time, terms like vision, mission and strategy become more a subject of scorn than being looked up-to. This is primarily because leaders may not be able to make a connect between the vision/mission and people’s every day work. Too often, employees see a gap between the vision, mission and their goals & priorities. Even if there is a valid/tactical reason for this mismatch, it is not explained.

Features of a good vision statement:

- Easy to read and understand.
- Compact and crisp to leave something to people’s imagination.
- Gives the destination and not the road-map.
- Is meaningful and not too open ended and far-fetched.
- Excite people and make them get goose-bumps.
- Provides a motivating force, even in hard times.
- Is perceived as achievable and at the same time is challenging and compelling, stretching us beyond what is comfortable.

Vision is a dream/aspiration, fine-tuned to reality:

The Entire process starting from Vision down to the business objectives, is highly iterative. The question is from where we should start. We strongly recommend that vision and mission statement should be made first without being colored by constraints, capabilities and environment. This can said akin to the vision of armed forces, that’s 'Safe and Secure country from external threats'. This vision is a non- negotiable and it drives the organization to find ways and means to achieve their vision, by overcoming constraints on capabilities and resources. Vision should be a stake in the ground, a position, a dream, which should be prudent, but should be non- negotiable barring few rare circumstances.

Mission Statement

Mission of an organization is the purpose for which the organization is. Mission is again a single statement, and carries the statement in verb. Mission in one way is the road to achieve the vision. For example, for a luxury products company, the vision could be 'To be among most admired luxury brands in the world' and mission could be 'To add style to the lives'

A good mission statement will be:

- **Clear and Crisp:** While there are different views, we strongly recommend that mission should only provide what, and not 'how and when'. We would prefer the mission of 'Making People meet their career' to 'Making people meet their career through effective career counseling and education'. A mission statement without

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'how & when' element leaves a creative space with the organization to enable them take-up wider strategic choices.

- Have to have a **very visible linkage** to the business goals and strategy. For example you cannot have a mission (for a home furnishing company) of 'Bringing Style to People's lives' while your strategy asks for mass product and selling. Its better that either you start selling high-end products to high value customers, OR change your mission statement to 'Help people build homes'.
- **Should not be same as the mission** of a competing organization. It should touch upon how its purpose it unique.

Mission follows the Vision:

The Entire process starting from Vision down to the business objectives, is highly iterative. The question is from where should be start. I strongly recommend that mission should follow the vision. This is because the purpose of the organization could change to achieve their vision.

For example, to achieve the vision of an Insurance company 'To be the most trusted Insurance Company', the mission could be first 'making people financially secure' as their emphasis is on Traditional Insurance product. At a later stage the company can make its mission as 'Making money work for the people' when they also include the non-traditional unit linked investment products.

TOYOTA

Vision

-Toyota aims to achieve long-term, stable growth economy, the local communities it serves, and its stakeholders.

Mission

-Toyota seeks to create a more prosperous society through automotive manufacturing.

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IBM

Vision

Solutions for a small planet

Mission

At IBM, we strive to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide.

BUSINESS, OBJECTIVES AND GOALS

A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, in which most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for- profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

Goals: It is where the business wants to go in the future, its aim. It is a statement of purpose, e.g. we want to grow the business into Europe.

Objectives: Objectives give the business a clearly defined target. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.

The Difference between goals and objectives

- Goals are broad; objectives are narrow.
- Goals are general intentions; objectives are precise.
- Goals are intangible; objectives are tangible.
- Goals are abstract; objectives are concrete.
- Goals can't be validated as is; objectives can be validated.

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CORPORATE GOVERNANCE

Corporate governance generally refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control.

The evolution of public ownership has created a separation between ownership and management. Before the 20th century, many companies were small, family owned and family run. Today, many are large international conglomerates that trade publicly on one or many global exchanges.

In an attempt to create a corporation where stockholders' interests are looked after, many firms have implemented a two-tier corporate hierarchy. On the first tier is the board of directors: these individuals are elected by the shareholders of the corporation. On the second tier is the upper management: these individuals are hired by the board of directors.

Management Team

As the other tier of the company, the management team is directly responsible for the day-to-day operations (and profitability) of the company.

- *Chief Executive Officer (CEO)* – As the top manager, the CEO is typically responsible for the entire operations of the corporation and reports directly to the chairman and board of directors. It is the CEO's responsibility to implement board decisions and initiatives and to maintain the smooth operation of the firm, with the assistance of senior management. Often, the CEO will also be designated as the company's president and therefore also be one of the inside directors on the board (if not the chairman).
- *Chief Operations Officer (COO)* – Responsible for the corporation's operations, the COO looks after issues related to marketing, sales, production and personnel. More hands-on than the CEO, the COO looks after day-to-day activities while providing feedback to the CEO. The COO is often referred to as a senior vice president.
- *Chief Finance Officer (CFO)* – Also reporting directly to the CEO, the CFO is responsible for analyzing and reviewing financial data, reporting financial performance, preparing budgets and monitoring expenditures and costs. The CFO

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is required to present this information to the board of directors at regular intervals and provide this information to shareholders and regulatory bodies such as the Securities and Exchange Commission (SEC). Also usually referred to as a senior vice president, the CFO routinely checks the corporation's financial health and integrity.

Need & Significance

1) Changing ownership Structure: The profile of corporate ownership has changed significantly. Public financial institutions are the single largest shareholder is the most of the large corporations in the private sector. Institutional investors and mutual funds have now become singly or jointly direct challenges to management of companies.

2) Social Responsibility: company is a legal entity without physical existence. Therefore, it is managed by board of directors which is accountable and responsible to shareholders who provide the funds. Directors are also required to act in the interests of customers, lenders, suppliers and the local community for enhancing shareholders value.

3) Scams: In recent years several corporate frauds have shaken the public confidence. A large number of companies have been transferred to Z group by the Bombay stock exchange.

4) Corporate Oligarchy: Shareholder activism and shareholder democracy continue to remain myths in India. Postal ballot system is still absent. Proxies are not allowed to speak at the meetings. Shareholders' association, inventor's education and awareness have not emerged as a countervailing force.

5) Globalization: As Indian companies went to overseas markets for capital, corporate governance become a buzz world.

Fundamental Principles of Corporate Governance.

1) Transparency: It means accurate, adequate & timely disclosure of relevant information to the stakeholders. Without transparency, it is impossible to make any progress towards good governance. Business heads should realize that transparency

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also creates immense shareholder value.

2) Accountability: Corporate Governance has to be a top down approach. Chairman, Board of Directors & Chief Executives must fulfill their responsibilities to make corporate governance a reality in Indian industry. Accountability also favors the objective of creating shareholders value

3) Merit Based Management: A strong Board of Directors is necessary to lead and support merit based management. The board has to be an independent, strong and non- partisan body where the sole motive should be decision-making through business prudence.

Trends in Corporate Governance:

- Boards are getting more involved not only in reviewing & evaluating company strategic but also in shaping.
- Institutional investors such as pension's funds, mutual funds, & insurance companies are becoming active on boards, and are putting increase pressure on top management to improve corporate performances.
- None affiliated outside directors are increasing their numbers and power in publicly held corporation's as CEO's loosen their grips on boards. Outside members are taking charge of annual CEO evaluation.
- Boards are getting smaller, partially because of the reduction in the number of insiders but also because boards desire new directors to have specialized knowledge & expertise instead of general experience.
- Boards continue to take more control of board functions by either splitting the combined chair/CEO position into two separate positions or establishing a lead outside director position.
- As corporations become more global, they are increasingly looking for international experience in their board members.

SOCIAL RESPONSIBILITY

Corporate social responsibility is the interaction between business and the social

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environment in which it exists. Bowen argued that corporate social responsibility rests on two premises: social contract, which is an implied set of rights and obligations that are inherent to social policy and assumed by business, and moral agent, which suggests that businesses have an obligation to act honorably and to reflect and enforce values that are consistent with those of society.

The Three Perspectives of Social Responsibility

The three perspectives of corporate social responsibility are economic responsibility, public responsibility, and social responsiveness. The three perspectives represent a continuum of commitment to social responsibility issues, ranging from economic responsibility at the low end and social responsiveness at the high end. The economic responsibility perspective argues that the only social responsibility of business is to maximize profits within the "rules of the game." Moreover, the proponents of this viewpoint argue that organizations cannot be moral agents. Only individuals can be moral agents. In contrast, the public responsibility perspective argues that businesses should act in a way that is consistent with society's view of responsible behavior, as well as with established laws and policy. Finally, the proponents of the social responsiveness perspective argue that businesses should proactively seek to contribute to society in a positive way. According to this view, organizations should develop an internal environment that encourages and supports ethical behavior at an individual level.

Different approaches of CSR

The stockholder view is much narrower, and only views the stockholders (i.e., owners) of a firm. The stockholder view of the organization would tend to be aligned closer to the economic responsibility view of social responsibility. The stakeholder view of the organization argues that anyone who is affected by or can affect the activities of a firm has a legitimate "stake" in the firm. This could include a broad range of population. The stakeholder view can easily include actions that might be labeled public responsibility and social responsiveness.

Stakeholders: All those who are affected by or can affect the activities of an organization.

1. Primary Stakeholders: The primary stakeholders of a firm are those who have a formal,

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official, or contractual relationship with the organization. They include owners (stockholders), employees, customers, and suppliers.

2. Secondary Stakeholders: The secondary stakeholders of a firm are other societal groups that are affected by the activities of the firm. They include consumer groups, special interest groups, environmental groups, and society at large.

The globalization of the business environment has had a remarkable impact on issues of social responsibility. As organizations become involved in the international field, they often find that their stakeholder base becomes wider and more diverse. As a result, they must cope with social responsibility related issues across a broad range of cultural and geographic orientations.

The four strategies for social responsibility represent a range, with the reaction strategy on one end (i.e., do nothing) and the proaction strategy on the other end (do much). The defense and accommodation strategies are in the middle. (reaction, defense, accommodation, and proaction). Examples of firms that have pursued these strategies are as follows:

- Reaction: Over 40 years ago, the medical department of the Manville Corporation discovered evidence to suggest that asbestos inhalation causes a debilitating and often fatal lung disease. Rather than looking for ways to provide safer working conditions for company employees, the firm chose to conceal the evidence. It appears that tobacco companies have done the same thing.
- Defense: Over the years, rather than demonstrating social responsiveness in terms of air pollution reductions, vehicle safety, and gas shortages, the automobile companies did little to confront the problems head on. Currently, the high demand for pickup trucks and SUVs encourages the problem to continue.
- Accommodation: Many financial service companies, along with meeting the minimum requirements of disclosure regulations, maintain a more proactive code for voluntary, on-demand disclosure of bank information requested by customers or by any other member of the public.

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- Proaction: Becton Dickinson & Company is a medical-supply firm that has targeted its charitable contributions to projects it believes "will help eliminate unnecessary suffering and death from disease around the world." Similarly, Starbucks makes contributions to literacy programs and was one of the first companies to give health benefits to partners.

COMPETITIVE ADVANTAGE:

BUSINESS ENVIRONMENT

A firm's environment represents all internal or external forces, factors, or conditions that exert some degree of impact on the strategies, decisions and actions taken by the firm. There are two types of environment:

Internal environment – pertaining to the forces within the organization (Ex: Functional areas of management) and

External environment – pertaining to the external forces namely macro environment or general environment and micro environment or competitive environment (Ex: Macro environment – Political environment and Micro environment – Customers).

EXTERNAL ENVIRONMENT

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. The two types of external environment are micro environment and macro environment.

a) MICRO ENVIRONMENTAL FACTORS

These are external factors close to the company that have a direct impact on the organizations process. These factors include:

i) Shareholders

Any person or company that owns at least one share (a percentage of ownership) in a company is known as shareholder. A shareholder may also be referred to as a "stockholder". As organization requires greater inward investment for growth they face increasing pressure

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to move from private ownership to public. However this movement unleashes the forces of shareholder pressure on the strategy of organizations.

ii) Suppliers

An individual or an organization involved in the process of making a product or service available for use or consumption by a consumer or business user is known as supplier. Increase in raw material prices will have a knock on effect on the marketing mix strategy of an organization. Prices may be forced up as a result. A closer supplier relationship is one way of ensuring competitive and quality products for an organization.

iii) Distributors

Entity that buys non-competing products or product-lines, warehouses them, and resells them to retailers or direct to the end users or customers is known as distributor. Most distributors provide strong manpower and cash support to the supplier or manufacturer's promotional efforts. They usually also provide a range of services (such as product information, estimates, technical support, after-sales services, credit) to their customers. Often getting products to the end customers can be a major issue for firms. The distributors used will determine the final price of the product and how it is presented to the end customer. When selling via retailers, for example, the retailer has control over where the products are displayed, how they are priced and how much they are promoted in-store. You can also gain a competitive advantage by using changing distribution channels.

iv) Customers

A person, company, or other entity which buys goods and services produced by another person, company, or other entity is known as customer. Organizations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.

v) Competitors

A company in the same industry or a similar industry which offers a similar product or service is known as competitor. The presence of one or more competitors can reduce the prices of goods and services as the companies attempt to gain a larger market share. Competition also requires companies to become more efficient in order to reduce costs. Fast-food restaurants McDonald's and Burger King are competitors, as are Coca-Cola and Pepsi, and Wal-Mart and Target.

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vi) Media

Positive or adverse media attention on an organizations product or service can in some cases make or break an organization.. Consumer programs with a wider and more direct audience can also have a very powerful and positive impact, forcing organizations to change their tactics.

b) MACRO ENVIRONMENTAL FACTORS

An organization's macro environment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. When compared to a firm's task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment. The macro environment consists of forces that originate outside of an organization and generally cannot be altered by actions of the organization. In other words, a firm may be influenced by changes within this element of its environment, but cannot itself influence the environment. Macro environment includes political, economic, social and technological factors. A firm considers these as part of its environmental scanning to better understand the threats and opportunities created by the variables and how strategic plans need to be adjusted so the firm can obtain and retain competitive advantage.

i) Political Factors

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

- tax policy
- employment laws
- environmental regulations
- trade restrictions and tariffs
- political stability

ii) Economic Factors

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macroeconomy:

- economic growth
- interest rates

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- exchange rates
- inflation rate

iii) Social Factors

Social factors include the demographic and cultural aspects of the external macro environment. These factors affect customer needs and the size of potential markets. Some social factors include:

- health consciousness
- population growth rate
- age distribution
- career attitudes
- emphasis on safety

iv) Technological Factors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

- R&D activity
- automation
- technology incentives
- rate of technological change

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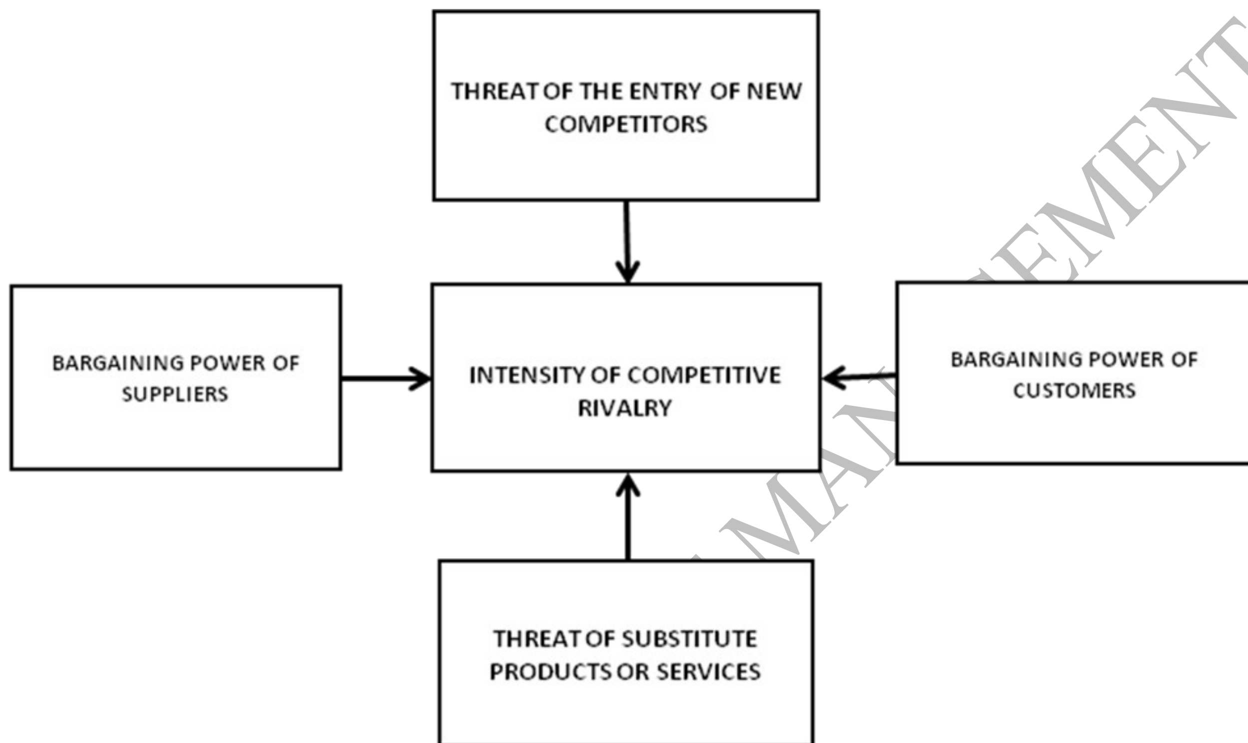
Michael Porter's 5 forces model



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Porter's 5 forces model is one of the most recognized framework for the analysis of business strategy. Porter, the guru of modern day business strategy, used theoretical frameworks derived from Industrial Organization (IO) economics to derive five forces which determine the competitive intensity and therefore attractiveness of a market. This theoretical framework, based on 5 forces, describes the attributes of an attractive industry and thus suggests when opportunities will be greater, and threats less, in these of industries. Attractiveness in this context refers to the overall industry profitability and also reflects upon the profitability of the firm under analysis. An "unattractive" industry is one where the combination of forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", from the perspective of pure industrial economics theory.

