DEPARTMENT OF MANAGEMENT STUDIES

II Year/III SEMESTER

BA4301 STRATEGIC MANAGEMENT

STUDY MATERIAL

Anna University Chennai

Regulation 2021

TABLE OF CONTENTS

S.No	Particulars	Pg No
1	COLLEGE- Mission/ Vision	3
2	MBA Dept - Mission/ Vision	4
	PEO'S/PO's	4
	CO'S/ CO-PEO matrix	5
3	SYLLABUS OF THE SUBJECT	6
4	STUDY MATERIAL	
	UNIT I	8
	UNIT II	26
	UNIT III	51
	UNIT IV	90
	UNIT V	119
5	QUESTIONS BNAK UNITWISE PART –A (30 questions with answer) / PART (10 questions from the unit) with page number from the question bank. (Unit 1 to Unit 3)	132
6	PREVIOUS YEAR UNIVERSITY QUESTION	166

JEPPIAAR

ENGINEERING COLLEGE

Jeppiaar Nagar, OMR Salai, Semmencherry ,Chennai -600119

VISION

To build Jeppiaar Engineering College as an institution of academic excellence in technology and management education, leading to become a world class university.

MISSION

- To excel in teaching and learning, research and innovation by promoting the principles of scientific analysis and creative thinking.
- To participate in the production, development and dissemination of knowledge and interact with national and international communities.
- To equip students with values, ethics and life skills needed to enrich their lives and enable them to contribute for the progress of society.
- To prepare students for higher studies and lifelong learning, enrich them with the practical skills necessary to excel as future professionals and entrepreneurs for the benefit of Nation's economy.

DEPARTMENT OF MANAGEMENT STUDIES

VISION

To be a prominent management institution developing industry ready managers, entrepreneurs and socially responsible leaders by imparting extensive expertise and competencies.

MISSION

- To provide management education to all groups in the community.
- To practice management through scholarly research and education.
- To advance in the best practices of management which enable the students to meet the global industry demand.
- To promote higher studies, lifelong learning, entrepreneurial skills and develop socially responsible professionals for empowering nation's economy.

PROGRAMME EDUCATIONAL OBJECTIVES (PEOs):

MBA programme curriculum is designed to prepare the post graduate students

- To have a thorough understanding of the core aspects of the business.
- To provide the learners with the management tools to identify, analyze and create business opportunities as well as solve business problems.
- To prepare them to have a holistic approach towards management functions.
- To inspire and make them practice ethical standards in business.

PROGRAMME OUTCOMES (POs)

On successful completion of the programme,

1. Ability to apply the business acumen gained in practice.
2. Ability to understand and solve managerial issues.
3. Ability to communicate and negotiate effectively, to achieve organizational and individual goals.
4. Ability to understand one's own ability to set achievable targets and complete them.
5. Ability to fulfill social outreach
6. Ability to take up challenging assignments

COURSE OBJECTIVE:

To learn the major initiatives taken by a company's top management on behalf of corporate, involving resources and performance in external environments. It entails

specifying the organization's mission, vision and objectives, and to equip with skills required to manage business and non-business organizations at senior levels. The course adopts a functional approach to management developing policies and plan to understand the analysis and implementation of strategic management in strategic business units.

COURSE OUTCOMES:

1. Ability to understand the Strategic management process and social responsibility of business organizations
2. In-depth understanding about the need for developing competitive advantage for organizations
3. Provides insights into various corporate and business level strategies
4. Facilitates to identify the various control systems required for organizational strategy implementation process
5. Enhances the cognitive knowledge about various strategic issues and development of new business models

Course Outcomes	Program Outcomes					
	PO1	PO2	PO3	PO4	PO5	PO6
CO1	3	2	0	2	3	2
CO2	3	3	0	2	1	3
CO3	3	3	0	3	1	2
CO4	3	3	0	2	1	3
CO5	3	3	0	2	1	2
Average	**3**	**2.8**	**0**	**2.2**	**1.4**	**2.4**

BA 5302 STRATEGIC MANAGEMENT LT P C
3 0 0 3

UNIT I STRATEGY AND PROCESS

Conceptual framework for strategic management, the Concept of Strategy and the Strategy Formation Process – Stakeholders in business – Vision, Mission and Purpose – Business definition, Objectives and Goals - Corporate Governance and Social responsibility-case study.

UNIT II COMPETITIVE ADVANTAGE

External Environment - Porter's Five Forces Model-Strategic Groups Competitive Changes during Industry Evolution-Globalisation and Industry Structure - National Context and Competitive advantage Resources- Capabilities and competencies–core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage- Distinctive Competencies-Resources and Capabilities durability of competitive Advantage- Avoiding failures and sustaining competitive advantage-Case study.

UNIT III STRATEGIES

The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy- Strategy in the Global Environment-Corporate Strategy- Vertical IntegrationDiversification and Strategic Alliances-Building and Restructuring the corporation-Strategic analysis and choice – Managing Growth - Environmental Threat and Opportunity Profile (ETOP) - Organizational Capability Profile - Strategic Advantage Profile - Corporate Portfolio Analysis - SWOT Analysis - GAP Analysis - Mc Kinsey's 7s Framework - GE 9 Cell Model – Distinctive competitiveness - Selection of matrix - Balance Score Card-case study.

UNIT IV STRATEGY IMPLEMENTATION & EVALUATION

The implementation process, Resource allocation, Designing organisational structure-Designing Strategic Control Systems- Matching structure and control to strategy-Implementing Strategic changePolitics-Power and Conflict-Techniques of strategic evaluation & control-case study.

UNIT V OTHER STRATEGIC ISSUES

Managing Technology and Innovation - Strategic issues for Non Profit organisations. New Business Models and strategies for Internet Economy-case study Challenges in Strategic Management: Introduction, Strategic Management as an Organisational Force, Dealing with Strategic Management in Various Situations, Strategic Management Implications and Challenges Recent Trends in Strategic Management: Introduction, Strategic Thinking, Organisational Culture and its Significance, Organisational Development and Change, Change Management, Strategic management in a new globalised economy

TEXTBOOKS

1. Hill. Strategic Management : An Integrated approach, 2009 Edition Wiley (2012).
2. John A.Parnell. Strategic Management, Theory and practice Biztantra (2012).
3. Azhar Kazmi, Strategic Management and Business Policy, 3rd Edition, Tata McGraw Hill, 2008.

REFERENCES

1. Adriau HAberberg 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 Application, Prentice Hall of India, 2005.
4. Dr.Dharma Bir 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

UNIT I STRATEGY AND PROCESS

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.

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.

Corporate level strategy is concerned with:

- Reach - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.

- Competitive Contact - defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)
- Managing Activities and Business Interrelationships - Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.
- Management Practices - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

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.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- 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.

STRATEGIC MANAGEMENT

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:

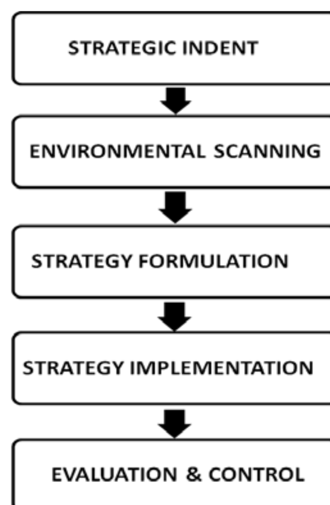
"The determination of the basic long-term goals & objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals".

-Chandler

STRATEGIC MANAGEMENT MODEL / STRATEGIC PLANNING PROCESS

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. 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. It should not focus so much on today's problems, but rather on tomorrow's opportunities. Strategic intent should specify the competitive factors, the factors critical to success in the future.