These forces are defined as follows:

a) The threat of the entry of new competitors

b) The intensity of competitive rivalry
c) The threat of substitute products or services
d) The bargaining power of customers
e) The bargaining power of suppliers

The model of the Five Competitive Forces was developed by Michael E. Porter. Porters model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change. Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porters model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry.

The Five Competitive Forces are typically described as follows:

a) Bargaining Power of Suppliers

The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services.

Supplier bargaining power is likely to be high when:

- The market is dominated by a few large suppliers rather than a fragmented source of supply
- There are no substitutes for the particular input
- The suppliers customers are fragmented, so their bargaining power is low
- The switching costs from one supplier to another are high
- There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins

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This threat is especially high when

- The buying industry has a higher profitability than the supplying industry
- Forward integration provides economies of scale for the supplier
- The buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products)
- The Buying industry has low barriers to entry.

In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

b) Bargaining Power of Customers

Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes. Customers bargaining power is likely to be high when

- They buy large volumes; there is a concentration of buyers
- The supplying industry comprises a large number of small operators
- The supplying industry operates with high fixed costs
- The product is undifferentiated and can be replaces by substitutes
- Switching to an alternative product is relatively simple and is not related to high costs
- Customers have low margins and are price sensitive
- Customers could produce the product themselves
- The product is not of strategical importance for the customer
- The customer knows about the production costs of the product
- There is the possibility for the customer integrating backwards.

c) Threat of New Entrants

The competition in an industry will be the higher, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. The

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threat of new entries will depend on the extent to which there are barriers to entry.
These are typically

- Economies of scale (minimum size requirements for profitable operations),
- High initial investments and fixed costs
- Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets
- Brand loyalty of customers
- Protected intellectual property like patents, licenses etc,
- Scarcity of important resources, e.g. qualified expert staff
- Access to raw materials is controlled by existing players, · Distribution channels are controlled by existing players
- Existing players have close customer relations, e.g. from long-term service contracts
- High switching costs for customers
- Legislation and government action

d) Threat of Substitutes

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products.
Similarly to the threat of new entrants, the treat of substitutes is determined by factors like

- Brand loyalty of customers
- Close customer relationships
- Switching costs for customers
- The relative price for performance of substitutes
- Current trends.

e) Competitive Rivalry between Existing Players

This force describes the intensity of competition between existing players (companies) in an industry. High competitive pressure results in pressure on prices, margins, and hence, on

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profitability for every single company in the industry.
Competition between existing players is likely to be high when

- There are many players of about the same size
- Players have similar strategies
- There is not much differentiation between players and their products, hence, there is much price competition
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor)
- Barriers for exit are high (e.g. expensive and highly specialized equipment)

STRATEGIC GROUPS

Strategic groups are sets of firms within an industry that share the same or highly similar competitive attributes. These attributes include pricing practices, level of technology investment and leadership, product scope and scale capabilities, and product quality. By identifying strategic groups, analysts and managers are better able to understand the different types of strategies that multiple firms are adopting within the same industry.

Strategic Group Maps

A useful way to analyze strategic groups is through the creation of strategic group maps. Strategic group maps present the various competitive positions that similar firms occupy within an industry. Strategic group maps are not difficult to create; however, there are a few simple guidelines managers want to use when developing them.

a) *Identify Key Competitive Attributes.* As mentioned previously, many firms share similar competitive attributes such as pricing practices and product scope. The first step in developing a strategic group map is to identify key competitive attributes that logically differentiate firms in a competitive set. This is not always known in advance of creating the map so it is important to be ready to create multiple maps using different variables.
b) *Create Map Based Upon Two Key Attribute Variables.* For the variables selected, assign each variable to the X and Y axis, respectively. Also, select a logical

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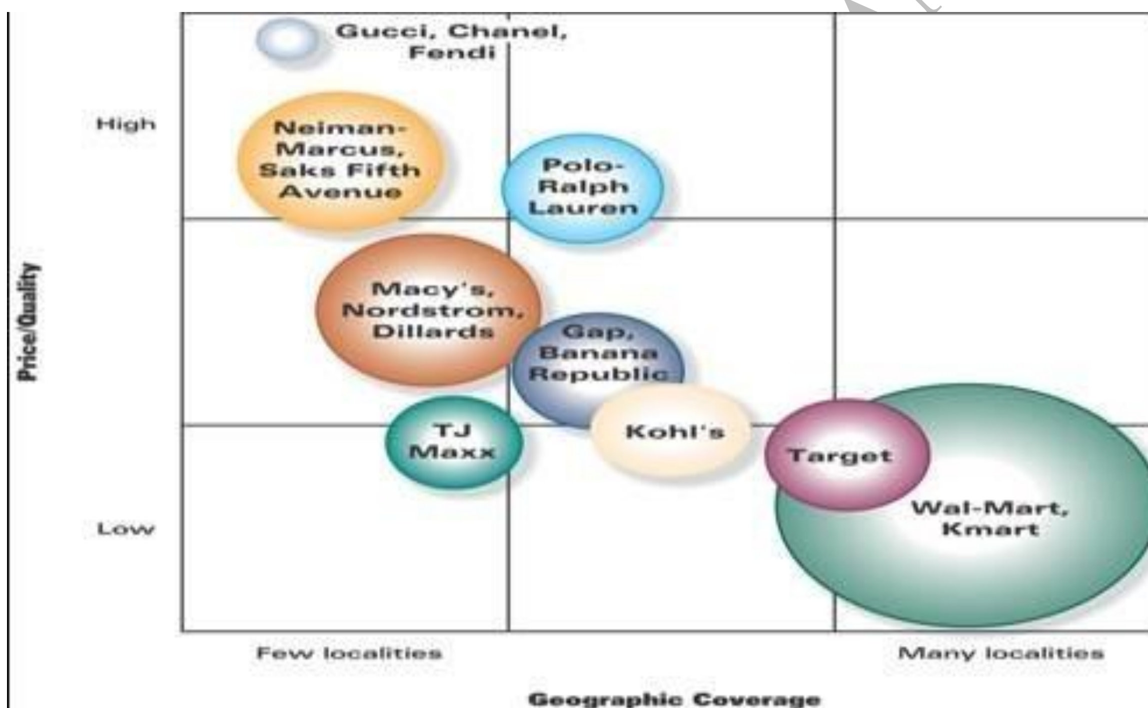
gradation value for each axis so that differences will be readily observable. When complete, plot each firm's location on the map for the industry being analyzed. As each firm is plotted use a third variable—such as revenue—to represent the actual plot size of each firm. Using a variable like revenue helps the reader understand the relative performance of each firm in terms of the third variable.

c) *Identify Strategic Groups.* Once all of the firms have been plotted, enclose each group of firms that emerges in a shape that reflects the positioning on the strategic group. At this point, assess whether or not the differences between each group are meaningful or whether other variables must be selected from which another set of strategic groups can be drawn.



The above is an example of a strategic group map for the retail Industry. Strategic group creation and analysis provides an effective way to develop a clearer understanding of how firms within an industry compete. Since each strategic group depicts firms with similar—if not

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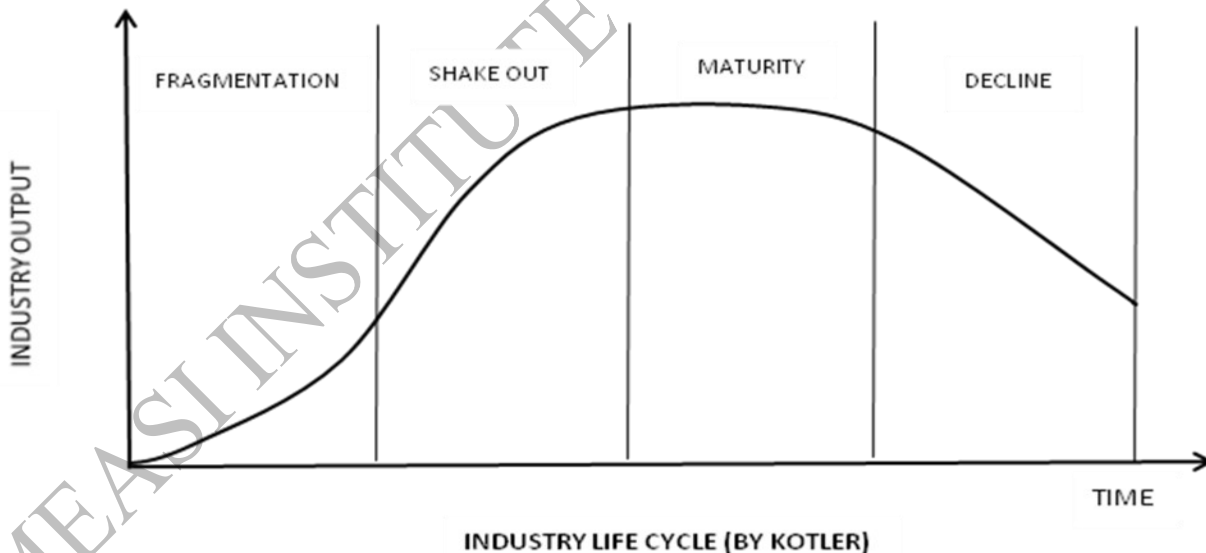
identical—competitive attributes within the industry, the map helps managers identify important differences among competitive positions. These differences can be subject to further analysis to helps explain more subtle differences in performance.

COMPETITIVE CHANGES DURING INDUSTRY EVOLUTION

Industry lifecycle comprises four stages including fragmentation, growth, maturity and decline. An understanding of the industry lifecycle can help competing companies survive during periods of transition. Several variations of the lifecycle model have been developed to address the development and transition of products, market and industry. The models are similar but the number of stages and names of each may differ. Major models include those developed by Fox (1973), Wasson (1974), Anderson & Zeithaml (1984), and Hill & Jones (1998).



INDUSTRY LIFE CYCLE (BY KOTLER)

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a) Fragmentation Stage

Fragmentation is the first stage of the new industry. This is the stage when the new industry develops the business. At this stage, the new industry normally arises when

Entrepreneur overcomes the twin problems of innovation and invention, and works out how to bring the new products or services into the market. For example, air travel services of major airlines in Europe were sold to the target market at a high price. Therefore, the majority of airlines' customers in Europe were those people with high incomes who could afford premium prices for faster travel.

b) Shake-out

Shake-out is the second stage of the industry lifecycle it is the stage at which a new industry emerges. During the shake-out stage, competitors start to realize business opportunities in the emerging industry. The value of the industry also quickly rises.

For example, many people die and suffer because of cigarettes every year. Thus, the UK government decided to launch a campaign to encourage people to quit smoking.

Smokers began to see an easy way to quit smoking. The new industry started to attract brand recognition and brand awareness among its target market during the shake-out stage. Nicorette's products began to gain popularity among those who wanted to quit smoking or those who wanted to reduce their daily cigarette consumption.

During this period, another company realized the opportunity in this market and decided to enter it by launching nicotine product ranges, including Nic Lite gum and patches.

c) Maturity

Maturity is the third stage in the industry lifecycle. Maturity is a stage at which the efficiencies of the dominant business model give these organizations competitive advantage over competition. The competition in the industry is rather aggressive because there are many competitors and product substitutes. Price, competition, and cooperation take on a complex form. Some companies may shift some of the production overseas in order to gain competitive advantage.

For example, Toyota is one of the world's leading multinational companies, selling automobiles to customers worldwide. The export and import taxes mean that its cars lose competitiveness to the local competitors, especially in the European automobile industry. As a result, Toyota decided to open a factory in the UK in order to produce cars and sell them to

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customers in the European market.

d) Decline

Decline is the final stage of the industry lifecycle. Decline is a stage during which a war of slow destruction between businesses may develop and those with heavy bureaucracies may fail. In addition, the demand in the market may be fully satisfied or suppliers may be running out.

In the stage of decline, some companies may leave the industry if there is no demand for the products or services they provide, or they may develop new products or services that meet the demand in the market. In such cases, this will create a new industry.

For example, at the beginning of the communication industry, pagers were used as the main communication method among people working in the same organization, such as doctors and nurses. Then, the cutting edge of the communication industry emerged in the form of the mobile phone. The communication process of pagers could not be accomplished without telephones. To send a message to another pager, the user had to phone the call-centre staff who would type and send the message to another pager. On the other hand, people who use mobile phones can make a phone-call and send messages to other mobiles without going through call-center staff.

In recent years, the feature of mobile has been developing rapidly and continually. Now people can use mobiles to send multimedia messages, take pictures, check email, surf the internet, read news and listen to music. As mobile phone feature development has reached saturation, thus the new innovation of mobile phone technology has incorporated the use of computers.

The launch of personal digital assistants (PDA) is a good example of the decline stage of the mobile phone industry as the features of most mobiles are similar. PDAs are hand-held computers that were originally designed as a personal organiser but it become much more multi-faceted in recent years. PDAs are known as pocket computers or palmtop computers. They have many uses for both mobile phones and computers such as computer games, global positioning system, video recording, typewriting and wireless wide-area network.

Application of industry life cycle

It is important for companies to understand the use of the industry lifecycle because it is a

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survival tool for businesses to compete in the industry effectively and successfully. The main aspects in terms of strategic issues of the industry lifecycle are described below:

Competing over emerging industries

- The game rules in industry competition can be undetermined and the resources may be constrained. Thus, it is vital for firms to identify market segments that will allow them to secure and sustain a strong position within the industry.
- The product in the industry may not be standardised so it is necessary for companies to obtain resources needed to support new product development and rapid company expansion.
- The entry barriers may be low and the potential competition may be high, thus companies must adapt to shift the mobility barriers.
- Consumers may be uncertain in terms of demand. As a result, determining the time of entry to the industry can help companies to take business opportunities before their rivals.

Competing during the transition to industry maturity

- When competition in the industry increases, firms can have a sustainable competitive advantage that will provide a basis for competing against other companies.
- The new products and applications are harder to come by, while buyers become more sophisticated and difficult to understand in the maturity stage of the industry lifecycle. Thus, consumer research should be carried out and this could help companies in building up new product lines.
- Slower industry growth constrains capacity growth and often leads to reduced industry profitability and some consolidation. Therefore, companies can focus greater attention on costs through strategic cost analysis.
- The change in the industry is rather dynamic, and an understanding of the industry lifecycle can help companies to monitor and tackle these changes effectively. Firms can develop organisational structures and systems that can facilitate the transition.
- Some companies may seek business opportunities overseas when the industries

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reach the maturity stage because during this stage, the demand in the market starts to decline.

Competing in declining industries

The characteristics of declining industries include the following:

- Declining demand for products
- Pruning of product lines
- Shrinking profit margins
- Falling research and development advertisement expenditure
- Declining number of rivals as many are forced to leave the industry

For companies to survive the dynamic environment, it is necessary for them to:

- Measure the intensity of competition
- Assess the causes of decline
- Single out a viable strategy for decline such as leadership, liquidation and harvest.

INDUSTRY STRUCTURE

Industry is a collection of firms offering goods or services that are close substitutes of each other. An Industry consists of firms that directly compete with each other. Industry structure refers to the number and size distribution of firms in an industry.

The number of firms in an industry may run into hundreds or thousands. The size distribution of the
Firm is important from both business policy and public policy views. The level of competition in an industry rises with the number of firms in the industry.

i) Fragmented Industry

If all firms in an industry are small in size when compared with the size of the whole industry, then it is known as fragmented industry. In a fragmented industry, no
Firms have large market. Each firm serves only a small piece of total market in competition with others.

ii) Consolidated Industry

If small number of firms controls a large share of the industry's output or sales, it is known as

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a consolidated industry.

CHARACTERISTICS OF INDUSTRY STRUCTURE

A final dimension of industry that is important to the performance of new firms is industry structure. The structure of the industry refers to the nature of barriers to entry and competitive dynamics in the industry.

Four characteristics of industry structure are particularly important to the performance of new firms in the industry:

- Capital Intensity
- Advertising Intensity
- Concentration
- Average firm size

Capital Intensity – measures the importance of capital as opposed to labor in the production process. Some industries, such as aerospace, involve a great deal of capital and relatively little labor. Other industries, such as textiles, involve relatively little capital and a great deal of labor.

Advertising Intensity – Advertising is a mechanism through which companies develop the reputations that help them sell their products and services. To build brand name reputation through advertising, two conditions need to be met. First, the advertising has to be repeated over time. Second, economies of scale exist in advertising.

Concentration – is a measure of the market share that is held by the largest companies in an industry. For instance, some pharmaceutical industries like Merck, Pfizer and Eli Lilly account for almost all of the market.

Average firm size - New firms perform better, when the average firm size is small. New firms tend to begin small as a way to minimize the risk of Entrepreneurial miscalculation. If the average firm size is large, this may lead to Inability to purchase in volume, higher average manufacturing and Distribution cost.

USES OF INDUSTRY STRUCTURE

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⇒ **Business Policy and Strategy:** By looking at the structure of an industry, one can often learn a lot about competition, rivalry, entry barriers, and other aspects of competitive dynamics in that industry.