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, nothing but, the influencing of an organization's resource potential and core

competencies to achieve what at first may seem to be unachievable 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

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.

c) Strategy Formulation

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.

i) 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.

ii) 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.

iii) Strategies

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

d) 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.

ii) 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 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

iii) 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

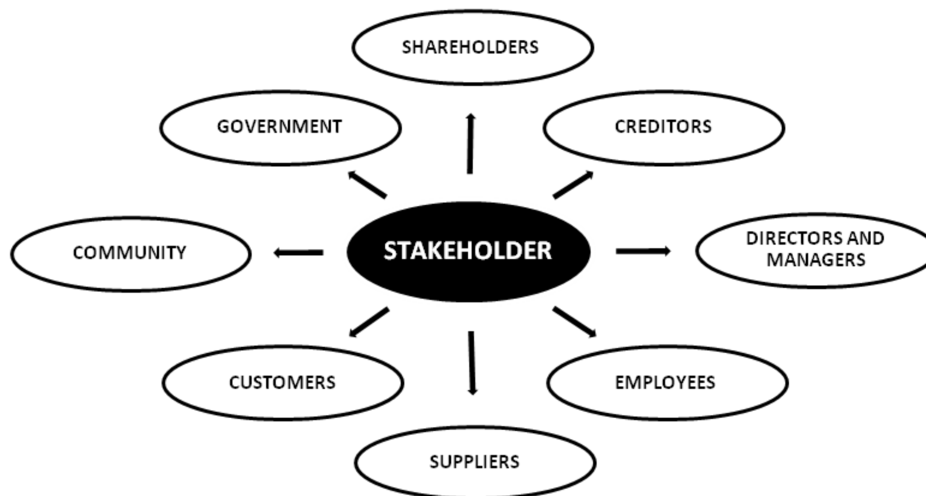
v) Make necessary changes

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



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

VISION, MISSION AND PURPOSE

VISION STATEMENT

Vision statement provides direction and inspiration for organizational goal setting.

Vision is **where you see your self 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' is that 'how' 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 mis-match, it is not explained.

Horizon of Vision:

Vision should be the horizon of 5-10 years. If it is less than that, it becomes tactical. If it is of a horizon of 20+ years (say), it becomes difficult for the strategy to relate to the vision.

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 should we 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 '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.

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.

Th*e* 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.

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.

Share holders

A shareholder or stockholder is an individual or institution (including a corporation) that legally owns one or more shares of stock in a public or private corporation. Shareholders own the stock, but not the corporation itself.
Stockholders are granted special privileges depending on the class of stock. These rights may include:

- The right to sell their shares,
- The right to vote on the directors nominated by the board,

- The right to nominate directors (although this is very difficult in practice because of minority protections) and propose shareholder resolutions,
- The right to dividends if they are declared,
- The right to purchase new shares issued by the company, and

Board of Directors

Elected by the shareholders, the board of directors is made up of two types of representatives. The first type involves individuals chosen from within the company. This can be a CEO, CFO, manager or any other person who works for the company on a daily basis. The other type of representative is chosen externally and is considered to be independent from the company. The role of the board is to monitor the managers of a corporation, acting as an advocate for stockholders. In essence, the board of directors tries to make sure that shareholders' interests are well served.

Board members can be divided into three categories:

- *Chairman* – Technically the leader of the corporation, the chairman of the board is responsible for running the board smoothly and effectively. His or her duties typically include maintaining strong communication with the chief executive officer and high-level executives, formulating the company's business strategy, representing management and the board to the general public and shareholders, and maintaining corporate integrity. A chairman is elected from the board of directors.
- *Inside Directors* – These directors are responsible for approving high-level budgets prepared by upper management, implementing and monitoring business strategy, and approving core corporate initiatives and projects. Inside directors are either shareholders or high-level management from within the company. Inside directors help provide internal perspectives for other board members. These individuals are also referred to as executive directors if they are part of company's management team.
- *Outside Directors* – While having the same responsibilities as the inside directors in determining strategic direction and corporate policy, outside directors are different in that they are not directly part of the management team. The purpose of having outside directors is to provide unbiased and impartial perspectives on issues brought to the board.

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 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 inventors and mutual funds have now become singly or jointly direct challenges to management of companies.

2) Social Responsibility:

A company is a legal entity without physical existence. Therefore, it is managed by board of directors which is accountable and responsible to share holders 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 share holder 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 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 favours 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 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, 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.
- 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.

UNIT – II COMPETITIVE ADVANTAGE 9

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 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 affect 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.

vi) Media

Positive or adverse media attention on an organisations product or service can in some cases make or break an organisation.. Consumer programmes with a wider and more direct audience can also have a very powerful and positive impact, hforcing organisations 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
- 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

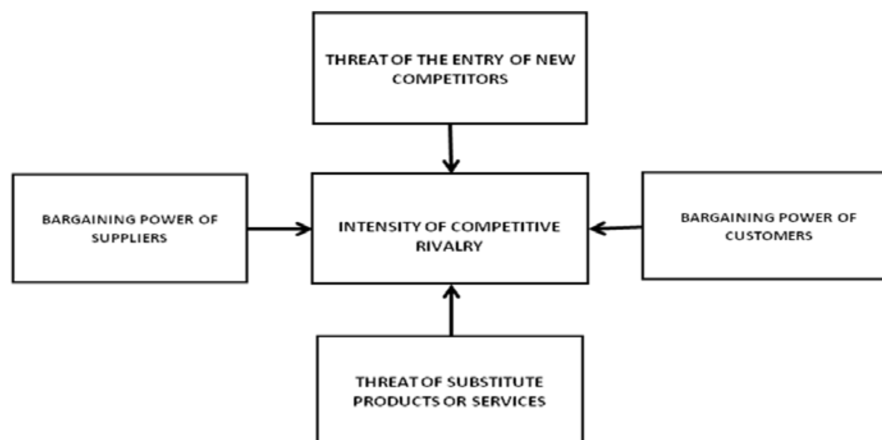
Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

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

Michael Porter's 5 forces model

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

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 pricesensitive
- 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 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 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)

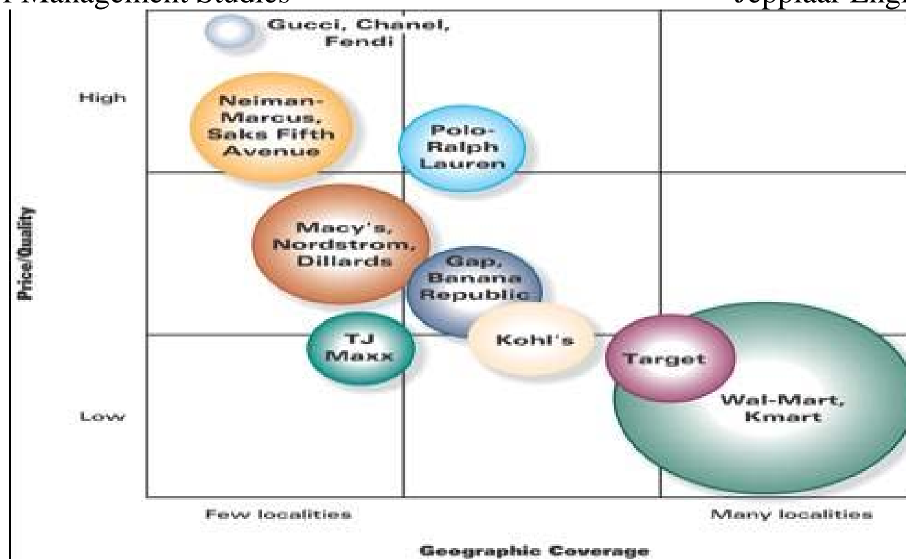
STRATEGIC GROUPS

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.

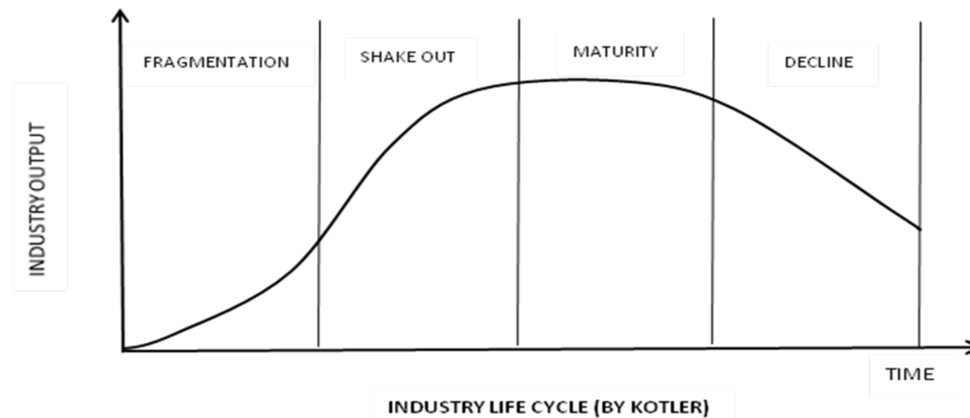
a) *Identify Key Competitive Attributes.* As mentioned previously, many firms share similar competitive attributes such as pricing practices and product scope. The first step in developing a strategic group map is to identify key competitive attributes that logically differentiate firms in a competitive 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 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 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).



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 an 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.

In 1985, Ryanair made a huge change in the European airline industry. Ryanair was the first airline to engage low-cost airlines in Europe. At that time, Ryanair's services were perceived as the innovation of the European airline industry. Ryanair tickets are half the price of British Airways. Some of its sales promotions were very low. This made people think that air travel was not just made for the rich, but everybody.

Ryanair overcame the twin problems of innovation and invention in the airline industry by inventing air travel services that could serve passengers with tight budgets and those who just wanted to reach their destination without breaking their bank savings. Ryanair achieved this goal by eliminating unnecessary services offered by traditional airlines. It does not offer free meals, uses paper-free air tickets, gets rid of mile collecting scheme, utilises secondary airports, and offers frequent flights. These techniques help Ryanair save time and costs spent in airline business operation.

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 realise 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. Nicorette, one of the leading companies is producing several nicotine products to help people quit smoking. Some of its well-known products include Nicorette patches, Nicolette gums and Nicorette lozenges.

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 realised the opportunity in this market and decided to enter it by launching nicotine product ranges, including Nic Lite gum and patches. It recently went beyond UK boarder after the UK government introduced non-smoking policy in public places, including pubs and nightclubs. This business threat created a new business opportunity in the industry for Nic Lite to launch a new nicotine-related product called Nic Time.

Nic Time is a whole new way for smokers to "get a cigarette" – an eight-ounce bottle contains a lemon-flavoured drink laced with nicotine, the same amount of nicotine as two cigarettes. Nic Lite was first available at Los Angeles airports for smokers who got uneasy on flights, but now the nicotine soft drinks are available in some convenience stores.

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 organisations 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 customers in the European market.

The haute couture fashion industry is another good example. There are many western-branded fashion labels that manufacture their products overseas by cooperating with overseas partners, or

they could seek foreign suppliers who specialise in particular materials or items. For instance, Nike has factories in China and Thailand as both countries have cheap labour costs and cheap, quality materials, particularly rubber and fabric. However, their overseas partners are not allowed to sell shoes produced for Adidas and Nike. The items have to be shipped back to the US, and then will be exported to countries worldwide, including China and Thailand.

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 organisation, 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-centre staff.

In recent years, the features of mobile phones have 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 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 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 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

⇒ **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

Globalisation 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

- 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.

- Multidomestic Industries
- Global Industries

Multidomestic 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 world wide, 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.

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. <u>Demand Conditions:</u>

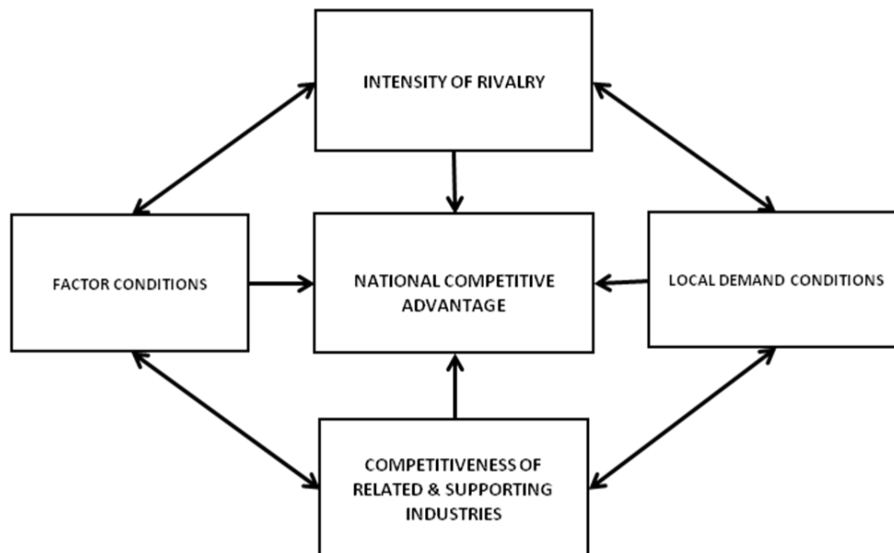
The nature of home demand for the industry's product or service.

3. <u>Relating & Supporting Industries:</u>

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

4. <u>Firm Strategy, Structure & Rivalry:</u>

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



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.

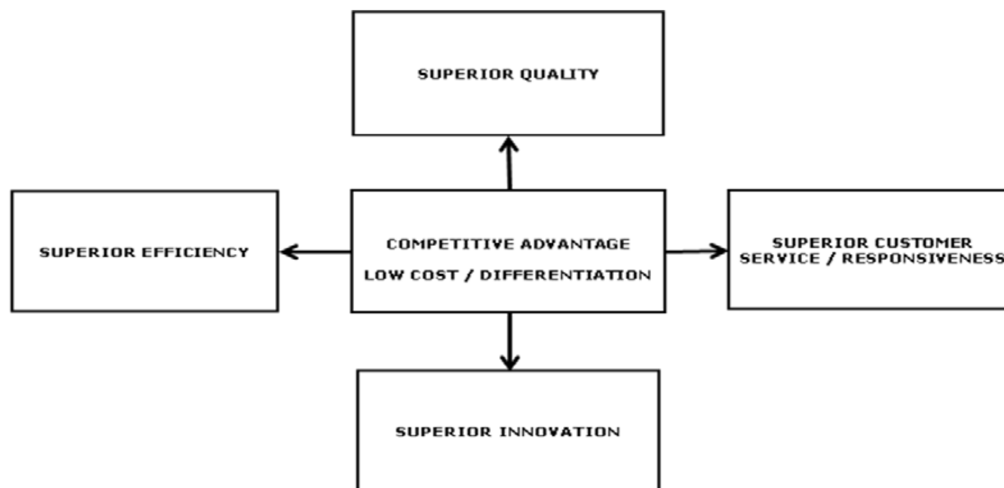
Types of competency

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.

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 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;
- 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.

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.

DURABILITY OF COMPETITIVE ADVANTAGE

Durability of competitive advantage refers to the rate at which the firm's capabilities and resources depreciate or become obsolete. It depends on three factors:

A) Barriers to Imitation:

Barriers are factors which make it difficult for a competitor is copy a company's distinctive competencies. The longer the period for the competitor to imitate the distinctive competency, the greater the opportunity that the company has to build a strong market positioned reputation with consumers. Imitability refers to the rate at which others duplicate a firm underlying resources and capabilities.

Tangible resources can be easily imitated but intangible resources cannot be imitated and capabilities cannot be imitated.

B) Capability of Competitors:

When a firm is committed to a particular course of action in doing business and develops a specific set of resources and capabilities, such prior commitments make it difficult to imitate the CA of successful firms.

A major determinant of the capability of competitors to imitate a company's competitive advantage rapidly is the nature of the competitor's prior strategic commitments & Absorptive capacity.

i) Strategic commitment:

A company's commitment to a particular way of doing business that is to developing a particular set of resources & capabilities.

ii) Absorptive capacity:

Refers to the ability of an enterprise to identify value, assimilate, and use new knowledge.

C) Dynamism of industry: Dynamic industries are characterized by high rate of innovation and fast changes and competitive advantage will not last for a long time. The most dynamic industries tend to be those with a very high rate of product innovation.