⇒ **Public Policy:** Public Policy View is that, reduced competition in an industry hurts consumer's interest and encourages dominant firms to adopt anti-competitive trade practices.

⇒ **Oligopoly:** A key characteristic of an oligopoly (a highly structured industry) is that competitors are mutually interdependent; a competitive move by one company will almost certainly affect the fortunes of other companies in the industry and they will generally respond to the move-sooner or later.

GLOBALIZATION

Globalization is the term to describe the way countries are becoming more interconnected both economically and culturally. This process is a combination of economic, technological, socio-cultural and political forces.

ADVANTAGES

- Increased free trade between nations
- Increased liquidity of capital allowing investors in developed nations to invest in developing nations
- Corporations have greater flexibility to operate across borders
- Global mass media ties the world together.
- Increased flow of communications allows vital information to be shared between individuals and corporations around the world
- Greater ease and speed of transportation for goods and people.
- Reduction of cultural barriers increased the global village effect
- Spread of democratic ideals to developed nations.
- Greater interdependence of nation states.
- Reduction of likelihood of war between developed nations
- Increases in environmental protection in developed nations

DISADVANTAGES

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- Increased flow of skilled and non-skilled jobs from developed to developing nations as corporations seek out the cheapest labor.
- Spread of a materialistic lifestyle and attitude that sees consumption as the path to prosperity
- International bodies like the world trade organization infringe on national and individual
- Greater risk of diseased being transported unintentionally between nations.
- Greater chance of reactions for globalization being violent in an attempt to preserve cultural heritage.
- Increased likelihood of economic disruptions in one nation effecting all nations.
- Threat that control of world media by a handful of corporations will limit cultural expression.
- Take advantage of weak regulatory rules in developing countries.
- Increase in the chances of civil war within developing countries and open war between developing countries as they vie for resources.
- Decrease in environmental integrity as polluting corporations.

Impact of globalization on industry structure

The structure of an industry is affected by globalization. Globalization gave rise to the following types of industries.

- Domestic Industries
- Global Industries

Domestic Industries are specific to each country or group of countries. This type of international industry is a collection of essentially domestic industries like retailing, insurance and banking. It has manufacturing facility to produce goods for sale within their country itself.

Global Industries operate worldwide, with MNCs making only small adjustments for country-specific circumstances. A global industry is one in which a MNCs activities in one country are significantly affected by its activities in other countries. MNCs produce products or services in various locations throughout the world and sell them, making only minor adjustments for specific country requirements.

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Ex: Commercial Aircrafts, Television sets, Semiconductors, copiers, automobiles, watches and tyres.

NATIONAL CONTEXT AND COMPETITIVE ADVANTAGE:

Despite the globalization of production & markets, many of the most successful companies in certain industries are still clustered in a small number of countries.

Biotechnology & computer companies – U.S. Electronics
Company – Japan.
Chemical & Engineering company – Germany.

This suggests that the nation – state within which a company is based may have an important bearing on the competitive position of that company in the global market place.

Companies need to understand how national factors can affect competitive advantage, for then they will able to identify.

a. Where their most significant competitors are likely to come from.
b. Where they might want to locate certain productive activities.

Attributes to identify National Environment:

1. Factor Endowments:

A nation's position in factors of production such as skilled labor or the infrastructure necessary to compete in a given industry.

2. Demand Conditions:

The nature of home demand for the industry's product or service.

3. Relating & Supporting Industries:

The presence or absence in a nation of supplier industries and related industries that is internationally competitive.

4. Firm Strategy, Structure & Rivalry:

The conditions in the nation governing how companies are created, organized and managed and the nature of domestic rivalry.

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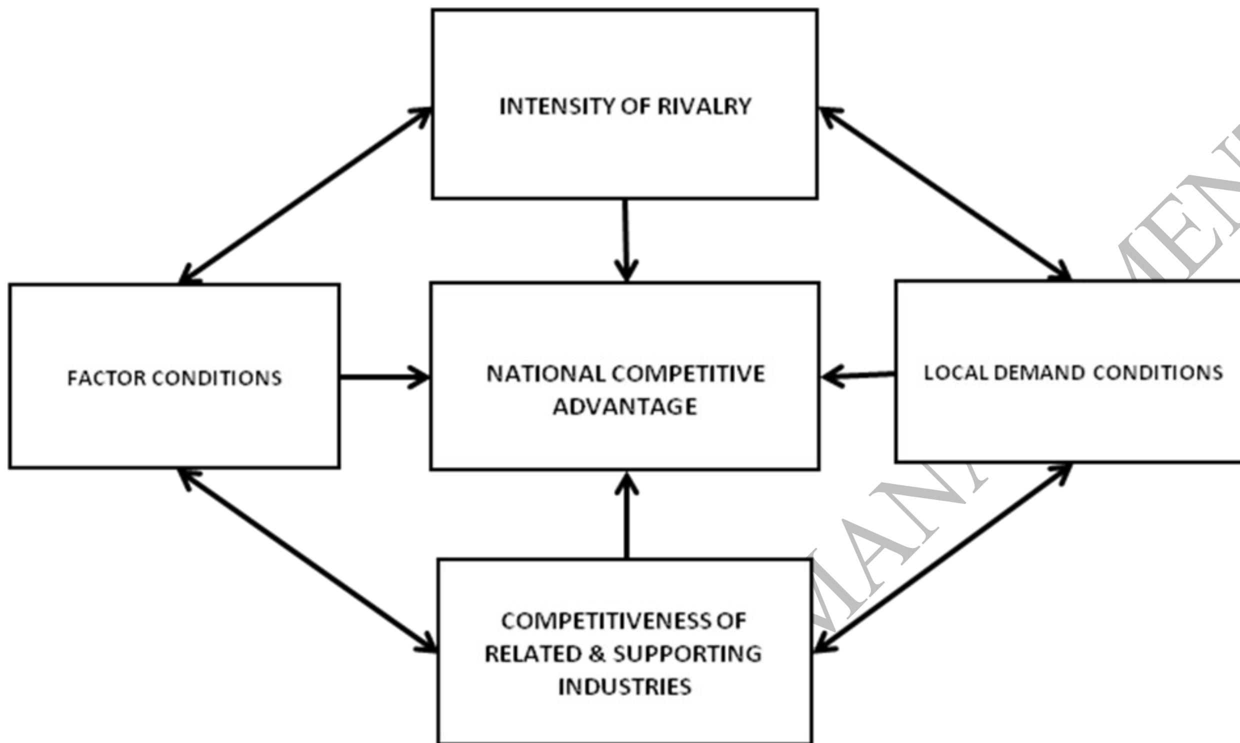

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COMPETITIVE ADVANTAGE:

Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

1. The amount of value customers place on the company's product.
2. The price that a company charges for its products.
3. The cost of creating that value.

Value is something that customers assign to a product. It is a function of the attributes of the product, such as its performance, design, quality, & point – of – scale & after sale service.

A company that strengthens the value of its product in the products in the eyes of customers gives it more pricing options. It can raise prices to reflect that value or hold prices lower, which induces more customers to purchase its product & expand unit sales volume.

.A) **RESOURCES:**

Resources are the capital or financial, physical, social or human, technological and organizational factor endowments that allow a company to create value for its customers.

Types:

I) Tangible resources:

-Are something physical, such as land, buildings, plant, equipment, inventory and money.

II) Intangible resources:

-Are non-physical entities that are the creation of the company and its employees, such as brand names, the reputation of the company, the knowledge that employees have gained through experience and the intellectual property of the company including patents, copyrights & trademarks.

B) CAPABILITIES:

-Refers to a company's skills at coordinating its resources & putting them to productive use. These skills reside in an organization's rules, routines and producers.

C) COMPETENCIES:

Competencies are firm – specific strengths that allow a company to differentiate its products and for achieve substantially lower cost than its rivals and thus gain a competitive advantage.

Types of competency

i) Core competency: It is an activity central to a firm's profitability and competitiveness that is performed well by the firm. Core competencies create and sustain firm's ability to meet the critical success factors of particular customer groups.

ii) Distinctive competency: It is a competitively valuable activity that a firm performs better than its competitors. These provide the basis for competitive advantage. These are cornerstone of strategy. They provide sustainable competitive advantage because these are hard to copy.

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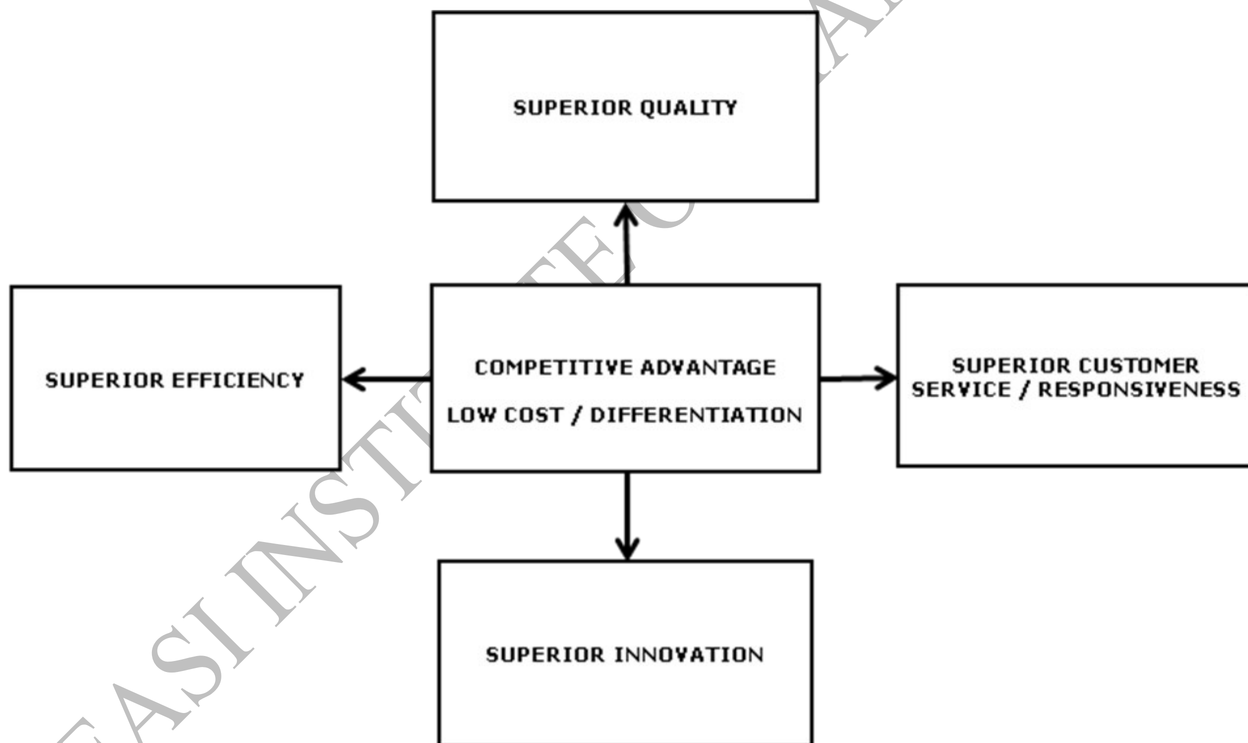
GENERIC BUILDING BLOCKS OF COMPETITIVE ADVANTAGE

Organizations today confront new markets, new competition and increasing customer expectations. Thus today's organizations have to constantly re-engineer their business practices and procedures to be more and more responsive to customers and competition. In the 1990's Information technology and Business Process re- engineering, used in conjunction with each other, have emerged as important tools which give organizations the leading edge. The efficiency of an enterprise depends on the quick flow of information across the complete supply chain i.e. from the customer to manufacturers to supplier. The generic building blocks of a firm to gain competitive advantage are- Quality, Efficiency, Innovation and Customer responsiveness.



A) EFFICIENCY – In a business organization, inputs such as land, capital, raw material managerial know-how and technological know-how are transformed into outputs such as products and services. Efficiency of operations enables a company to lower the cost of inputs to produce given output and to attain competitive advantage. Employee productivity

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is measured in terms of output per employee.

For ex: Japan's auto giants have cost – based competitive advantage over their near rivals in U.S.

B) QUALITY – Quality of goods and services indicates the reliability of doing the job, which the product is intended for. High quality products create a reputation and brand name, which in turn permits the company to charge higher price for the products. Higher product quality means employee's time is not wasted on rework, defective work or substandard work.

For ex: In consumer durable industries such as mixers, grinders, gas stoves and water heaters, ISO mark is a basic imperative for survival.

C) INNOVATION – Innovation means new way of doing things. Innovation results in new knowledge, new product development structures and strategies in a company. It offers something unique, which the competitors may not have, and allows the company to charge high price.

For ex: Photocopiers developed by Xerox.

D) CUSTOMER RESPONSIVENESS – Companies are expected to provide customers what they are exactly in need of by understanding customer needs and desires. Customer Responsiveness is determined by customization of products, quick delivery time, quality, design and prompt after sales service.

For ex: The popularity of courier service over Indian postal service is due to the fastness of service.

DISTINCTIVE COMPETENCIES

Distinctive competence is a unique strength that allows a company to achieve superior efficiency, quality, innovation and customer responsiveness. It allows the firm to charge premium price and achieve low costs compared to rivals, which results in a profit rate above the industry average.

Ex: Toyota with world class manufacturing process.

In order to call anything a distinctive competency it should satisfy 3 conditions, namely:

- Value – disproportionate contribution to customer perceived value;
- Unique – unique compared to competitors;

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- Extendibility – capable of developing new products.

Distinctive Competencies are built around all functional areas, namely:

- Technology related
- Manufacturing related
- Distribution related
- Marketing related
- Skills related
- Organizational capability
- Other types.

Distinctive Competencies arise from two sources namely,

- ***Resources*** – A resource in an asset, competency, process, skill or knowledge. Resources may be tangible – land, buildings, P&M or intangible – brand names, reputation, patens, know-how and R&D. A resource is a strength which the co with competitive advantage and it has the potential to do well compared to its competitors.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity.

The strengths and weaknesses of resources can be measured by,

- Company's past performance
- Company's key competitors and
- Industry as a whole.

The extent to which it is different from that of the competitors, it is considered as a strategic asset.

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Evaluation of key resources

A unique resource is one which is not found in any other company. A resource is considered to be valuable if it helps to create strong demand for the product.

Barney has evolved VRIO framework of analysis to evaluate the firm's key resource, say

- Value – does it provide competitive advantage?
- Rareness – do other competitors possess it?
- Imitability – is it costly for others to imitate?
- Organization – does the firm exploit the resource?

- ***Capabilities*** – are skills, which bring together resource and put them to purposeful use. The organizations structure and control system gives rise to capabilities which are intangible. A company should have both unique valuable resources and capabilities to exploit resources and a unique capability to manage common resources.

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

AVOIDING FAILURE AND SUSTAINING COMPETITIVE ADVANTAGE

When a company loses its competitive advantage, its profitability falls. The company does not necessarily fail, it may just have average or below-average profitability and can remain in this mode for a considerable time, although its resources & capital base is shrinking.

Reasons for failure:

a) *Inertia:*

The Inertia argument says that companies find it difficult to change their strategies & structures in order to adapt to changing competitive conditions.

b) *Prior strategic commitments*:

A company's prior strategic commitment not only limits its ability to imitate rivals but may also

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cause competitive disadvantage.

c) The Icarus Paradox:

According to Miler, many companies become so dazzled by their early success that they believe more of the same type of effort is the way to future success. As a result, they can become so specialized and inner directed that they lose sight of market realities and the fundamental requirements for achieving a competitive advantage. Sooner or later, this leads to failure.

Steps to Avoid Failure:

a) *Focus on the Building Blocks of competitive advantage***:**

Maintaining a competitive advantage requires a company to continue focusing on all four generic building blocks of competitive advantage – efficiency, quality, innovation, and responsiveness to customers and to develop distinctive competencies that contribute to superior performance in these areas.

b) *Institute continuous Improvement & Learning*:

In such a dynamic and fast – paced environment, the only way that a company can maintain competitive advantage overtime is to continually improve it's efficiently, quality innovation and responsiveness to customer. The way to do this is recognize the importance of learning within the organization.

c) *Track Best Industrial Practice and use Benchmarking***:**

Benchmarking is the process of measuring the company against the products, practices and services of some of its most efficient global competitors.

d) Overcome Inertia:

Overcoming the internal forces that are a barrier to change within an organization is one of the key requirements for maintaining a competitive advantage. Once this step has been taken, implementing change requires good leadership, the judicious use of power and appropriate changes in organizational structure & control systems.

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HIERARCHICAL LEVELS OF STRATEGY

Strategy can be formulated on three different levels:

- CORPORATE LEVEL
- BUSINESS UNIT LEVEL
- FUNCTIONAL LEVEL

- **CORPORATE STRATEGY**

Corporate strategy tells us primarily about the choice of direction for the firm as a whole. In a large multi business company, however, corporate strategy is also about managing various product lines and business units for maximum value. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the market place, the corporation must coordinate these difference business strategies so that the corporation as a whole succeeds.

Corporate strategy includes decision regarding the flow of financial and other resources to and from a company's product line and business units. Through a series of coordinating devices, a company transfers skills and capabilities developed in one unit to other units that need such resources.

A corporation's I strategy is composed of three general orientations (also called grand strategies):

A) **Growth strategies** expand the company's activities.
B) **Stability strategies** make no change to the company's current activities.
C) **Retrenchment strategies** reduce the company's level of activities.
D) **Combination strategies** is the combination of the above three strategies.

Having chosen the general orientation a company's managers can select from more specific corporate strategies such as concentration within one product line/industry or diversification into other products/industries. These strategies are useful both to corporations operating in only one product line and to those operating in many industries with many product lines.

By far the most widely pursued corporate directional strategies are those designed to achieve

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growth in sales, assets, profits or some combination. Companies that do business in expanding industries must grow to survive. Continuing growth means increasing sales and a chance to take advantage of the experience curve to reduce per unit cost of products sold, thereby increasing profits. This cost reduction becomes extremely important if a corporation's industry is growing quickly and competitors are engaging in price wars in attempts to increase their shares of the market. Firms that have not reached "critical mass" (that is, gained the necessary economy of large scale productions) will face large losses unless they can find and fill a small, but profitable, niche where higher prices can be offset by special product or service features. That is why Motorola Inc., continues to spend large sum on the product development of cellular phones, pagers, and two-way radios, despite a serious drop in market share and profits. According to Motorola's Chairman George Fisher, "what's at stake here is leadership". Even though the industry was changing quickly, the company was working to avoid the erosion of its market share by jumping into new wireless markets as quickly as possible. Being one of the market leaders in this industry would almost guarantee Motorola enormous future returns.

A Corporation can grow internally by expanding its operations both globally and domestically, or it can grow externally through mergers, acquisition and strategic alliances. A **merger** is a transaction involving two or more corporations in which stock is exchanged, but from which only one corporation survives. Mergers usually occur between firms of somewhat similar size and are usually "friendly". The resulting firm is likely to have a name derived from its composite firms. One example in the Pharma Industry is the merging of Glaxo and Smithkline Williams to form Glaxo Smith Kline. An Acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. Examples are Procter & Gamble's acquisition of Richardson-Vicks, known for its Oil of Olay and Vicks Brands, and Gillette, known for shaving products.

The *Corporate Directional Strategies* are:

A) Growth

(i) Concentration

- Horizontal growth
- Vertical growth

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- Forward integration
- Backward integration

(ii) Diversification
- Concentric
- Conglomerate

B) Stability
(i) Pause/Proceed with Caution
(ii) No Change
(iii) Profit

C) Retrenchment
(i) Turnaround
(ii) Captive Company
(iii) Sell-out / Divestment
(iv) Bankruptcy / Liquidation

A) <u>GROWTH STRATEGY</u>

Acquisition usually occurs between firms of different sizes and can be either friendly or hostile. Hostile acquisitions are often called takeovers. A Strategic Alliances is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial. Growth is a very attractive strategy for two key reasons.

- Growth is based on increasing market demand may mask flaws in a company (flaws that would be immediately evident in a stable or declining market. A growing flow of revenue into a highly leveraged corporation can create a large amount of organization slack. (unused resources) that can be used to quickly resolve problems and conflicts between departments and divisions. Growth also provides a big cushion for a turnaround in case a strategic error is made. Larger firms also have more bargaining power than do small firms and are more likely to obtain support from key stake holders in case of difficulty.
- A growing firm offers more opportunities for advancement, promotions, and interesting jobs, growth itself is exciting and ego enhancing for CEO's. The marketplace and potential investors tend to view a growing corporation as a winner or on the move.

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Executive compensation tends to get bigger as an organization increases in size. Large firms also more difficult to acquire than are smaller ones; thus an executive's job is more secure.

Vertical growth results in vertical integration, the degree to which a firms operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing to retailing.

More specifically, assuming a function previously provided by a supplier is called **backward integration** (going backward on an industry's value chain). The purchase of Pentasia Chemicals by Asian Paints Limited for the chemicals required for the manufacturing of paints is an example of backward integration.

Assuming a function previously provided by a distributor is labeled **forward integration** (going forward an industry's value chain). Arvind mills, Example, used forward integration when it expanded out of its successful fabric manufacturing business to make and market its own branded shirts and pants.

- *Horizontal Growth c*an be achieved by expanding the firm's products into other geographic locations and/or by increasing the range of products and services offered to current market. In this case, the company expands sideways at the same location on the industry's value chain.

- ***Concentric Diversification*** *(Related)* into a related industry may be a very appropriate corporate strategy when a firm has a strong competitive position but industry attractiveness is low. By focusing on the characteristics that have given the company its distinctive competence, the company uses those very strengths as its means of diversification. The firm attempts to secure strategic fit in a new industry where the firm's product knowledge, its manufacturing capabilities, and the marketing skills it used so effectively in the original industry can be put to good use.
- ***Conglomerate Diversification*** *(Unrelated)* takes place when management realizes that the current industry is unattractive and that the firms lacks outstanding abilities or skills that it could easily transfer to related products, or services in other

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industries, the most likely strategy is conglomerate diversification – diversifying into an industry unrelated to its current one. Rather than maintaining a common threat throughout their organization, strategic managers who adopt this strategy are primarily concerned with financials considerations of cash flow or risk reductions.

B) STABILITY STRATEGIES

A corporation may choose stability over growth by continuing its current activities without any significant change in direction. Although sometimes viewed as lack of strategy, the stability family of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment.

(i) ***Pause/Proceed With Caution Strategy*** – In effect, a time out or an opportunity to rest before continuing a growth or retrenchment strategy. It is a very deliberate attempt to make only incremental improvements until a particular environmental situation changes. It is typically conceived as a temporary strategy to be used until the environmental becomes more hospitable or to enable a company to consolidate its resources after prolonged rapid growth.

(ii) ***No Change Strategy*** – Is a decision to do nothing new (a choice to continue current operation and policies for the foreseeable future). Rarely articulated as a definite strategy, a no change strategy's success depends on a lack of significant change in a corporation's situation. The relative stability created by the firm's modest competitive position in an industry facing little of no growth encourages the company to continue on its current course. Making only small adjustments for inflation in the sales and profit objectives, there are no obvious opportunities or threats nor much in the way of significant strengths of weaknesses. Few aggressive new competitors are likely to enter such an industry.

(iii) ***Profit Strategy*** – Is a decision to do nothing new in worsening situation but instead to act as though the company's problems are only temporary. The profit strategy is an attempt to artificially support profits when a company's sales are declining by reducing investment and short term discretionary expenditures. Rather than announcing the company's poor position to shareholders and the investment community at large, top management may be tempted to follow this very seductive

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strategy. Blaming the company's problems on a hostile environment (such as anti-business government policies) management defers investments and / or buts expenses to stabilize profit during this period.

C) ***RETRENCHMENT STRATEGIES***

A company may pursue retrenchment strategies when it has a weak competitive position in some or all of its product lines resulting in poor performance-sales are down and profits are becoming losses. These strategies impose a great deal of pressure to improve performance.

Turnaround Strategy **–** Emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. Analogous to a weight reduction diet, the two basic phases of a turnaround strategy are CONTRACTION and CONSOLIDATION.

- **Contraction** is the initial effort to quickly "stop the bleeding" with a general across the board cutback in size and costs.
- **Consolidation**, implements a program to stabilize the now-leaner corporation. To streamline the company, plans are developed to reduce unnecessary overhead and to make functional activities cost justified. This is a crucial time for the organization. If the consolidation phase is not conducted in a positive manner, many of the best people leave the organization.

Captive Strategy – Is the giving up of independence in exchange for security. A company with a weak competitive position may not be able to engage in a full blown turnaround strategy. The industry may not be sufficiently attractive to justify such an effort from either the current management or from investors. Nevertheless a company in this situation faces poor sales and increasing losses unless it takes some action. Management desperately searches for an "angel" by offering to be a captive company to one of its larger customers in order to guarantee the company's continued existence with a long term contract. In this way, the corporation may be able to reduce the scope of some of its functional activities, such as marketing, thus reducing costs significantly.

Sell Out / Divestment Strategy – If a corporation with a weak competitive position in its industry is unable either to pull itself by its bootstraps or to find a customer to which it can

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become a captive company, it may have no choice to Sell Out. The sell out strategy makes sense if managements can still obtain a good price for its shareholders and the employees can keep their jobs by selling the entire company to another firm.

Bankruptcy/ Liquidation Strategy **–** When a company finds itself in the worst possible situation with a poor competitive position in an industry with few prospects, management has only a few alternatives– all of them distasteful. Because no one is interested in buying a weak company in an unattractive industry, the firm must pursue a bankruptcy or liquidation strategy.

- *Bankruptcy*: It involves giving up management of the firm to the courts in return for some settlement of the corporation's obligations. Top management hopes that once the court decides the claims on the company, the company will be stronger and better able to compete in a more attractive industry.
  - Voluntary winding up.
  - Compulsory winding up under the supervision of the court.
  - Voluntary winding up under the supervision of the court.

[Note: The benefit of liquidation over bankruptcy is that the board of directors, as representatives of the shareholders, together with top management makes the decisions instead of turning them over to the court, which may choose to ignore shareholders completely.]

D) COMBINATION STRATEGIES

It is the combination of stability, growth & retrenchment strategies adopted by an organization, either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance. For example, it is certainly feasible for an organization to follow a retrenchment strategy for a short period of time due to general economic conditions and then pursue a growth strategy once the economy strengthens.

The obvious combination strategies include (a) retrench, then stability; (b) retrench, then growth; (c) stability, then retrench; (d) stability, then growth; (e) growth then retrench, and (f) growth, then stability.

Reasons for adopting combination strategies are given below

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- Rapid Environment change
- Liquidate one unit, develop another
- Involves both divestment & acquisition (take over)

It is commonly followed by organizations with multiple unit diversified product & National or Global market in which a single strategy does not fit all businesses at a particular point of time.

✓ **BUSINESS STRATEGY**

The plans and actions that firms devise to compete in a given product/market scope or setting and asks the question "How do we compete within an industry?" is a business strategy. It focuses on improving the competitive position of a company's business unit's products or services within the specific industry or market segment that the company or business unit serves.

It can be:

A) *Competitive* – battling against all competitors for advantage which includes Low- cost leadership, Differentiation and Focus strategies; and/or

B) *Cooperative* – working with one or more competitors to gain advantage against other competitors which is also known as strategic alliances.

A) COMPETITIVE BUSINESS STRATEGY (PORTER'S GENERIC STRATEGY)

Porter's generic strategies framework constitutes a major contribution to the development of the strategic management literature. Generic strategies were first presented in two books by Professor Michael Porter of the Harvard Business School (Porter, 1980). Porter suggested that some of the most basic choices faced by companies are essentially the scope of the markets that the company would serve and how the company would compete in the selected markets. Competitive strategies focus on ways in which a company can achieve the most advantageous position that it possibly can in its industry . The profit of a company is essentially the difference between its revenues and costs. Therefore high profitability can be achieved through achieving the lowest costs or the highest prices facing the competition. Porter used the terms 'cost leadership' and 'differentiation', wherein the latter is the way in

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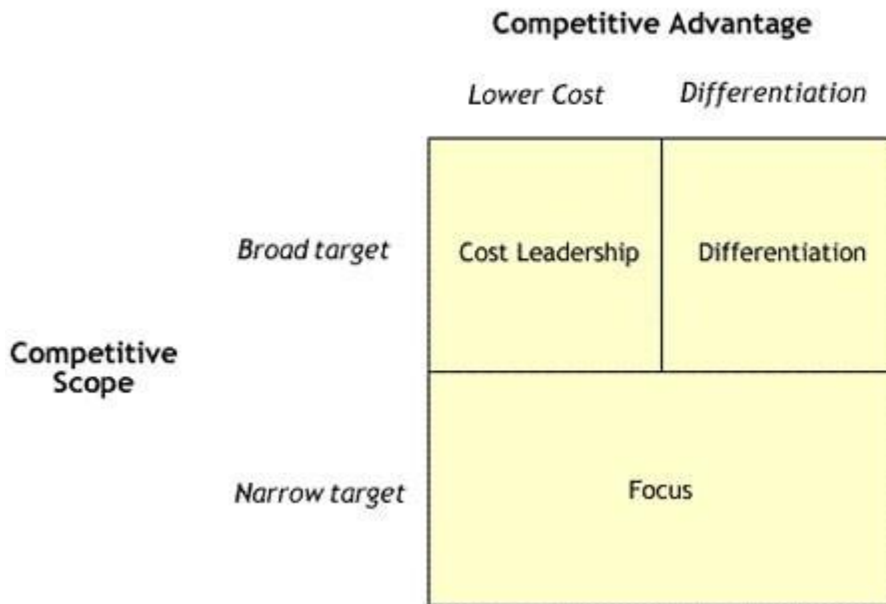
which companies can earn a price premium.

Main aspects of Porter's Generic Strategies Analysis

According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.



i) *Low-Cost Strategy*: It is the ability of a company or a business unit to design, produce and market a comparable product more efficiently than its competitors. It is a competitive strategy based on the firm's ability to provide products or services at lower cost than its rivals. It is formulated to acquire a substantial cost advantage over other competitors that can be passed on to consumers to gain a large market share. As a result the firm can earn a higher profit margin that result from selling products at current market prices.

Eg: Whirlpool has successfully used a low-cost leadership strategy to build competitive advantage.

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ii) *Differentiation Strategy*: It is the ability to provide unique and superior value to the buyer in terms of product quality, special features or after-sale service. It is a competitive strategy based on providing buyers with something special or unique that makes the firm's product or service distinctive. The customers are willing to pay a higher price for a product that is distinct in some special way. Superior value is created because the product is of higher quality and technically superior which builds competitive advantage by making customers more loyal and less-price sensitive to a given firm's product or service

Eg: Mercedes and BMW have successfully pursued differentiation strategies.

iii) *Focus Strategy*: It is designed to help a firm target a specific niche within an industry. Unlike both low-cost leadership and differentiation strategies that are designed to target a broader or industry-wide market, focus strategies aim at a specific and typically small niche. These niches could be a particular buyer group, a narrow segment of a given product line, a geographic or regional market, or a niche with distinctive special tastes and preferences.

Eg: Solectron is a highly specialized manufacturer of circuit boards used in PCs and other electronic devices which has adopted a well-defined focus strategy.

Combination (Stuck in the middle)

According to Porter, a company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance. However, there is disagreement between scholars on this aspect of the analysis. Kay (1993) and Miller (1992) have cited empirical examples of successful companies like Toyota and Benetton, which have adopted more than one generic strategy. Both these companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of the companies.

B) COOPERATIVE BUSINESS STRATEGY (STRATEGIC ALLIANCE)

The role of strategic alliances in shaping corporate and business strategy has grown significantly over the past decade. In almost every industry, alliances are becoming more common as companies realize that they can no longer afford the costs of developing new products or entering new markets on their own. Alliances are especially prevalent in

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industries or technologies that change rapidly, such as semi conductors, airlines, automobiles, pharmaceuticals, telecommunications, consumer electronics and financial services. On a broader global level, many U.S and Japanese firms in the automobile and electronics industries have teamed up to develop new technologies, even as they compete fiercely to sell their existing products and enter each other's markets.

A **Strategic Alliance** is a cooperative agreement between companies who are competitors from different companies. Strategic alliances are linkages between companies designed to achieve an objective faster or more efficiently than if either firm attempted to do so on its own. They serve a vital role in extending and renewing a firm's sources of competitive advantage because they allow companies to limit certain kinds of risk when entering new terrain.

Ex: In the beverage industry, Nestle works with Coca- Cola to gain access to the other's distribution channels.
In the computer hardware industry, Toshiba and Samsung have formed a strategic alliance for manufacturing advanced memory chips.

FACTORS PROMOTING THE RISE OF STRATEGIC ALLIANCES (OR) REASONS FOR FORMING STRATEGIC ALLIANCES

(i) To gain access to foreign markets – in the pharmaceutical industry, Pharmacia and Pfizer have formed an alliance for smooth market entry to accelerate the acceptance of a new drug.
(ii) To reduce financial risks – IBM, Toshiba and Siemens have entered into an alliance to share the fixed costs of developing new microprocessors.
(iii) To bring complementary skills – Intel formed and alliance with Hewlett- Packard (HP) to use HP's capability to develop Pentium microprocessors.
(iv) To reduce political risks – Maytag, a U.S company entered into alliance with Chinese appliance maker RSD to gain access to China.
(v) To achieve competitive advantage – GM and Toyota established joint venture by name Nummi Corporation.
(vi) To set technological standards – Philips entered into an alliance with Matsushita

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to manufacture and market the digital compact cassette.

(vii) To shape industry evolution – Lucent Technologies and Motorola entered into an alliance to develop a new generation of Digital signal processing chips that is designed to power next- generation cellular phones and other consumer electronics.

TYPES OF STRATEGIC ALLIANCES

a) *Mutual Service Consortia*: A Mutual Service Consortium is a partnership of similar companies in similar industries who pool their resources to gain a benefit that is too expensive to develop alone.

Eg: IBM offered Toshiba its expertise in chemical mechanical polishing to develop a new manufacturing process.

b) *Joint Venture*: A joint venture is a cooperative business activity, formed by two or more separate organizations for strategic purposes, that creates an independent business identity and allocates ownership, operational responsibilities and financial risks and rewards to each member, while preserving their separate identity or autonomy.

Eg: IOC and oil tanking GmbH formed a joint venture to build and operate terminating services for petroleum products.

c) *Licensing Arrangement*: A licensing agreement is an agreement in which the licensing firm grants rights to another firm in another country or market to produce and/ or sell a product.