Ex: Computer industry.

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 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 a competitive advantage overtime is to continually improve its 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.

UNIT - III STRATEGIES

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 l 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 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 Smithkline. 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
  - 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) ***GROWTH STRATEGY***

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. 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.

(i) CONCENTRATION STRATEGY: If a company's current product lines have real growth potential, concentration of resources on those product lines makes sense as a strategy for growth. The two basic concentration strategies are vertical growth and horizontal growth. Growing firms in a growing industry tend to choose these strategies before they try diversifications.

- *Vertical growth* can be achieved by taking over a function previously provided by a supplier or by a distributor. The company, in effect, grows by making its own supplies and/or by distributing its own products. This may be done in order to reduce costs, gain control over a scarce resource, guarantee quality of key input, or obtain access to potential customers.

Eg: Henry Ford used internal company resources to build his River Rouge Plant outside Detroit. The manufacturing process was integrated to the point that iron ore entered one end of the long plant and finished automobiles rolled out the other end into a huge parking lot.

Cisco Systems, the maker of Internet Hardware, chose the external route to vertical growth by purchasing Radiata, Inc., a maker of chips sets for wireless networks. This acquisition gave Cisco access to technology permitting wireless communications at speeds, previously possible only with wired connections.

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, Egample, 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.

  Eg: Ranbaxy Labs followed a horizontal growth strategy when it extended its pharmaceuticals business to Europe and to USE company can grow horizontally through internal development or externally through acquisitions or strategic alliances with another firm in the same industry.

  Horizontal growth results in horizontal integrations – the degree to which a firm operates in multiple geographic locations at the same point in an industry's value chain. Horizontal integration for a firm may range from full to partial ownership to long term contract.

(ii) DIVERSIFCATION STRATEGY: When an industry consolidates and becomes mature, most of the surviving firms have reached the limits of growth using vertical and horizontal growth strategies. Unless the competitors are able to expand internationally into less mature markets, they may have no choice but to diversify into different industries if they want to continue growing. The two basic diversification strategies are concentric and conglomerate.

- ***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 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 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.

(i) 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.

(ii) 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.

(iii) 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 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.

(iv) 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.

  Eg: GTB (Global Trust Bank) was promoted as a private sector bank in 1993, and was running successfully and setting records. In 2004, it became bankrupt under the pressure of bad loans and merged with a public sector bank, Oriental Bank of Commerce.
- *Liquidation*: It is the termination of the firm. Because the industry is unattractive and the company too weak to be sold as a going concern, management may choose to convert as many saleable assets as possible to cash, which is then distributed to the shareholders after all obligations are paid.

  Eg: Small businesses and partnership firms liquidate when one or more partners want to withdraw from the business.

  Liquidation may be done in the following ways:
  - 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 organisation, 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

- 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.

Eg: Wet grinder companies like Shantha and Sowbhagya seeks differentiation in a targeted market segment.

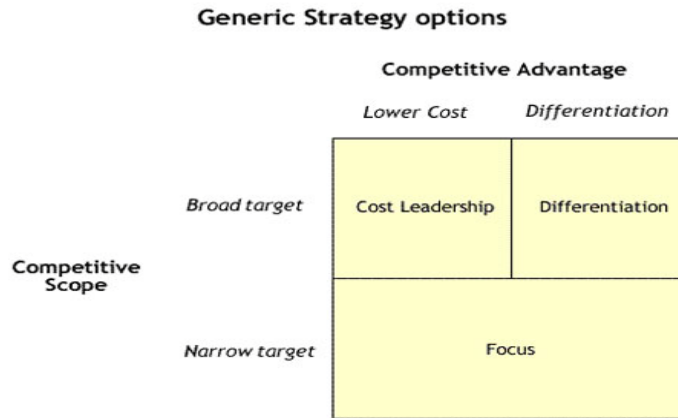
A) COMPETITIVE BUSINESS STRATEGY (PORTER'S GENERIC STRATEGY)

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 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.



<u>i) Low-Cost Strategy</u>: 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.

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

<u>ii) Differentiation Strategy</u>: 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

<u>Eg:</u> 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 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 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.

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 firm with a competitive advantage. The orientation of the functional strategy is dictated by its parent business unit’s strategy.

Eg: A business unit following a competitive strategy of differentiation through high quality needs a manufacturing functional strategy that emphasizes expensive quality assurance process over cheaper, high-volume production.

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.

Eg: When Maggi Noodles expanded into India, it was marketed as a snack food and not as a main course meal. Since Indians prefer a heavy breakfast, they preferred to eat noodles in the evening as a fast to cook and ready to serve evening meal, especially to children.

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.

Eg: Daimler Chrysler outsourced its designing of car accessory to Plexion Technologies in Bangalore. Toyota has outsourced its transmission components designing to BFL.

The key to outsourcing is to purchase from outside only those activities that are not key to the company's distinctive competencies. Otherwise, the company may give up the very capabilities that made it successful in the first place – thus providing itself on the road to eventual decline. In determining functional strategy, the strategist must.

- Identify the company's or business unit's core competencies
- Ensure that the competencies are continually being strengthened and
- Manage the competencies in such a way that best preserves the competitive advantage they create.

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).

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 buy out (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 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

- *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 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.

STRATEGIES TO AVOID

Several strategies, which could be considered corporate, business or functional, are very dangerous. Managers who made a poor analysis or lack creativity may be trapped into considering some of the following strategies to avoid, namely:

- *Follow the Leader* – Imitating a leading competitor's strategy might seems to be a good idea, but it ignores a firm's particular strengthens and weakness and the possibility that the leader may be wrong. **Eg:** Fujitsu Ltd, 2nd largest computer maker, was driven sine the 1960's with the ambition of catching up with IBM. It competed as a mainframe computer-maker but failed to notice that the mainframe business had reached maturity by 1990.
- *Hit Another Home Run* – If a company is successful because it pioneered an extremely successful product, it tends to search for another super product that will ensure growth and prosperity. **Eg:** Palaroid spent a lot of money in developing and "instant" movie camera, but the public ignored it in favour f the camcorder.
- *Arms race* – Entering into a spirited battle with another firm for increased market share might increase sales revenue, but that increase will probably be more then offset by increases in advertising, promotion, R&D, and manufacturing cost. **Eg:** Since the deregulation of airlines, price wars and special rates have contributed to the low profit margins or bankruptcy of many major airlines such as Eastern and Continental.
- *Do Everything* – When faced with several interesting opportunities, management of a corporation might have enough resources to develop each idea into a project, but money, time and energy are soon exhausted as the many projects demand large infusions of resource. **Eg:** Walt Disney Company's expertise in the entertainment industry led it to acquire the ABC Network, as the company progressed, it spent $750 M to build new theme parks and buy a cruise line. By 2000, even though corporate sales continued to increase, net income was falling.

- *Leasing Hands* – A corporation might have invested so much in a particular strategy that top management is unwilling to accept its failure. Believing that it has too much invested to quit, the corporation continues to throw "good money after bad". **Eg:** PAN American Airlines close to sell its profitable PAN AM Building and intercontinental Hotels to keep its money losing airline flying. It continued to suffer losses, until it had sold off everything and went bankrupt.

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 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.