Eg: P&G licensed the 'Old Spice' trademark and business to a Goa- based company, Menezes cosmetics (P) Ltd for a period of 10 years to manufacture, sell, distribute and market in India, Sri Lanka and Bangladesh.

d) *Value-Chain Partnership*: The value- chain partnership is a strong and close alliance in which one company or unit forms a long- term arrangement with a key supplier or distributor for mutual advantage.

Eg: Value- Chain partnership between Cisco Systems and its suppliers.

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All forms of strategic alliances are filled with uncertainty. One thorny issue in any strategic alliance is how to cooperate without giving away the company or business unit's core competence. There are many other issues that need to be dealt with when the alliance is initially formed and others that emerge later.

Strategic alliance success factors

The success factors of strategic alliances are:-

- Have a clear strategic purpose;
- Find a fitting partner with compatible goals and complementary capabilities;
- Identify likely partnering risks and deal with them when the alliance is formed;
- Allocate tasks and responsibilities to each partner;
- Create incentives for cooperation to minimize differences in corporate culture;
- Minimize conflicts among partners by clarifying objectives and avoiding direct competition in market place;
- Comprehensive cross- cultural knowledge should be ensured in an international alliance;
- Exchange human resources to maintain communication and trust;
- Operate with long- term time horizons;
- Develop multiple joint products so that any failures are counterbalanced by successes;
- Share information to build trust and keep projects on target. Monitor customer responses and service complaints;
- Be flexible and willing to renegotiate the relationship of environmental changes and new opportunities;
- Agree upon an 'exit strategy' when the alliance is judged a failure.

✓ **FUNCTIONAL STRATEGY**

Functional strategy is the approach; a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company and business

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firm with a competitive advantage. The orientation of the functional strategy is dictated by its parent business unit's strategy.
A HR functional strategy that emphasizes the hiring and training of a highly skilled but costly workforce and a marketing functional strategy that emphasizes distribution channel "pull" using "advertising" to increase consumer demand over "push" using promotional allowances to retailers.
If a business unit were to follow a low cost competitive strategy, however a different set of functional strategies would be needed to support the business strategy. Functional Strategies may need to vary from region to region.

Any functional strategy will be successful if it is built around core competence and distinctive competence. When a firm does not have distinctive competence in any functional area, it is preferable to opt for outsourcing.

A) **OUTSOURCING**: is purchasing from someone else a product or service that had been previously provided internally. It is becoming an increasingly important part of strategic decision making and an important way to increase efficiency and often quickly. Firms competing in global industries must in particular search worldwide for the most appropriate suppliers.

B) MARKETING STRATEGY

Marketing strategy deals with pricing, selling and distributing a product. Using a market development strategy, a company or business unit can:

- Capture a larger share of an existing market for current products through market saturation and market penetration or
- Develop new market for current products.

Eg: P & G, Colgate – Palmolive

Using Product development Strategy, a company or business unit can

- Develop new products Egisting markets or
- Develop new products for new markets.

Eg: GCMMF – Amul products (Using a successful brand name to market other products is called line extension and is a good way to appeal to a company's current customers).

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Using Advertising and promotion strategy, a company or business unit can use

- *Push* Strategy – Spending a large amount of money on trade promotion inorder to gain or hold shelf space in retail outlets.
- *Pull* Strategy – spending a large amount of money on consumer advertising designed to build awareness so that shoppers will ask for the products.

Using Distribution strategy, a company or business unit can choose any method of distribution, namely

- Using distributors and dealers to sell the products
- Selling directly to the consumers

Using pricing strategy, a company or business unit can choose,

- Skim pricing means high price, when the product is novel and competitors are few or
- Penetration pricing is aimed at gaining high market share with a low price.

C) FINANCIAL STRATEGY

Financial Strategy examines the financial implications of corporate and business level strategies options and identifies the best financial course of action. It attempts usually to maximize the financial strategies adopted by a company or a business unit. The Financial strategies may be:

- Achieving the desired debt to equity ratio and relying on internal long term financing (via) cash flow, (Equity financing is preferred for related diversification and debt financing for unrelated diversification)
- Leveraged buyout (LBO) – a company is acquired in a transaction, which is namely financed by funds arranged from a third party such as a bank of financial institutions. This firm declines because of inflated expectation , utilization of all stock, management burn out and a lack of strategic management and
- Management of dividends to shareholders.
- Establishing a tracking stock – followed by large established corporations. A tracking stock is a type of common stock tied to one portion of a corporations

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business. It is actually an equity interest, in the parent company. **Eg:** At & T.

D) RESEARCH & DEVELOPMENT STRATEGY

R& D Strategy deals with product and process innovation and improvement. It also deals with appropriate mix of different types of R & D (Basic, product, or process) and with the question of how new technology should be accessed by internal development, external acquisition or through strategic alliances. The R & D choices may be:

- Technology leadership in which one pioneers an innovation,

Eg: Nike Inc. or

- Technological followership in which one imitates the products of competitors.

Eg: Dean Foods Co.

E) OPERATIONS STRATEGY

Operation Strategy determines how and where a product or service is to be manufactured, the level of vertical integration in the production process and the deployment of physical resources. It should also deal with the optimum level of technology the firm should use in its operation processes. The strategies are:

- Advances manufacturing Technology (AMT) is revolutionizing operations worldwide and should continue to have a major impact as corporations strive to integrate diverse business activities using Computer integrated design and manufacturing (CAD / CAM)
- Manufacturing strategy of a firm is affected by a product's life cycle. A firm can opt for either production system
    (a) Job shop operations through connected line batch flow or
    (b) Flexible manufacturing systems and dedicated transfer lines/
- Continuous improvement strategy
- Mass customization
- Modular product designs

F) PURCHASING STRATEGY

Purchasing Strategy deals with obtaining the raw materials, parts and suppliers needed to perform the operations functions. The basic purchasing choices are

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- *Multiple Sourcing* – is superior to other purchasing approaches because
  (a) It forces suppliers to compete for the business of an important buyer, thus reducing purchasing costs and
  (b) If one supplier could not deliver, another usually could, thus guaranteeing that parts and supplied would always be on hand when needed.
- *Sole Sourcing* – relies on only one supplier for a particular part. It is the only manageable way to obtain high superior quality. It can simplify the purchasing company's production process by using JIT rather than keeping inventories. It reduces transaction costs and builds quality by having purchaser and supplier work together as partners rather than as adversaries.
- *Parallel Sourcing* – Two suppliers are the sole suppliers of two different parts, but they are also backup suppliers for each other's parts. If one vendor cannot supply all of its part on time, the other vendor would be able to make up the difference.

G) LOGISTICS STRATEGY

Logistics strategy deals with the flow of products into and out of the manufacturing process. Three trends are evident, namely:

- *Centralization* – Refers to the centralized logistics group usually contains specialists with expertise in different transportation modes such as rail or trucking or
- *Outsourcing* – of logistics reduces cost and improves delivery time or
- *Use of internet* – simplifies logistical system and created an online system for its retailers and suppliers. Less chance for loose cases to be lost in delivery and paperwork doesn't have to be done.

H) HRM STRATEGY

HRM Strategy addresses the issue whether a company or business unit should try to:

- Hire a large no. of low skilled employees who receives low pay, perform repetitive jobs, and most likely quit after a short time (**Eg:** McDonald)
- Hire skilled employees who received relatively high pay and are cross trained to

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participate in self-management work teams (**Eg:** MNC's)

- Business firms are experimenting with different category of workers
  - (a) Part time workers
  - (b) Temporary workers
  - (c) Leasing of employees

Diverse workforce constitutes a competitive advantage. Companies with a high degree of racial diversity follow a growth strategy it tends to have higher productivity than others.

I) INFORMATION SYSTEM STRATEGY

Corporations are turning to IS strategies to provide business units with competitive advantage. The IS strategies are:

- Use of sophisticated intranet for the use of employees where project team members living in one country can pass their work to team members in another country in which the work day is just beginning;
- IS to form closer relationship with both their customers and suppliers; and
- IS enables workers to have online communication with co-workers in other countries who use, a different language.

BUILDING AND RE-STRUCTURING THE CORPORATION

There are various methods for the firms to enter into a new business and restructure the existing one. Firms use following methods for building:

- **Start-up route:** In this route, the business is started from the scratch by building facilities, purchasing equipments, recruiting employees, opening up distribution outlet and so on.
- **Acquisition:** Acquisition involves purchasing an established company, complete with all facilities, equipment and personnel.
- **Joint Venture:** Joint venture involves starting a new venture with the help of a partner.
- **Merger:** Merger involves fusion of two or more companies into one company. **Takeover:** A company which is in financial distress can undergo the process of takeover. A takeover can be voluntary when the company requests another

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company to take over the assets and liabilities and save it from becoming bankrupt.

Re-structuring: Re-structuring involves strategies for reducing the scope of the firm by exiting from unprofitable business. Restructuring is a popular strategy during post liberalization era where diversified organizations divested to concentrate on core business.
Re-structuring strategies:

- **Retrenchment**: Retrenchment strategies are adopted when the firm‟s performance is poor and its competitive position is weak.
- **Divestment Strategy**: Divestment strategy requires dropping of some of the businesses or part of the business of the firm, which arises from conscious corporate judgement in order to reverse a negative trend.
- **Spin-off:** Selling of a business unit to independent investors is known as spin- off. It is the best way to recover the initial investment as much as possible. The highest bidder gets the divested unit.
- **Management-buyout**: selling off the divested unit to its management is known as management buyout.
- **Harvest strategy:** A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it. **Liquidation:** Liquidation is considered to be an unattractive strategy because the industry is unattractive and the firm is in a weak competitive position. It is pursued as a last step because the employees lose jobs and it is considered to be a sign of failure of the top management.

STRATEGIES ANALYSIS AND CHOICE

Choice of a strategy involves an understanding of choice mechanism and issues involved in it. Strategies Choice is the evaluation of alternative strategies and selection of the best alternative. Choice involves decision- making process and it includes the following steps:-

- Focusing on strategic alternatives
- Evaluating strategic alternatives
- Considering decision factors
    - subjective factors
    - objective factors

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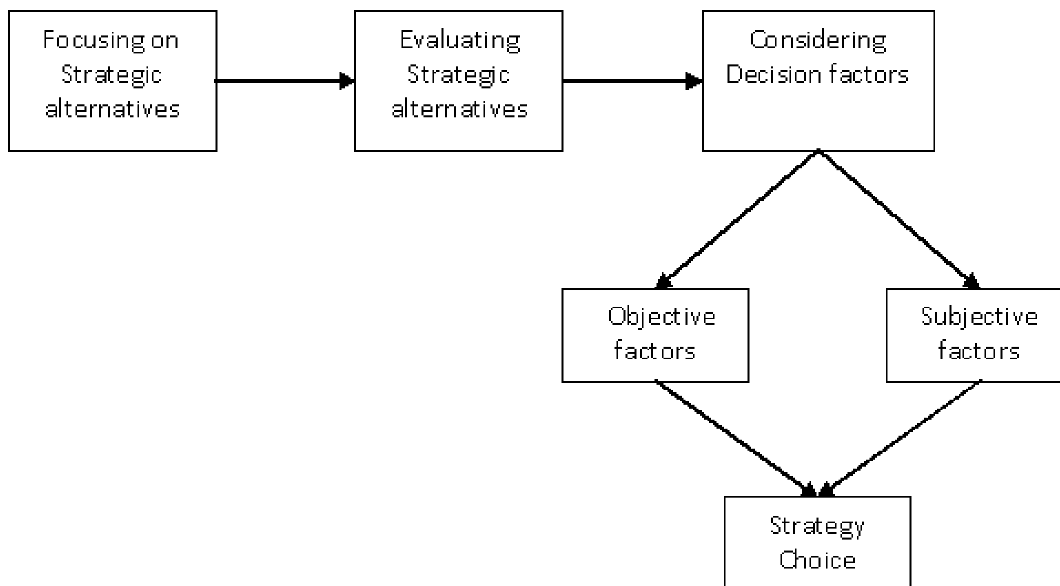
- Strategic choice

STRATEGIC CHOICE PROCESS



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Focusing on strategic alternatives: It involves identification of all alternatives. The strategist examines what the organization wants to achieve (desired performance) and what it has really achieved (actual performance). The gap between the two positions constitutes the background for various alternatives and diagnosis. This is gap analysis. The gap between what is desired and what is achieved widens as the time passes if no strategy is adopted.

Evaluating strategic alternatives: The next step is to assess the pros and cons of various alternatives and their suitability. The tools which may be used are portfolio analysis, GE business screen and corporate Parenting. [Describe each of these]

Considering decision factors:

(i) Objective factors:-

- Environmental factors
  - Volatility of environment
  - Input supply from environment

- Powerful stakeholders

♦ Organizational factors
  - Organization's mission
  - Strategic intent
  - Business definition
  - Strengths and weaknesses

(ii) Subjective factors:-
  - Strategies adopted in the previous period;
  - Personal preferences of decision- makers;
  - Management's attitude toward risk;
  - Pressure from stakeholders;
  - Pressure from corporate culture; and
  - Needs and desires of key managers.

Constructing Corporate scenario: Corporate scenario consists of proforma balance sheets and income statement which forecasts the strategic alternative's impact on various divisions.
First: 3 sets of estimated figures for optimistic, pessimistic and most likely conditions are manipulated for all economic factors and key external strategic factors.
Second: Common size financial statements with projections are drawn.
Third: Based on historical data from previous years balance sheet projection for next 5 years for Optimistic (O), Pessimistic (P), and Most likely (M) are developed.
Corporate scenario is constructed for every strategic alternative considering both environmental factors and market conditions. It provides sufficient information for a strategist to make final decision.
Process of Strategic Choice:
Two techniques are used in the process of selection of a strategy, namely:

(i) *Devil's Advocate* – in strategic decision- making is responsible for identifying potential pitfalls and problems in a proposed strategic alternative by making a formal presentation.

(ii) *Dialectical inquiry* – involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be

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argued by advocates before the key decision-makers. Finally one alternative will emerge viable for implementation.

ENVIRONMENT THREAT AND OPPORTUNITY PROFILE (ETOP)

Meaning of Environmental Scanning: Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Appraising the Environment: In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

Structuring Environmental Appraisal: The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. There are many techniques to structure the environmental appraisal. One such technique suggested by Gluek is that preparing an ETOP for an organization. The preparation of an ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization.

Environment threat and opportunity profile (ETOP) for a bicycle company

S.No	**Environmental sector**	**Nature of Impact**
1	Economic	Up Arrow
2	Market	Horizontal Arrow
3	International	Down Arrow

- Up Arrow indicates Favorable Impact
- Down Arrow indicates unfavorable Impact
- Horizontal Arrow indicates Neutral Impact

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The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favorable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organization in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

Advantage of ETOP

- It provides a clear of which sector and sub sectors have favorable impact on the organization. It helps interpret the result of environment analysis.
- The organization can assess its competitive position.
- Appropriate strategies can be formulated to take advantage of opportunities and counter the threat.

STRATEGIC ADVANTAGE PROFILE (SAP)

Every firm has strategic advantages and disadvantages. For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly. No firm is equally strong in all its functions. In other words, every firm has strengths as well as weaknesses.

Strategists must be aware of the strategic advantages or strengths of the firm to be able to choose the best opportunity for the firm. On the other hand they must regularly analyse their strategic disadvantages or weaknesses in order to face environmental threats effectively

Examples:

The Strategist should look to see if the firm is stronger in these factors than its competitors. When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.

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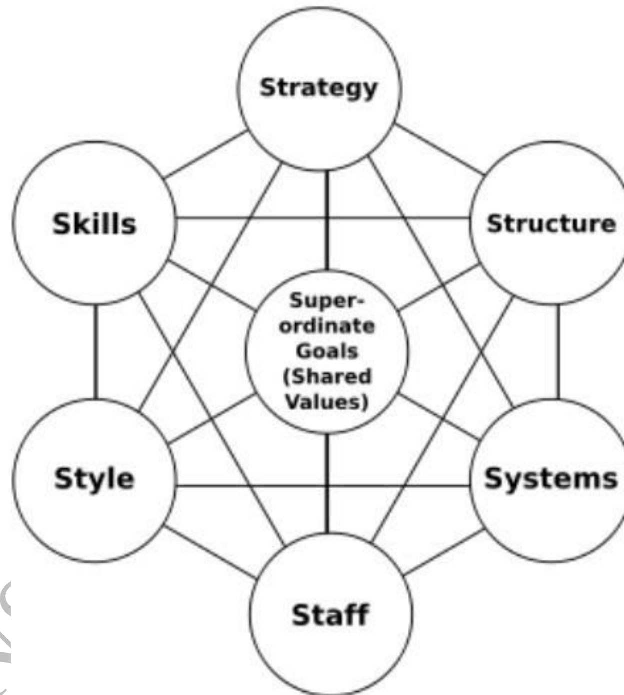
MCKINSEY'S 7S FRAMEWORK

The framework suggests that there is a multiplicity of factors that influence an organization's ability to change and its proper mode of change. Because of the interconnectedness of the variables, it would be difficult to make significant progress in one area without making progress in the others as well. There is no starting point or implied hierarchy in the shape of the diagram, and it is not obvious which of the seven factors would be the driving force in changing a particular organization at a certain point of time. The critical variables would be different across organizations and in the same organizations at different points of time.