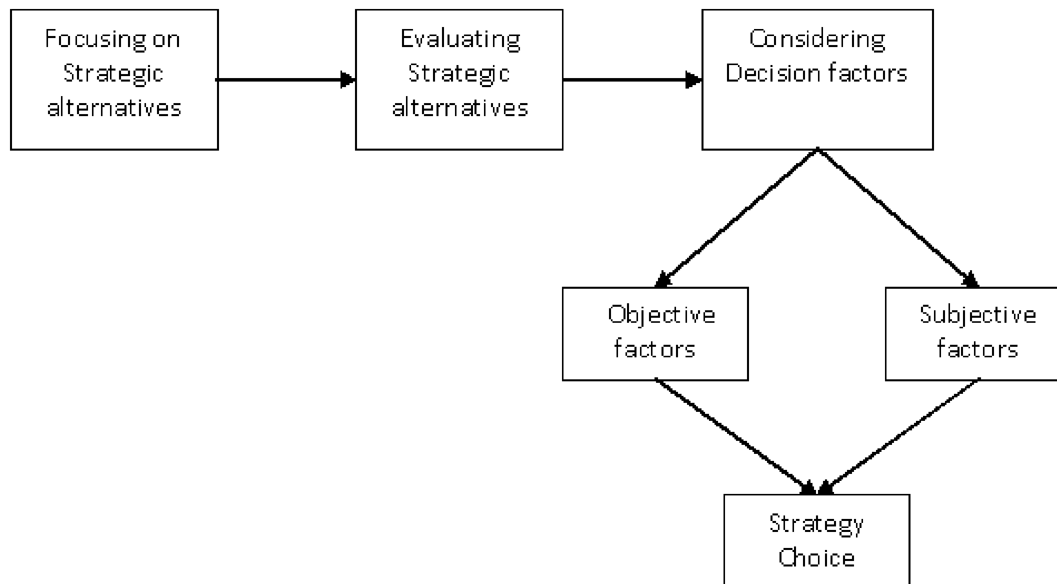
- **Management-buyout**: selling off the divested unit to its management is known as management buyout.
- **Harvest strategy:** A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it. **Liquidation:** Liquidation 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
- Strategic choice

STRATEGIC CHOICE PROCESS



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 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

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.

Strategic Advantage Profile for a bicycle company

S.No	Capability Factor	Nature of Impact	Competitive strengths or weaknesses
1	Finance	Down Arrow	High cost of capital, reserves and surplus position unsatisfactory

2	Marketing	Horizontal Arrow	Fierce competition in industry's
3	Information	Up Arrow	Advanced Management information system

- Up Arrow indicates Strength
- Down Arrow indicates Weaknesses
- Horizontal Arrow indicates Neutral

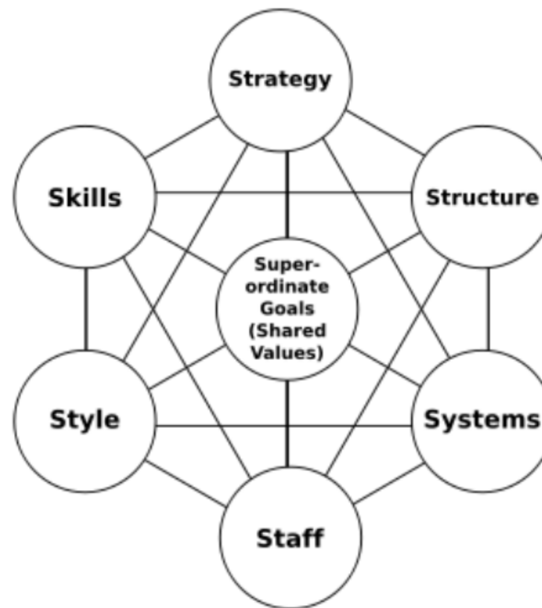
ORGANIZATIONAL CAPABILITY PROFILE (OCP)

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

Capability Factors	Weakness (-5)	Normal (0)	Strength (+5)
Financial	-5		
Technical		0	
Human Resource	-5		
Marketing			5
R&D		0	

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's organizational chart and inter connections within the office

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

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 thebest 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 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 not 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

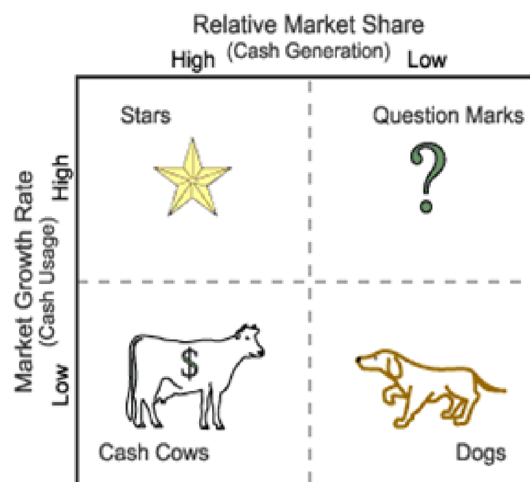
B) GE nine cell matrix

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 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 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 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

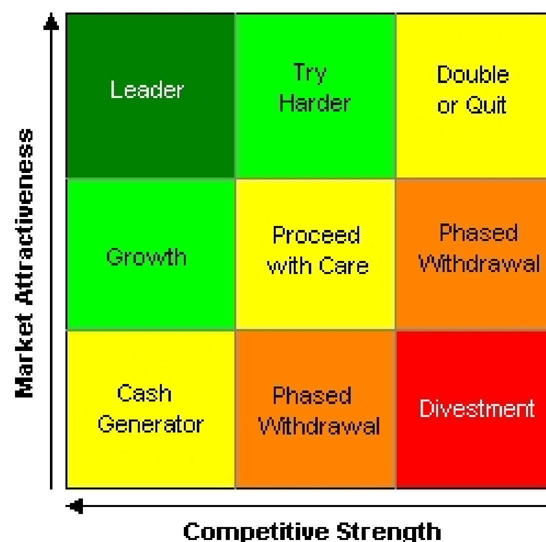
Limitations –

- 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.

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
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

BALANCED SCORE CARD

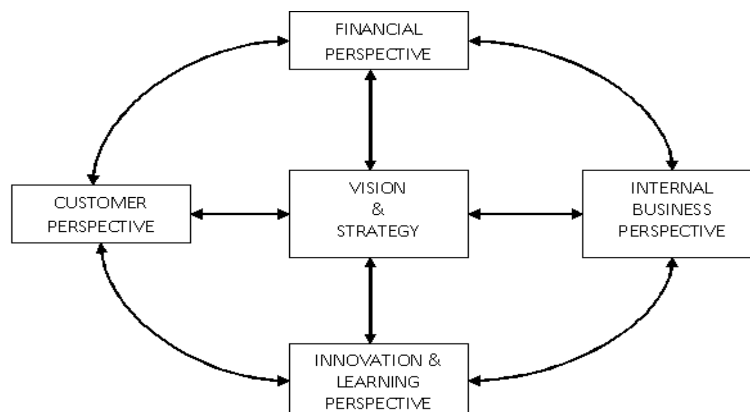
Balanced Score Card has been proposed and popularized by Robert. S. Kaplan and David. P. Norton. It is a performance tool which "Provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures".

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) *Customer perspective*

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

- ✓ Market share

(iii) *Internal Business Perspective*

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

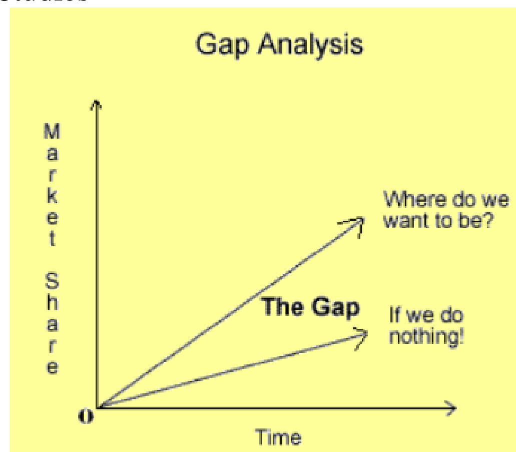
(iv) *Innovation & Learning Perspective*

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

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

Gap Analysis



Gap analysis is a very useful tool for helping marketing managers to decide upon marketing strategies and tactics. Again, the simple tools are the most effective. There's a straightforward structure to follow. The first step is to decide upon how you are going to judge the gap over time. For example, by market share, by profit, by sales and so on.

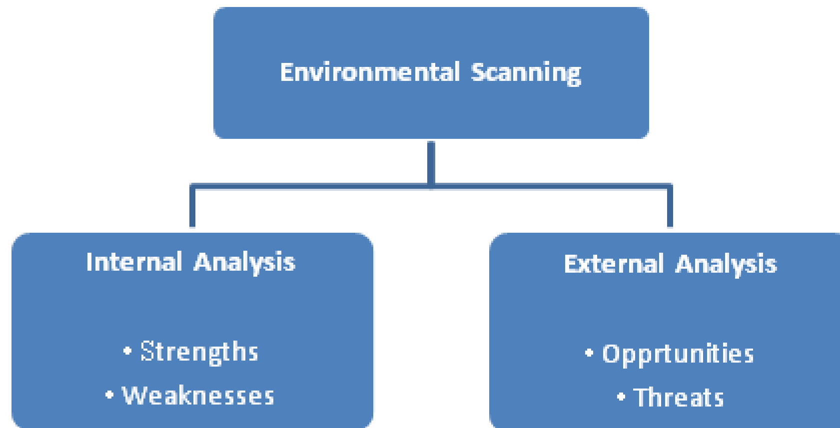
This will help you to write SMART objectives. Then you simply ask two questions - *where are we now?* and *where do we want to be?* The difference between the two is the **GAP** - this is how you are going to get there. Take a look at the diagram below. The lower line is where you'll be if you do nothing. The upper line is where you want to be.

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:



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 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:

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.

UNIT – IV STRATEGY IMPLEMENTATION & EVALUATION

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.

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.

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.
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 equipments
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.

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.

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

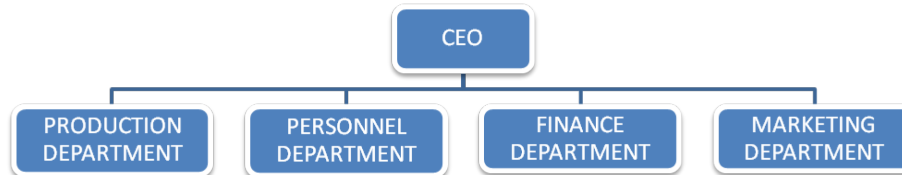
Division of Labor Occurs in Three Different Ways:

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



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.

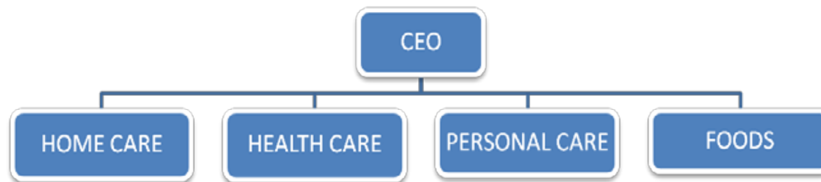
Advantages:

- 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 Ayurvedic medicine manufacturer is an example of company that uses product Departmentalization. Its structure is based on its varied product lines which include Home care, Health care, Personal care and Foods.

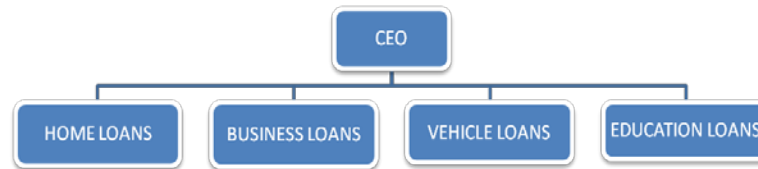
Advantages

- 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.

Disadvantages

- It is expensive as duplication of service functions occurs in various product divisions
- Customers and dealers have to deal with different persons for complaint and information of different products.

iii) Customer Departmentalization



Customer Departmentalization is the process of grouping activities on the basis of common customers or types of customers. Jobs may be grouped according to the type of customer served by the organization. The assumption is that customers in each department have a common set of problems and needs that can best be met by specialists. UCO is the one of the largest commercial banks of India is an example of company that uses customer Departmentalization. Its structure is based on various services which includes Home loans, Business loans, Vehicle loans and Educational loans.

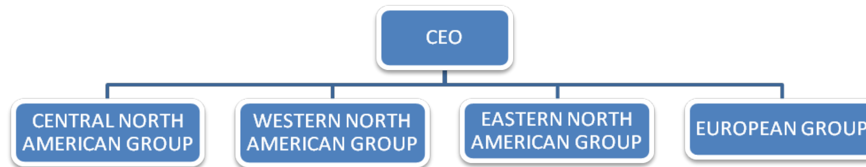
Advantages

- It focused on customers who are ultimate suppliers of money
- Better service to customer having different needs and tastes
- Development in general managerial skills

Disadvantages

- Sales being the exclusive field of its application, co-ordination may appear difficult between sales function and other enterprise functions.
- Specialized sales staff may become idle with the downward movement of sales to any specified group of customers.

iv) Geographic Departmentalization



Geographic Departmentalization is the process of grouping activities on the basis of territory. If an organization's customers are geographically dispersed, it can group jobs based on geography. For example, the organization structure of Coca-Cola Ltd has reflected the company's operation in various geographic areas such as Central North American group, Western North American group, Eastern North American group and European group

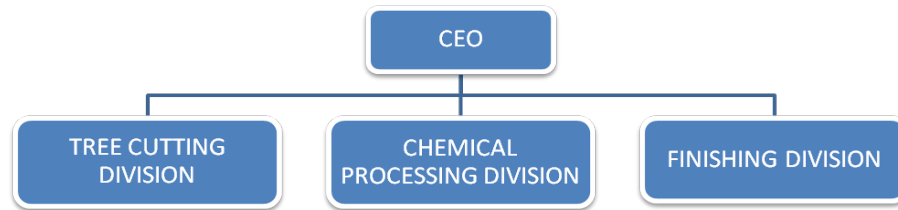
Advantages

- Help to cater to the needs of local people more satisfactorily.
- It facilitates effective control
- Assists in development of all-round managerial skills

Disadvantages

- Communication problem between head office and regional office due to lack of means of communication at some location
- Coordination between various divisions may become difficult.
- Distance between policy framers and executors
- It leads to duplication of activities which may cost higher.

v) Process Departmentalization



Geographic Departmentalization is the process of grouping activities on the basis of product or service or customer flow. Because each process requires different skills, process Departmentalization allows homogenous activities to be categorized. For example, Bowater Thunder Bay, a Canadian company that harvests trees and processes wood into newsprint and pulp. Bowater has three divisions namely tree cutting, chemical processing, and finishing (which makes newsprint).

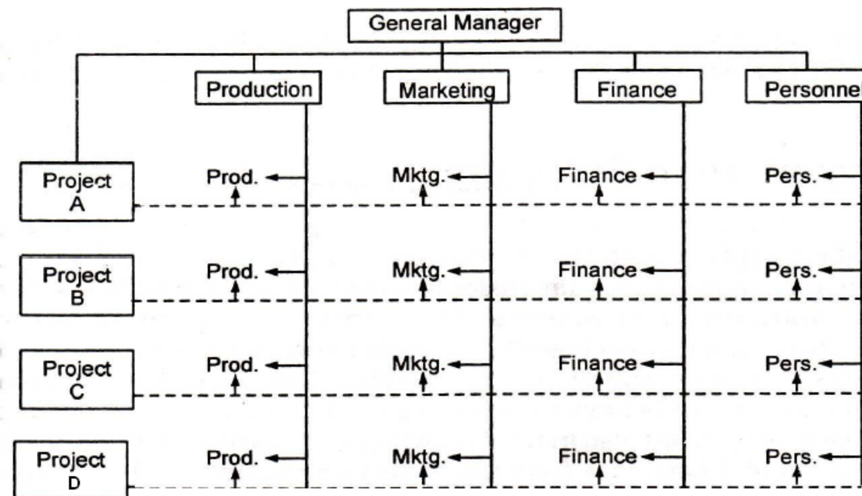
Advantages

- Oriented towards end result.
- Professional identification is maintained.
- Pinpoints product-profit responsibility.

Disadvantage

- Conflict in organization authority exists.
- Possibility of disunity of command.
- Requires managers effective in human relation

vi) 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 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.
- 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.