The 7 S –

a) Superordinate goals – are the fundamental ideas around which a business is built

b) Structure – salient features of the units' organizational chart and inter connections within the office

c) Systems – procedures and routine processes, including how information moves around the unit

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d) Staff – personnel categories within the unit and the use to which staff are put, skill base, etc

e) Style – characterization of how key managers behave in order to achieve the unit's goals

f) Shared values strategy – the significant meanings or guiding concepts that the unit imbues on its members

g) Skills – distinctive capabilities of key personnel and the unit as a whole

The 7 S model can be used in two ways –

1. Considering the links between each of the S's one can identify strengths and weaknesses of an organization. No S is strength or a weakness in its own right, it is only its degree of support, or otherwise, for the other S's which is relevant. Any S's that harmonises with all the other S's can be thought of as strength and weaknesses
2. The model highlights how a change made in any one of the S's will have an impact on all the others. Thus if a planned change is to be effective, then changes in one S must be accompanied by complementary changes in the others.

CORPORATE PORTFOLIO ANALYSIS

When the company is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis.

Portfolio analysis is an analytical tool which views a corporation as a basket or portfolio of products or business units to be managed for the best possible returns.

When an organization has a number of products in its portfolio, it is quite likely that they will be in different stages of development. Some will be relatively new and some much older. Many organizations will not wish to risk having all their products at the same stage of development. It is useful to have some products with limited growth but producing profits steadily, and some products with real growth potential but may still be in the introductory stage. Indeed, the products that are earning steadily may be used to fund the development of

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those that will provide the growth and profits in the future.

So the key strategy is to produce a balanced portfolio of products, some with low risk but dull growth and some with high risk but great potential for growth and profits. This is what we call as portfolio analysis.

The aim of portfolio analysis is

1) to analyze its current business portfolio and decide which businesses should receive more or less investment
2) to develop growth strategies, for adding new businesses to the portfolio
3) to decide which business should no longer be retained

Balancing the portfolio –

Balancing the portfolio means that the different products or businesses in the portfolio have to be balanced with respect to four basic aspects –

- Profitability
- Cash flow
- Growth
- Risk

This analysis can be done by any of the following technologies –

A) BCG matix
B) GE nine cell matrix

A) BCG MATRIX – the bcg matrix was developed by Boston Consulting group in 1970s. It is also called as the growth share matrix. This is the most popular and most simplest matrix to describe the corporation's portfolio of businesses or products.

The BCG matrix helps to determine priorities in a product portfolio. Its basic purpose is to invest where there is growth from which the firm can benefit, and divest those businesses that have low market share and low growth prospects.

Each of the products or business units is plotted on a two dimensional matrix consisting of

a) relative market share – is the ratio of the market share of the concerned product or business unit in the industry divided by the share of the market leader
b) market growth rate – is the percentage of market growth, by which sales of a

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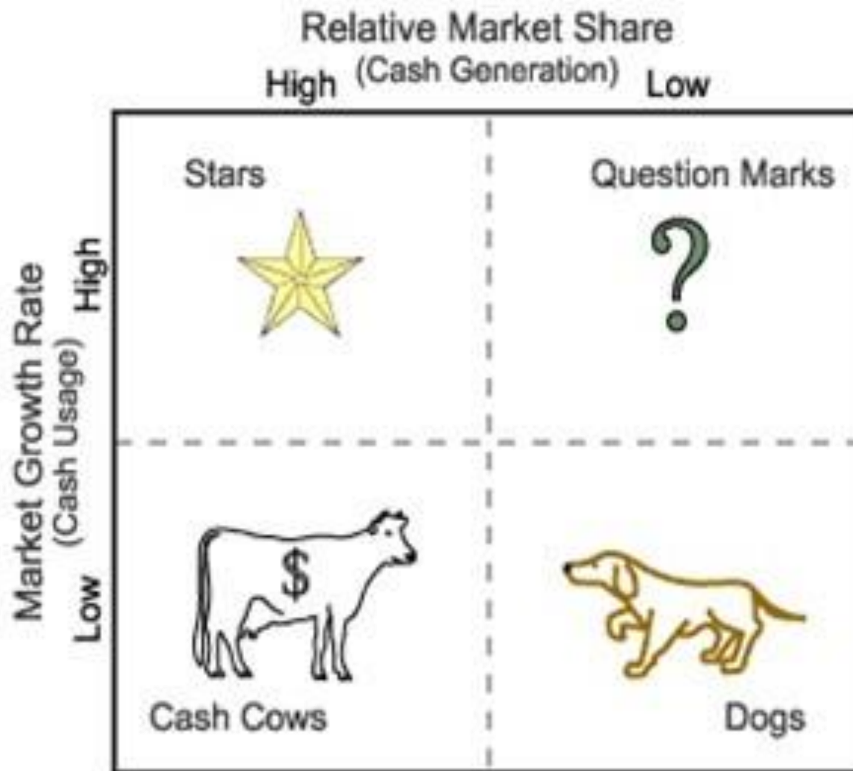
particular product or business unit has increased



Analysis of the BCG matrix – the matrix reflects the contribution of the products or business units to its cash flow. Based on this analysis, the products or business units are classified as –

i) Stars
ii) Cash cows
iii) Question marks
iv) Dogs

i) Stars – high growth, high market share

Stars are products that enjoy a relatively high market share in a strongly growing market. They are potentially profitable and may grow further to become an important product or category for the company. The firm should focus on and invest in these products or business

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units. The general features of stars are -

- High growth rate means they need heavy investment
- High market share means they have economies of scale and generate large amount of cash
- But they need more cash than they generate

The high growth rate will mean that they will need heavy investment and will therefore be cash users. Overall, the general strategy is to take cash from the cash cows to fund stars. Cash may also be invested selectively in some problem children (question marks) to turn them into stars. The other problem children may be milked or even sold to provide funds elsewhere.

Over the time, all growth may slow down and the stars may eventually become cash cows. If they cannot hold market share, they may even become dogs.

ii) Cash Cows – Low growth, high market share

These are the product areas that have high relative market shares but exist in low- growth markets. The business is mature and it is assumed that lower levels of investment will be required. On this basis, it is therefore likely that they will be able to generate both cash and profits. Such profits could then be transferred to support the stars. The general features of cash cows are –

- They generate both cash and profits
- The business is mature and needs lower levels of investment
- Profits are transferred to support stars/question marks
- The danger is that cash cows may become under-supported and begin to lose their market

Although the market is no longer growing, the cash cows may have a relatively high market share and bring in healthy profits. No efforts or investments are necessary to maintain the status quo. Cash cows may however ultimately become dogs if they lose the market share.

iii) Question Marks – high growth, low market share

Question marks are also called problem children or wild cats. These are products with low relative market shares in high growth markets. The high market growth means that

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considerable investment may still be required and the low market share will mean that such products will have difficulty in generating substantial cash. These businesses are called question marks because the organization must decide whether to strengthen them or to sell them.

The general features of question marks are –

- Their cash needs are high
- But their cash generation is low
- Organization must decide whether to strengthen them or sell them

Although their market share is relatively small, the market for question marks is growing rapidly. Investments to create growth may yield big results in the future, though this is far from certain. Further investigation into how and where to invest is advised.

iv) Dogs – Low growth, low market share

These are products that have low market shares in low growth businesses. These products will need low investment but they are unlikely to be major profit earners. In practice, they may actually absorb cash required to hold their position. They are often regarded as unattractive for the long term and recommended for disposal. The general features of dogs are –

- They are not profit earners
- They absorb cash
- They are unattractive and are often recommended for disposal.

Turnaround can be one of the strategies to pursue because many dogs have bounced back and become viable and profitable after asset and cost reduction. The suggested strategy is to drop or divest the dogs when they are not profitable. If profitable, do not invest, but make the best out of its current value. This may even mean selling the division's operations.

Advantages –

- it is easy to use
- it is quantifiable
- it draws attention to the cash flows
- it draws attention to the investment needs

Limitations –

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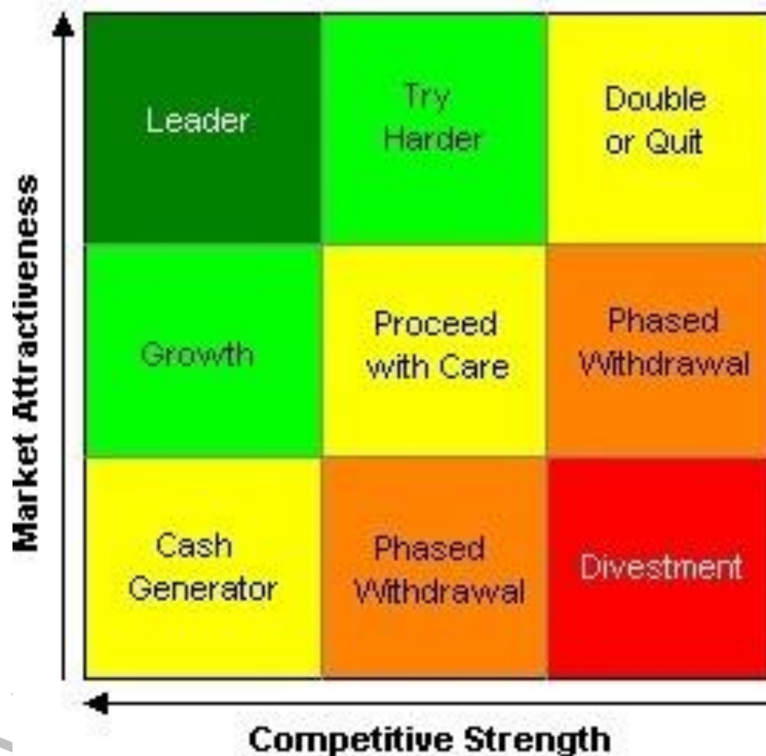
- it is too simplistic
- link between market share and profitability is not strong
- growth rate is only one aspect of industry attractiveness
- it is not always clear how markets should be defined
- market share is considered as the only aspect of overall competitive position
- many products or business units fall right in the middle of the matrix, and cannot easily be classified.

BCG matrix is thus a snapshot of an organization at a given point of time and does not reflect businesses growing over time.

B) GE Nine-cell matrix



This matrix was developed in 1970s by the General Electric Company with the assistance of the consulting firm, McKinsey & Co, USA. This is also called GE multifactor portfolio matrix. The GE matrix has been developed to overcome the obvious limitations of BCG matrix. This

matrix consists of nine cells (3X3) based on two key variables:

i) business strength
ii) industry attractiveness

The horizontal axis represents business strength and the vertical axis represent industry attractiveness

The business strength is measured by considering such factors as:

- relative market share
- profit margins
- ability to compete on price and quality
- knowledge of customer and market
- competitive strengths and weaknesses
- technological capacity
- caliber of management

Industry attractiveness is measured considering such factors as :

- market size and growth rate
- industry profit margin
- competitive intensity
- economies of scale
- technology
- social, environmental, legal and human aspects

The industry product-lines or business units are plotted as circles. The area of each circle is proportionate to industry sales. The pie within the circles represents the market share of the product line or business unit.

The nine cells of the GE matrix represent various degrees of industry attractiveness (high, medium or low) and business strength (strong, average and weak). After plotting each product line or business unit on the nine cell matrix, strategic choices are made depending on their position in the matrix.

Spotlight Strategy

GE matrix is also called “Stoplight” strategy matrix because the three zones are like green, yellow and red of traffic lights.

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1) Green indicates invest/expand – if the product falls in green zone, the business strength is strong and industry is at least medium in attractiveness, the strategic decision should be to expand, to invest and to grow.
2) Yellow indicates select/earn – if the product falls in yellow zone, the business strength is low but industry attractiveness is high, it needs caution and managerial discretion for making the strategic choice
3) Red indicates harvest/divest – if the product falls in the red zone, the business strength is average or weak and attractiveness is also low or medium, the appropriate strategy should be divestment.

Advantages –

1) It used 9 cells instead of 4 cells of BCG
2) It considers many variables and does not lead to simplistic conclusions
3) High/medium/low and strong/average/low classification enables a finer distinction among business portfolio
4) It uses multiple factors to assess industry attractiveness and business strength, which allow users to select criteria appropriate to their situation

Limitations –

1) It can get quite complicated and cumbersome with the increase in businesses
2) Though industry attractiveness and business strength appear to be objective, they are in reality subjective judgements that may vary from one person to another
3) It cannot effectively depict the position of new business units in developing industry
4) It only provides broad strategic prescriptions rather than specifics of business policy

Comparision GE versus BCG -

Thus products or business units in the green zone are almost equivalent to stars or cashcows, yellow zone are like question marks and red zone are similar to dogs in the BCG matrix.

Difference between BCG and GE matrices –

BCG Matrix	GE Matrix
1. BCG matrix consists of four cells	1. GE matrix consists of nine cells

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2. The business unit is rated against relative market share and industry growth rate	2. The business unit is rated against business strength and industry attractiveness
3. The matrix uses single measure to assess growth and market share	3. The matrix used multiple measures to assess business strength and industry attractiveness
4. The matrix uses two types of classification i.e high and low	4. The matrix uses three types of classification i.e high/medium/low and strong/average/weak
5. Has many limitations	5. Overcomes many limitations of BCG and is an improvement over it

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BALANCED SCORE CARD

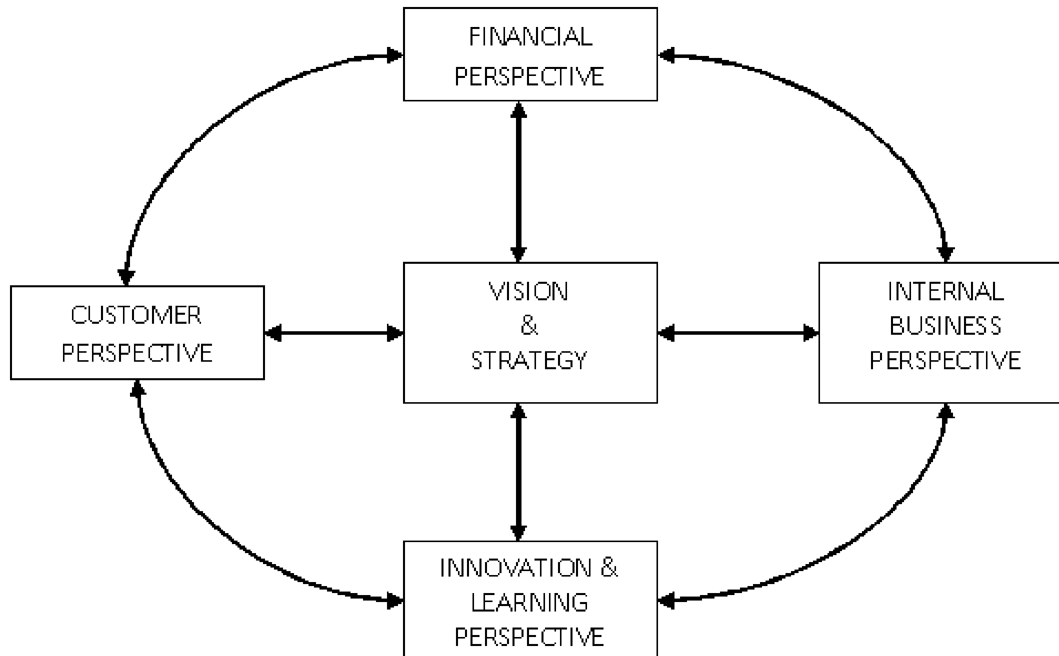
Balanced Score Card has been proposed and popularized by Robert. S. Kaplan and David. P. Norton. It is a performance tool which "Provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures".

The scorecard consists of 4 different perspectives such as:

- Financial
- Customer
- Internal business
- Innovation and Learning

(i) *Financial Perspective*

- ✓ Return-on-capital employed
- ✓ Cash flow
- ✓ Project profitability
- ✓ Profit forecast reliability
- ✓ Sales backlog



(ii) <u>Customer perspective</u>

- ✓ Pricing index
- ✓ Customer ranking survey
- ✓ Customer satisfaction index
- ✓ Market share

(iii) <u>Internal Business Perspective</u>

- ✓ Hours with customers on tender success rate
- ✓ Rework
- ✓ Safety incident index
- ✓ Project performance index
- ✓ Project closeout cycle

(iv) <u>Innovation & Learning Perspective</u>

- ✓ % revenue from new services
- ✓ Rate of improvement index

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- ✓ Staff Attitude survey
- ✓ Employee suggestions
- ✓ Revenue per employee.

Distinctive Competitiveness Meaning: Distinctive Competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm‟s distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength and both meets market needs and gives the firm a comparative advantage in the market place, that strength is the firm‟s distinctive competence. **Defining and Building Distinctive Competence:** To define a company‟s distinctive competence, managers often follow a particular process.

11. They identify the strengths and weaknesses in the given marketplace.
22. They analyze specific market needs and look for comparative advantages that they have over the competition.