Factors Affecting Span of Management:

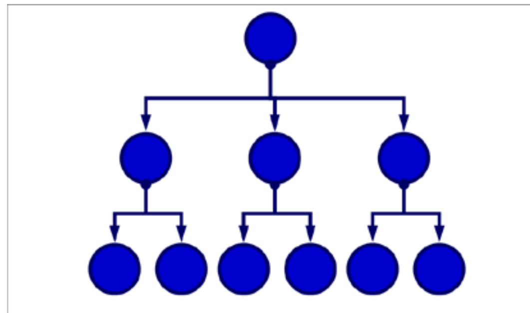
a) Capacity of Superior:
   Different ability and capacity of leadership, communication affect management of subordinates.
b) Capacity of Subordinates:
   Efficient and trained subordinates affects the degree of span of management.
c) Nature of Work:
   Different types of work require different patterns 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.



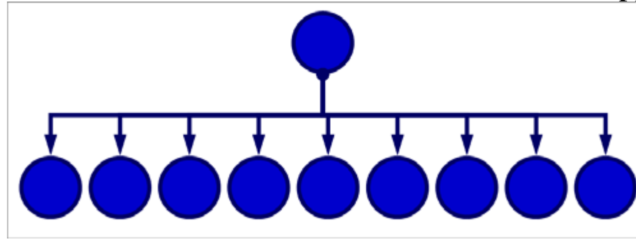
Advantages:

- 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

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

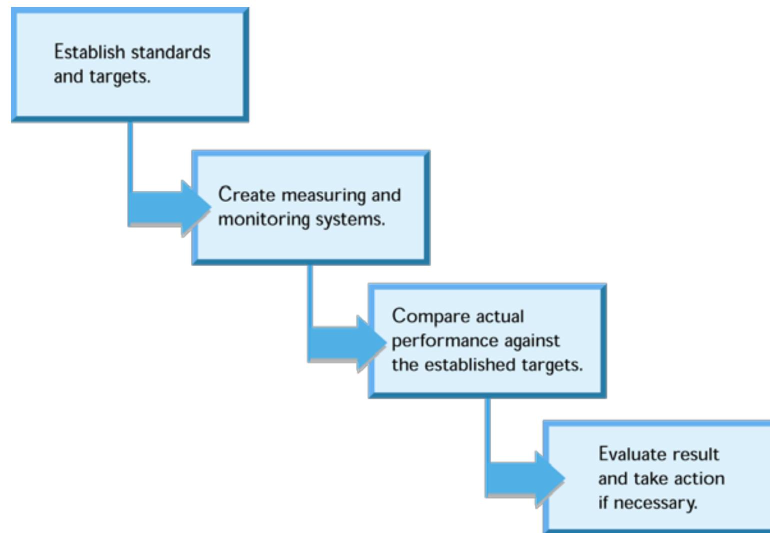
DESIGNING STRATEGIC CONTROL SYSTEMS

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

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 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.

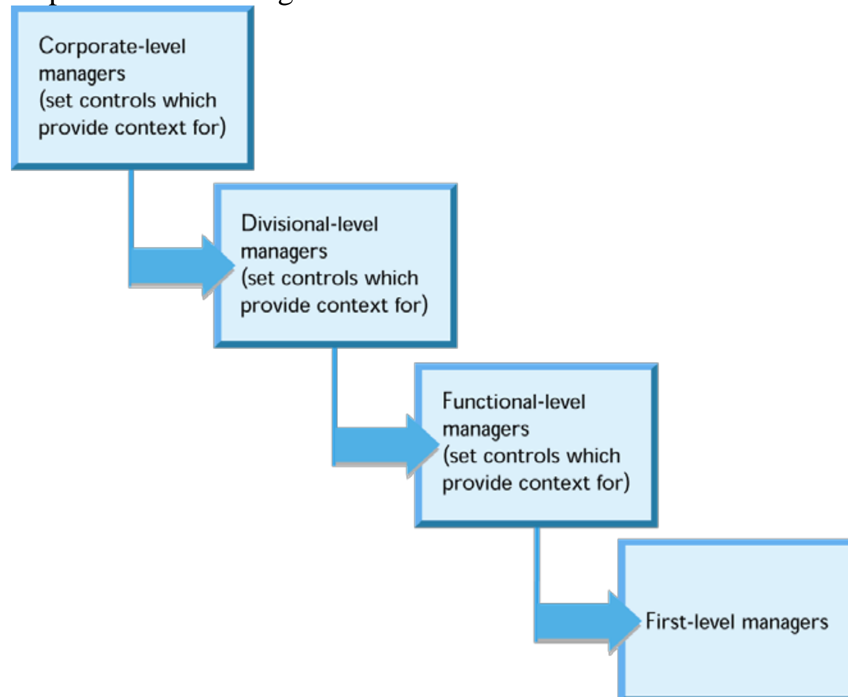
c) Comparing Measured Performance to Stated Standards:

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. 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



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.

Types of control systems

The various types of the control systems are

a) Financial Controls

Since one of the primary purposes of every business firm is to earn a profit, managers need financial controls. Two specific financial controls include budgets and financial ratio analysis.

i) Budgets act as a planning tool and control tools as well. They provide managers with quantitative standards against which to measure and compare resource consumption.

ii) Financial ratios are calculated by taking numbers from the organization's primary financial statements the income statement and the balance sheet.

b) Operations Controls

Operations control techniques are designed to assess how efficiently and effectively an organization's transformation processes are working. Many of these techniques were covered in Chapter 19 as we discussed operations management. However, two operations control tools deserve elaboration: TQM control charts and EOQ model.

i) Control charts show results of measurements over a period of time with statistically determined upper and lower limits. They provide a visual means of determining whether a specific process is staying within predefined limits

ii) The EOQ model helps managers know how much inventory to order and how often to order. The EOQ model seeks to balance four costs associated with ordering and carrying inventory.

c) Behavioral Controls

Managers accomplish organizational goals by working with other people. It's important for managers to ensure that employees are performing as they're supposed to. We'll be looking at three explicit ways that managers control employee behavior: direct supervision, performance appraisals, and discipline.

i) Direct supervision is the daily overseeing of employees' work performance and correcting problems as they occur. It is also known as MBWA (management by walking around).

ii) Performance appraisal is the evaluation of an individual's work performance in order to arrive at objective personnel decisions.

iii) Discipline includes actions taken by a manager to enforce the organization's standards and regulations. The most common types of discipline problems involve attendance, on-the-job behaviors, dishonesty, and outside activities.

IMPLEMENTING STRATEGIC CHANGE

Levels of change

Change occurs at three levels

i) Individual level

ii) Group level and

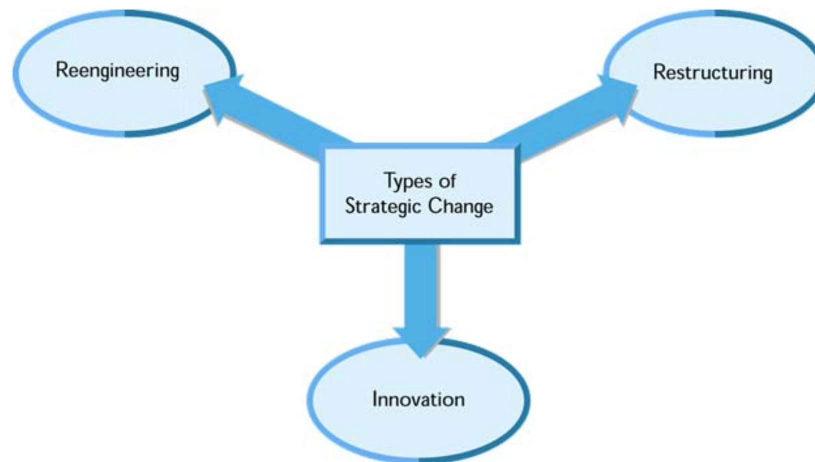
iii) Organization level

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 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. Decisions regarding these changes are generally made by senior management and are seldom implemented by only a single manager. Frequently, they occur over long periods of time and require considerable planning for implementation. Example of these changes would be reorganization of the

organizational structure and responsibilities, revamping of employee remuneration system, or major shifts in an organization's objectives.

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.