SWOT ANALYSIS

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a **SWOT analysis**. The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fits into an environmental scan:

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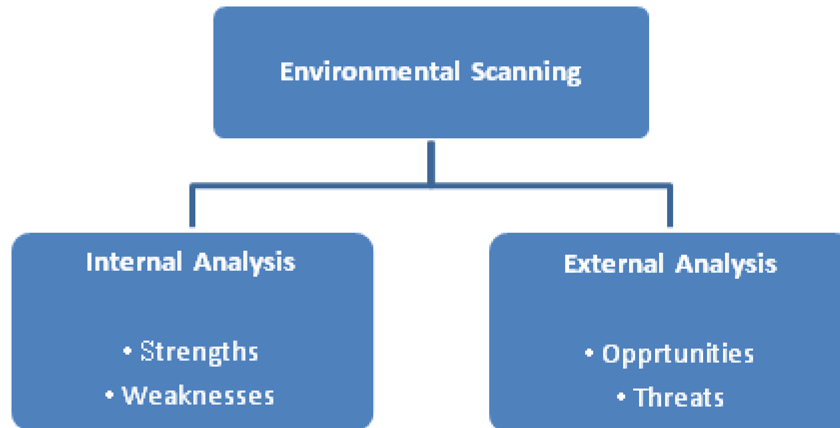

Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- patents
- strong brand names
- good reputation among customers
- cost advantages from proprietary know-how
- exclusive access to high grade natural resources
- favorable access to distribution networks

Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection
- a weak brand name
- poor reputation among customers
- high cost structure
- lack of access to the best natural resources
- lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a

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strength that competitors do not share, it also may be a considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- an unfulfilled customer need
- arrival of new technologies
- loosening of regulations
- removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products
- emergence of substitute products
- new regulations
- increased trade barriers

The SWOT Matrix

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a **TOWS Matrix**) is shown below:

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SWOT / TOWS Matrix

ENVIRONMENTAL FACTORS		**INTERNAL**	
		Strengths	**Weaknesses**
EXTERNAL	**Opportunities**	S-O strategies	W-O strategies
	Threats	S-T strategies	W-T strategies

- **S-O strategies** pursue opportunities that are a good fit to the company's strengths.
- **W-O strategies** overcome weaknesses to pursue opportunities.
- **S-T strategies** identify ways that the firm can use its strengths to reduce its vulnerability to external threats.
- **W-T strategies** establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

STRATEGY IMPLEMENTATION

The implementation of organization strategy involves the application of the management process to obtain the desired results. Particularly, strategy implementation includes designing the organization's structure, allocating resources, developing strategic control systems.

Strategy implementation is "the process of allocating resources to support the chosen strategies". This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals.

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The Relation between Strategy Formulation and Strategy Implementation

Successful strategy formulation does not guarantee successful strategy implementation. Strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Strategy formulation is positioning forces before the action.	Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process.	Strategy implementation is primarily an operational process.
Strategy formulation requires good intuitive and analytical skills.	Strategy implementation requires special motivation and leadership skills
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals.

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PLANS, PROGRAMMES, AND PROJECTS

The strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent: implementation tasks are meant to realize the intent. Strategies, therefore, have to be activated through implementation.

Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is a research and development programme for the development of a new product.

Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations. Thus, research and development programmes may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

Strategic Implementation Process

S.Certo and J. Peter proposed a five-stage model of the strategy implementation process:

a) Determining how much the organization will have to change in order to implement the strategy under consideration, under consideration.
b) Analyzing the formal and informal structures of the organization.
c) Analyzing the "*culture*" of the organization.

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d) Selecting an appropriate approach to implementing the strategy.
e) Implementing the strategy and evaluating the results.

Galbraith suggests that several major internal aspects of the organization may need to be synchronized to put a chosen strategy into action. Major factors are technology, human resources, reward systems, decision process and structure. This factors tend to be interconnected, so a change in one may necessitate change in one or more others.
Hambrick and Cannella described five steps for effective strategy implementation:

a) Input from a wide range of sources is required in the strategy formulation stage (i.e., the mission, environment, resources, and strategic options component).
b) The obstacles to implementation, both those internal and external to the organization, should be carefully assessed.
c) Strategists should be use implementation levers or management tasks to initiate this component of the strategic management process. Such levers may come from the way resources are committed, the approach used to structure the organization, the selection of managers, and the method of rewarding employees.
d) The next step is to sell the implementation. Selling upward entails convincing boards of directors and seniors management of the merits and viability of the strategy. Selling downward involves convincing lower level management and employees of the appropriateness of the strategy. Selling across involves coordinating implementation across the various units of an organization, while selling outward entails communicating the strategy to external stakeholders.
e) The process is on-going and a continuous fine tuning, adjusting, and responding is needed as circumstance change.

RESOURCE ALLOCATION

The resources may be existing with a company or many be acquired through capital allocation. Resources include physical, financial and human resources essential for implementing plans. Resources are broadly of four categories.

i) Money
ii) Facilities and equipment’s

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iii) Materials, supplies and services
iv) Personnel

Decisions involved in allocation of resources have vital significance in strategy implementation. In single product firms it may involve assessment of the resource needs of different functional departments. In the multi divisional organization it implies assessing the resource needs of different SBUs or product divisions Redeployment or reallocation of resources becomes necessary when changes take place. The redeployment of resources is quite critical when there are major changes and shifts in strategic posture of company. Redeployment of resources may arise due to strategies of a company to grow in certain areas and withdraw from the other.

Methods of Resource allocation

(i) Based on percentages:

Usually, companies have been following system of allocation of resources by percentages. It may not serve much purpose these days. They may be of help only in making some comparisons. The allocation of resources should not be based on their availability or scarcity as it may prove to be counterproductive. The resource allocation should be made with regard to strategies of a company for its future competitive position and growth. The decisions of resource allocation are also closely connected with the objectives of a company.

(ii) Based on modern methods

Other methods include -*Portfolio models, product life-cycle charts, balance sheets, profit and loss statements income statements.* When retrenchment or turnaround strategies are implemented *zero-based budgeting* is used. During mergers, acquisitions and expansion, *capital budgeting* techniques are suggested. Resource allocation is not purely a rational technique but is based on several behavioral and political considerations. The other analytical conceptual models used for strategic choice are *growth share matrix, 'stop light', and Directional Policy Matrix* used in multi divisional firms. A more comprehensive approach to management decisions on resource allocation is provided by the *budgeting system* carefully geared to the chosen strategy.

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Problems in resource allocation

There are several difficulties in resource allocation. The following are some of the identified problems.

i) Scarcity of resources.

Financial, physical, and human resources are hard to find. Firms will usually face difficulties in procuring finance. Even if fiancé is available, the cost of capital is a constraint. Those firms that enjoy investor confidence and high credit worthiness possess a competitive advantage as it increases their resource-generation capability. Physical resources would consist of assets, such as, lard machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government may no longer impose many conditions but it does place a burden on the firm’s finances and this places a restriction on firms wishing to procure physical resources. Human resources are seemingly in abundance in India but the problem arises due to the non-availability of skills that are specially required. Information technology and computer professionals, advertising personnel, and telecom, power and insurance experts are scarce in India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability resources are a very real problem.

ii) Restrictions on generating resources

In the usual budgeting process these are several restrictions for generating resources due to the SBU concept especially for new divisions and departments.

iii) Overstatement of needs

Over statement of needs is another frequent problem in a bottom-up approach to resource allocation.

The budgeting and corporate planning departments may have to face the ire of those executives who do not get resources according to their expectations. Such negative reactions may hamper the process of strategic planning itself.

DESIGNING ORGANIZATION STRUCTURE

An organizational structure is the pattern or arrangement of jobs and groups of jobs within an organization. Organizational Design is the process of creating or reshaping an organizational structure optimized to support strategic decisions.

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The elements of organization structure and design are

a) Division of labor
b) Departmentalization
c) Delegation of authority
d) Span of control

A) DIVISION OF LABOR:

It is the process of dividing work into relatively specialized jobs to achieve advantages of specialization

Division of Labor Occurs in Three Different Ways:

i) Personal specialties

e.g., accountants, software engineers, graphic designers, scientists, etc.

ii) Natural sequence of work

e.g., dividing work in a manufacturing plant into fabricating and assembly (*horizontal specialization*)

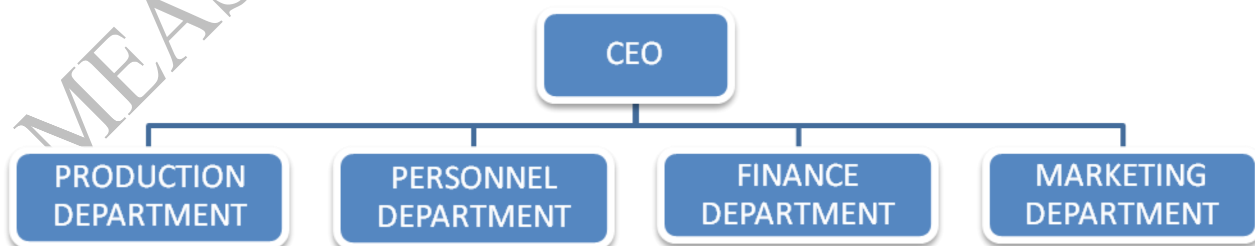
iii) Vertical plane

e.g., hierarchy of authority from lowest-level manager to highest-level manager

B) DEPARTMENTALIZATION:

Departmentalization is the process of grouping of work activities into departments, divisions, and other homogenous units. It takes place in various patterns like departmentalization by functions, products, customers, geographic location, process, and its combinations.

i) Functional Departmentalization



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Functional Departmentalization is the process of grouping activities by functions performed. Activities can be grouped according to function (work being done) to pursue economies of scale by placing employees with shared skills and knowledge into departments for example human resources, finance, production, and marketing. Functional Departmentalization can be used in all types of organizations.

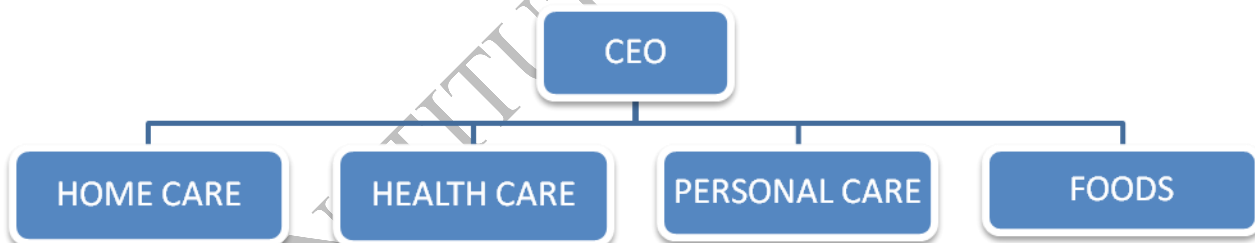
Advantages:

- Advantage of specialization
- Easy control over functions
- Pinpointing training needs of manager
- It is very simple process of grouping activities.

Disadvantages:

- Lack of responsibility for the end result
- Overspecialization or lack of general management
- It leads to increase conflicts and coordination problems among departments.

ii) Product Departmentalization



Product Departmentalization is the process of grouping activities by product line. Tasks can also be grouped according to a specific product or service, thus placing all activities related to the product or the service under one manager. Each major product area in the corporation is under the authority of a senior manager who is specialist in, and is responsible for, everything related to the product line. Dabur India Limited is the India's largest Ayurveda medicine manufacturer is an example of company that uses product Departmentalization. Its structure

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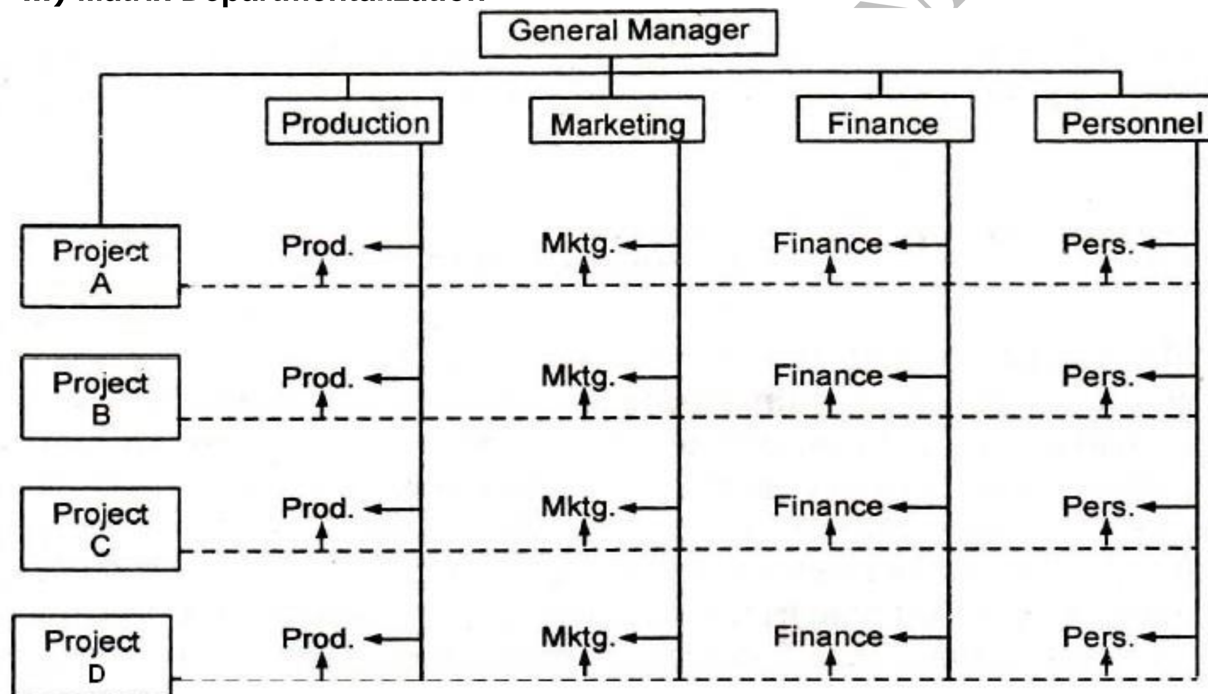
is based on its varied product lines which include Home care, Health care, Personal care and Foods.

Advantages

- It ensures better customer service
- Unprofitable products may be easily determined
- It assists in development of all around managerial talent
- Makes control effective
- It is flexible and new product line can be added easily.

iii) Matrix Departmentalization



In actual practice, no single pattern of grouping activities is applied in the organization structure with all its levels. Different bases are used in different segments of the enterprise. Composite or hybrid method forms the common basis for classifying activities rather than one particular method,. One of the mixed forms of organization is referred to as matrix or grid organization's According to the situations, the patterns of Organizing varies from case to

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case. The form of structure must reflect the tasks, goals and technology if the originations the type of people employed and the environmental conditions that it faces. It is not unusual to see firms that utilize the function and project organization combination. The same is true for process and project as well as other combinations. For instance, a large hospital could have an accounting department, surgery department, marketing department, and a satellite center project team that make up its organizational structure.

Advantages

- Efficiently manage large, complex tasks
- Effectively carry out large, complex tasks

Disadvantages

- Requires high levels of coordination
- Conflict between bosses
- Requires high levels of management skills

C) DELEGATION OF AUTHORITY

Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Centralization and Decentralization are two opposite ways to delegate authority and to change the organizational structure of organizations accordingly.

i) Centralization:

It is the process of transferring and assigning decision-making authority to higher levels of an organizational hierarchy. The span of control of top managers is relatively broad, and there are relatively many tiers in the organization.

Advantages

- Provide Power and prestige for manager
- Promote uniformity of policies, practices and decisions
- Minimal extensive controlling procedures and practices
- Minimize duplication of function

Disadvantages

- Neglected functions for mid. Level, and less motivated beside personnel.

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- Nursing supervisor functions as a link officer between nursing director and first- line management.

ii) Decentralization:

It is the process of transferring and assigning decision-making authority to lower levels of an organizational hierarchy. The span of control of top managers is relatively small, and there are relatively few tears in the organization, because there is more autonomy in the lower ranks.

Advantages

- Raise morale and promote interpersonal relationships
- Relieve from the daily administration
- Bring decision-making close to action
- Develop Second-line managers
- Promote employee's enthusiasm and coordination
- Facilitate actions by lower-level managers

Disadvantages

- Top-level administration may feel it would decrease their status
- Managers may not permit full and maximum utilization of highly qualified personnel
- Increased costs. It requires more managers and large staff
- It may lead to overlapping and duplication of effort

There must be a good balance between centralization and decentralization of authority and power. Extreme centralization and decentralization must be avoided.

D) SPAN OF CONTROL

Span of Control means the number of subordinates that can be managed efficiently and effectively by a superior in an organization. It suggests how the relations are designed between a superior and a subordinate in an organization.

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Factors Affecting Span of Management:

a) Capacity of Superior:

Different ability and capacity of leadership, communication affect management of subordinates.

b) Capacity of Subordinates:

Efficient and trained subordinates affect the degree of span of management.

c) Nature of Work:

Different types of work require different patterns of management.

d) Degree of Centralization or Decentralization:

Degree of centralization or decentralization affects the span of management by affecting the degree of involvement of the superior in decision making.

e) Degree of Planning:

Plans which can provide rules, procedures in doing the work higher would be the degree of span of management.

f) Communication Techniques:

Pattern of communication, its means, and media affect the time requirement in managing subordinates and consequently span of management.

g) Use of Staff Assistance:

Use of Staff assistance in reducing the work load of managers enables them to manage more number of subordinates.

h) Supervision of others:

If subordinate receives supervision form several other personnel besides his direct supervisor. In such a case, the work load of direct superior is reduced and he can supervise more number of persons.

Span of control is of two types:

i) Narrow span of control: Narrow Span of control means a single manager or supervisor oversees few subordinates. This gives rise to a tall organizational structure.

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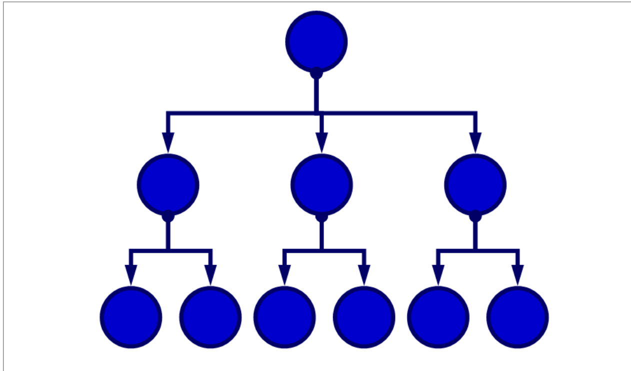

Advantages:

- Close supervision
- Close control of subordinates
- Fast communication

Disadvantages:

- Too much control
- Many levels of management
- High costs
- Excessive distance between lowest level and highest level

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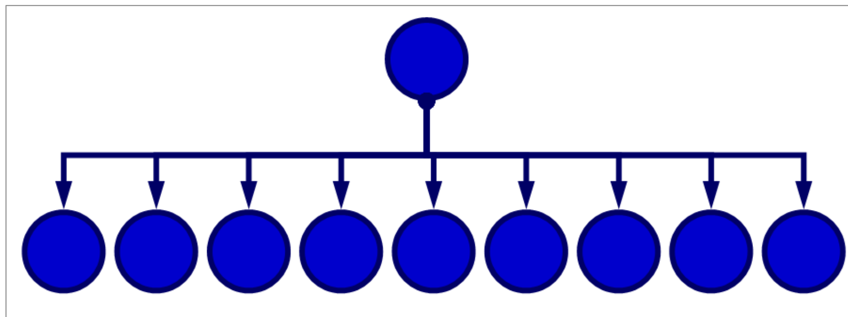
ii) **Wide span of control:** Wide span of control means a single manager or supervisor oversees a large number of subordinates. This gives rise to a flat organizational structure.



Advantages:

- More Delegation of Authority
- Development of Managers
- Clear policies

Disadvantages:

- Overloaded supervisors
- Danger of superiors loss of control
- Requirement of highly trained managerial personnel
- Block in decision making

DESIGNING STRATEGIC CONTROL SYSTEMS

Strategic control systems provide managers with required information to find out whether strategy and structure move in the same direction. It includes target setting, monitoring, evaluation and feedback system.

The importance of strategic control

- Achieving operational efficiency
- Maintaining focus on quality
- Fostering innovation
- Insuring responsiveness to customers

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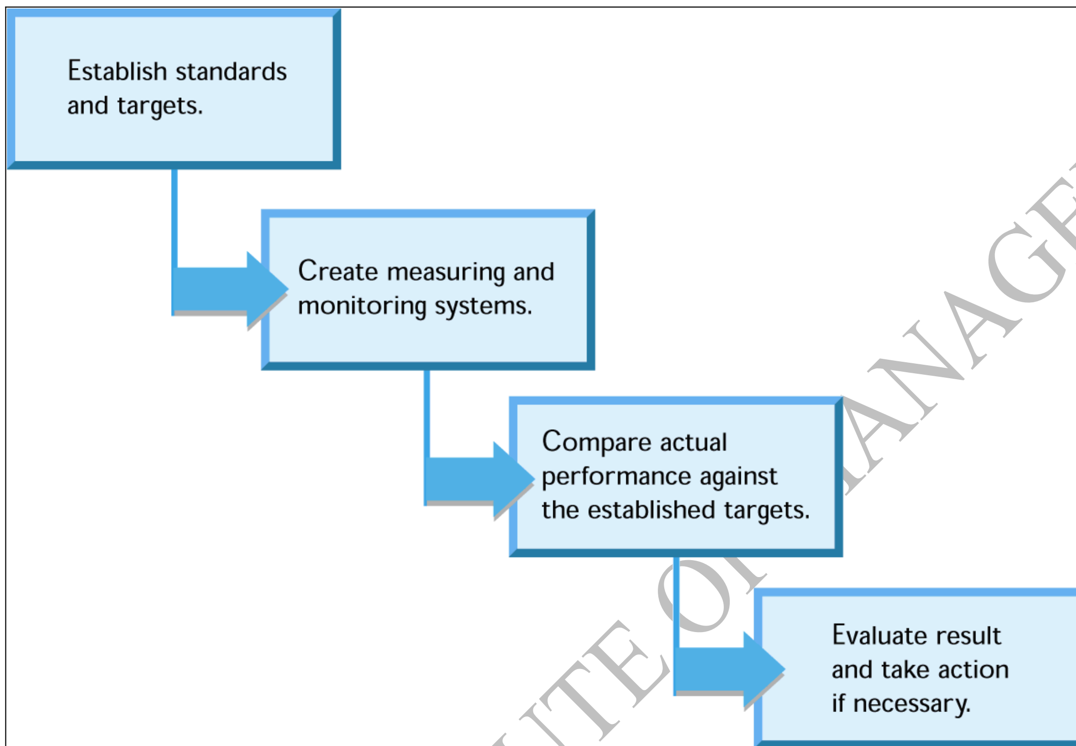
Strategic control process



The basic control process involves mainly these steps as shown in Figure

a) The Establishment of Standards:

Because plans are the standards against which controls must be revised, it follows logically that the first step in the control process would be to accomplish plans. Plans can be considered as the criterion or the standards against which we compare the actual performance in order to figure out the deviations.

Examples for the standards

- Profitability standards: In general, these standards indicate how much the company would like to make as profit over a given time period- that is, its return on

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investment.

- Market position standards: These standards indicate the share of total sales in a particular market that the company would like to have relative to its competitors.
- Productivity standards: How much that various segments of the organization should produce is the focus of these standards.
- Product leadership standards: These indicate what must be done to attain such a position.
- Employee attitude standards: These standards indicate what types of attitudes the company managers should strive to indicate in the company's employees.
- Social responsibility standards: Such as making contribution to the society.
- Standards reflecting the relative balance between short and long range goals.

b) Measurement of Performance:

The measurement of performance against standards should be on a forward looking basis so that deviations may be detected in advance by appropriate actions. The degree of difficulty in measuring various types of organizational performance, of course, is determined primarily by the activity being measured. For example, it is far more difficult to measure the performance of highway maintenance worker than to measure the performance of a student enrolled in a college level management course.

c) Comparing Measured Performance to Stated Standards:

When managers have taken a measure of organizational performance, their next step in controlling is to compare this measure against some standard. A standard is the level of activity established to serve as a model for evaluating organizational performance. The performance evaluated can be for the organization as a whole or for some individuals working within the organization. In essence, standards are the yardsticks that determine whether organizational performance is adequate or inadequate.

d) Taking Corrective Actions:

After actual performance has been measured compared with established performance standards, the next step in the controlling process is to take corrective action, if necessary.

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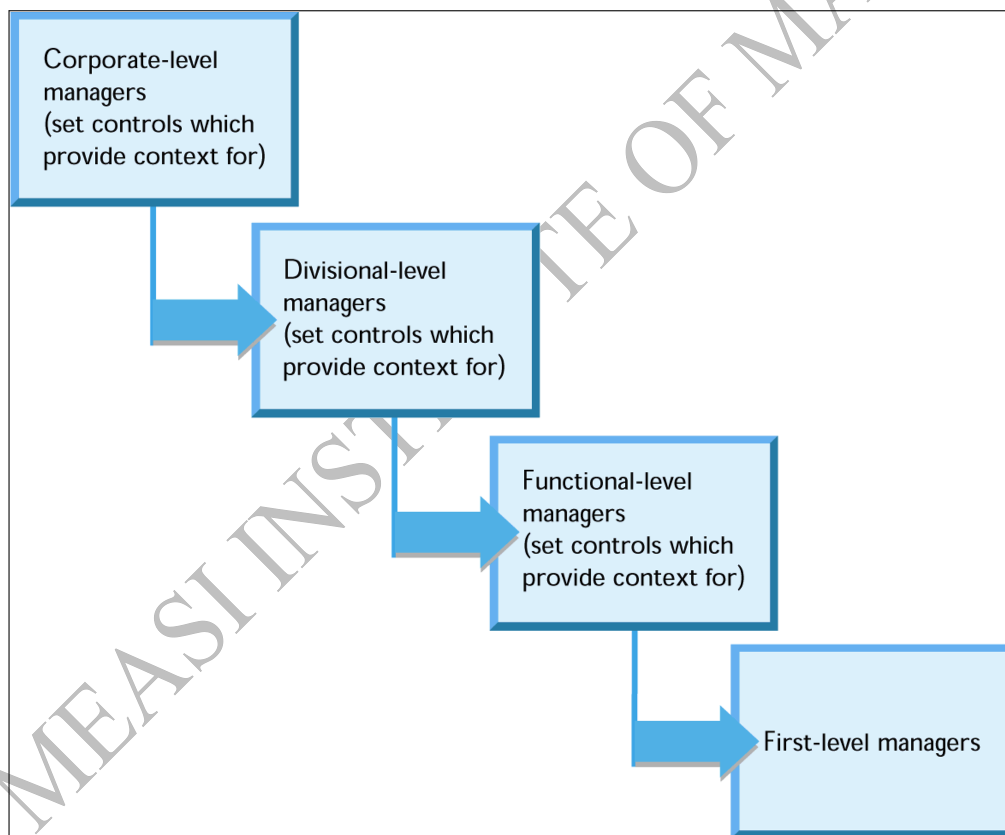
Corrective action is managerial activity aimed at bringing organizational performance up to the level of performance standards. In other words, corrective action focuses on correcting organizational mistakes that hinder organizational performance. Before taking any corrective action, however, managers should make sure that the standards they are using were properly established and that their measurements of organizational performance are valid and reliable. At first glance, it seems a fairly simple proposition that managers should take corrective action to eliminate problems - the factors within an organization that are barriers to organizational goal attainment. In practice, however, it is often difficult to pinpoint the problem causing some undesirable organizational effect.

Levels of strategic control



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The various levels of strategic control are

a) Corporate level control:

The corporate level control is done by the top level management. They set controls which provide context for the divisional level managers.

b) Divisional level control: The divisional level control is done by the managers of the division. They set controls which provide context for the functional managers.

c) Functional level control:

The functional level control is done by the managers of each department. They set controls which provide context for the first level managers.

d) First level control:

The first level control is done by the first line managers. They set controls which provide context for the workers.

IMPLEMENTING STRATEGIC CHANGE

Levels of change

Change occurs at three levels

i) Individual level
ii) Group level and
iii) Organization level

At the individual level change is reflected in such developments as changes in a job assignment, physical move to a different location, or the change in maturity of a person which occurs overtime. It is said that changes at the individual level will seldom have significant implications for the total organization. Most organizational changes have their major effects at the group level. This is because most activities in organizations are organized on a group basis. The groups could be departments, or informal work groups. Changes at the

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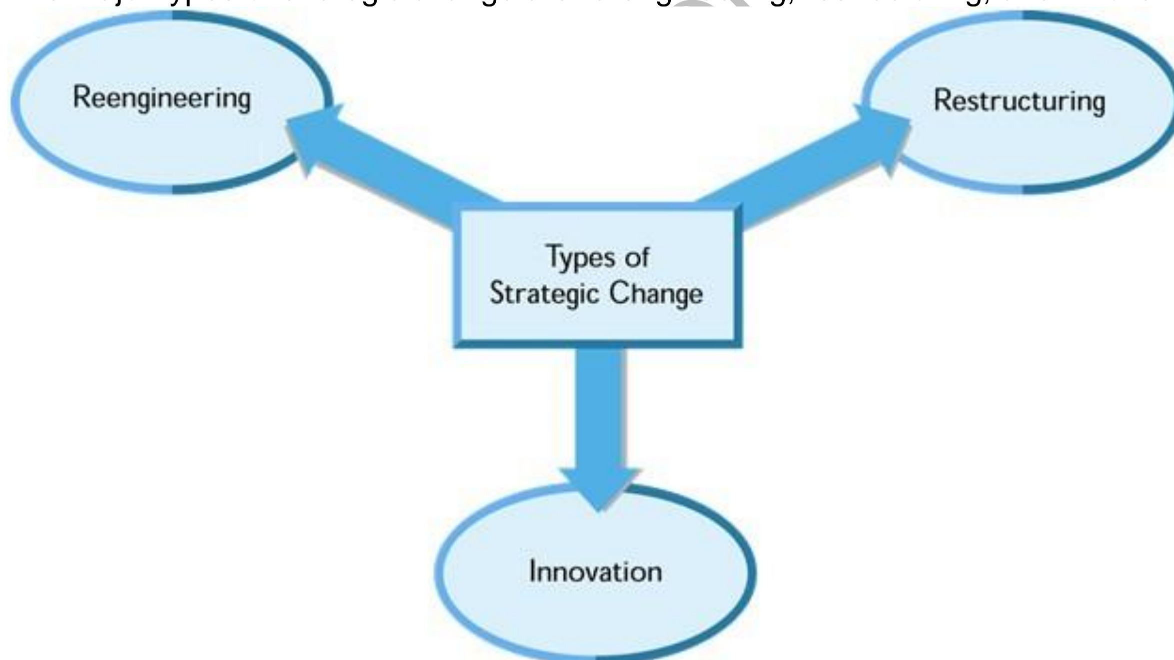
group level can affect work flows, job design, social organization, influence and status systems, and communications patterns. Changes at the organization level involve major programmes that affect both individuals and groups.

Organizations that seek to create and sustain competitive advantage should be ready to change and implement the proposed changes. The major forces for change are: technical obsolescence and technical improvements; political, economic, and social events; globalization; increase in organizational size, complexity, and specialization; greater strategic awareness and skills of managers and employees; and competitive dynamics. The level of change could be at values, culture, or styles of management; objectives, corporate strategy, or organization structure; competitive strategies, systems, and management roles; and functional strategies or organization of tasks. It is crucial to clarify the level of change and tackle needs and problems appropriately.

The major types of strategic change are re-engineering, restructuring, and innovation.



a) Re-engineering: It is also known as Business Process Reengineering. It is fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed. The strategist must completely think how the organization goes about its business. Instead of focusing on company's functions strategic managers make business process the focus of attention.

b) Restructuring: It is the second form of change to improve the firm's performance. There are two basic steps to restructuring. First, an organization reduces reduces its level of differentiation and integration by eliminating divisions, departments or levels in the hierarchy. Second, an organization downsizes by reducing the number of its employees to reduce operating cost.

c) Innovation: It is the process by which organizations use their skills and resources to create new technologies or goods and services so they can change and better respond to the needs of their customer. Innovation can be done with the help of research and development department.

STRATEGIC ISSUES IN MANAGING TECHNOLOGY AND INNOVATION

In this age of hyper competition and innovation, management of technology plays a crucial role. Innovation is the major driver of companies for creation of value.

a) The Role of Management

Due to increased competition and accelerated product development cycles, innovation and the management of technology are becoming crucial to corporate success. New product development is positively associated with corporate performance. Approximately half the profits of all U.S. companies come from products launched in the previous 10 years. What is less obvious is how a company can generate a significant return from investment in R&D as well as an overall sense of enthusiasm for innovative behavior and risk-taking. One way is to include innovation in the corporation's mission statement.

Eg. Intel: "Delight our customers, employees, and shareholders by relentlessly delivering the

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platform and technology advancements that become essential to the way we work and live."

Another way is by establishing policies that support the innovative process. If top management and the board are not interested in these topics, managers below them tend to echo their lack of interest.

b) Environmental Scanning

Issues in innovation and technology influence both external and internal environmental scanning.

(i) External Scanning

Corporations need to continually scan their external societal and tack environment for new development in technology that may have some application to their current or potential products. This is external scanning.

- **Impact of Stakeholders on Innovation**

A company should look to its stakeholders, especially its customers, suppliers, and distributors, for sources of product and service improvements. These groups of people have the most to gain from innovative new products or services. Under certain circumstances, they may propose new directions for product development. Some of the methods of gathering information from key stakeholders are using lead users, market research, and new product experimentation.

- **Technological Developments**
- A company's focusing its scanning efforts too closely on its current product line is dangerous. Most new developments that threaten existing business practices and technologies do not come from existing competitors or even from within traditional industries. A new technology that can substitute for an existing technology at a lower cost and provide higher quality can change the very basis for competition in an industry. Managers therefore need to actively scan the periphery for new product ideas because this is where breakthrough innovations will be found.

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(ii) Internal Scanning

Strategists should assess how well company resources are internally allocated and evaluate the organization's ability to develop and transfer new technology in a timely manner to generate innovative products and services.

- *Research allocation issues* –The company must make available the resources necessary for research and development.
- *Time to market issues* – In addition to money another improvement consideration in the effective management of R&D is time to market. It is an important issue because 60% of patented innovations are generally imitated within 4 years at 65% of the cost of innovation.

c) Strategy Formulation

R&D strategy deals not only with the decision to be a leader or a follower in terms of technology and market entry but also with the source of the technology.

Technology sourcing – a make or buy decision can be important in a firm's R&D strategy. There are two methods for acquiring technology, namely in house R&D is an important source of technical knowledge. Firms that are unable to finance alone the huge cost of developing a new technology may coronate their R&D with other firms through a strategic R&D alliance.

Technology competence – R&D creates a capacity in a firm to assimilate and exploit new knowledge. This is absorptive capacity. Technology competence is to make good use of the innovative technology purchased by a firm.

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d) Strategy implementation

If a corporate decides to develop innovations internally, it must make sure that its corporate system and culture are suitable for such a strategy. It must establish procedures to support all six stages of new product development [idea generation, concept evaluation, preliminary design, prototype build and test final design and pilot production, new business development. Top management must develop an entrepreneurial culture – one that is open to the transfer of new technology into company must be flexible and accepting change.

e) Evaluation and Control

For innovations to succeed, appropriate evaluation and control techniques must be used to ensure that the end product is what was originally planned. Some of these techniques are the stage gate process and the house of quality. Appropriate measures are also needed to evaluate the effectiveness of the R&D process.

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