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

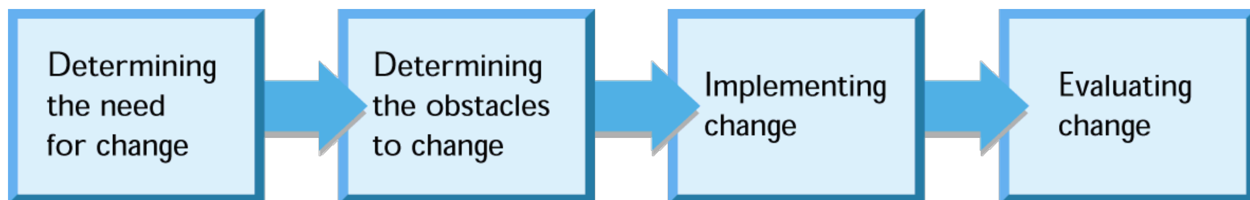


a) Re-engineering: It is also known as Business Process Reengineering. It is fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed. The strategist must completely think 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.

Stages in the Change Process



STAGES IN THE STRATEGIC CHANGE PROCESS

i) Determine the need for change:
In this step the strategic managers must recognize a gap between actual performance and desired performance, use a SWOT analysis to define the company's present state and then determine its desired future state.

ii) Determine the obstacles to change:
Obstacles may prevent a company from reaching its desired future state. Conflict is also major setback to change and managers must seek ways to resolve the conflict to implement strategic change successfully.

iii) Implement change:

Strategic managers play organizational politics to overcome obstacles to change, resolve conflicts and bring about strategic change, resolve conflicts and bring about strategic change. To play politics, managers must have power.

iv) Evaluate change:
Strategic managers need to evaluate the results of each change process and use this analysis to define the organization's present condition so that they can start the next change process.

POWER POLITICS AND CONFLICT

POWER

Power is the capacity to influence the behavior of others. There are different sources of power. They are broadly divided into (a) interpersonal sources and (b) structural sources.

(a) Interpersonal sources of power

i) **Reward power:** It is individual's ability to influence others' behaviors by rewarding their desirable behaviors.
ii) **Coercive power:** It is an individual's ability to influence others' behaviors by punishing their undesirable behaviors.
iii) **Legitimate Power:** It is power which comes from the position in the organization.
iv) **Expert power: It** is an individual's ability to influence others' behaviors because of recognized competencies, talents, or specialized knowledge.
v) **Referent Power: It** is an individual's ability to influence others' behaviors as a result of being respected, admired, or liked.

(b) Structural sources of power

Structural sources of power are related to the division of labor and position in different teams and departments work assignments, locations and roles. The positions in hierarchy naturally result in a variety of situations in which there is unequal access to information, resources, and decision making. Any of the situational factors could be a source of power in an organization, which include knowledge, resources, decision- making and networks.

i) **Knowledge power** – This power is from knowledge-information and know-how that exists in an organization.

ii) **Resources power** – Organizations need a variety of resources, including human resources, money, equipment, materials, supplies, and customers, to survive.

iii) **Decision-making power** – Decisions in organizations often are made sequentially, with individuals, groups, or teams participating.

iv) **Network power** – Managers and departments that have connecting links with other individuals and departments in the organization will be more powerful than those who don't.

POLITICS

Politics is the art of acquiring and enhancing power. Employees have a certain role to play. Therefore, their exercise of power is limited to a large extent by the role obligations. Political behavior is of two types.

Legitimate - It includes normal every day's politics. It includes:

- Complaining to one's superiors
- By passing the chain of command
- Forming coalitions
- Obstructing organizational policies through excessive adherence to rules
- Developing contacts outside through professional activities

Illegitimate – It includes influences that are extreme and violate the implied "rules of the game." Such activities include

- disruption,
- Whistle blowing,
- Symbolic protest such as wearing unorthodox dress and
- Groups of employees cumulatively calling in sick.

It may be stated that the vast majority of political actions are of the legitimate variety. The reasons are pragmatic – the extreme and illegitimate forms of political behavior pose a very real risk of loss of organizational membership, or extreme sanctions against those who use them and then fall short in having enough power to insure that they work.

Factors causing political behavior

Research has indicated a number of factors, which can contribute to political behavior. Some of these factors are individual and derived from the unique qualities of the employees in the organization and others are derived from the organization's internal culture or environment.

a) Individual factors

A few prominent individual factors are examined here.

i) Need for power and high expectations of success - Some managers who are status and ego driven often resort to politics to gain access to power corridors. They use the power for their personal growth and pleasures. Some managers, who are in-charge of teams or units, may also engage in politics to safeguard their positions and have more benefits for their units.

ii) Machiavellianism - Machiavellians are people who use dishonesty and opportunism in interpersonal relations and manipulate others for their own purpose. Such Machiavellists also have a skeptical view of the nature of other people and do not care for conventional morality.

iii) Locus of control - **Locus of control** refers to the extent to which individuals believe that they can control events that affect them. Individuals with a high internal locus of control believe that events result primarily from their own behavior and actions. Those with a high external locus of control believe that powerful others, fate, or chance primarily determine events. Those with a high internal locus of control have better control of their behavior, tend to exhibit more political behaviors, and are more likely to attempt to influence other people than those with a high external (or low internal respectively) locus of control. Those with a high internal locus of control are more likely to assume that their efforts will be successful. They are more active in seeking information and knowledge concerning their situation.

(b) Organizational factors

Organizational factors also influence the politicking in organizations. These are as follows.

i) *Reallocation of resources* – when organizations downsize the changes many stimulate conflict and politicking to have advantage in allocation.

ii) *Advancement or promotion* – people resort to politics for quickly getting advancement

iii) or promotion in their careers

iv) *Low trust* – A low trust within the organization can increase political behavior, which can become illegitimate also.

v) *Role ambiguity* – When there is confusion in the scope and functions, employees resort to politicking to have a favorable situation.

CONFLICT

Conflict is defined as a situation when the goal directed behavior of one group blocks the goal-directed behavior of another. Conflict is necessary for organizational change as it strikes at the root of the sources of organization inertia.

Sources of Organizational Conflict

The sources of conflict are:

a) Differentiation

-Differences in subunit orientations

b) Task relationships

-Overlapping authority

-Task interdependencies

-Incompatible evaluation systems

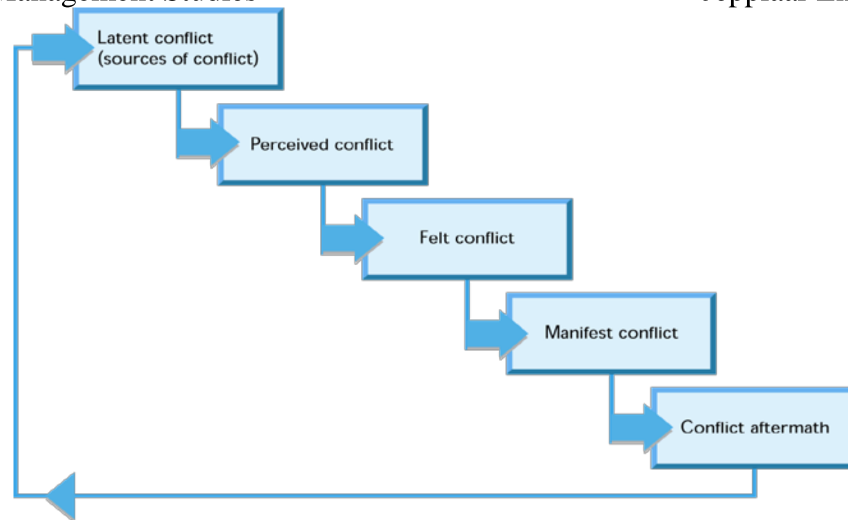
c) Scarcity of resources

-Distributing sources

Stages in the Conflict Process

The sources of conflict are inherent of the organization's mode of operations. The stages in the conflict process are:

- Latent conflict
- Perceived conflict
- Felt conflict
- Manifest conflict
- Conflict aftermath



Conflict is a dynamic process that does not usually appear suddenly. In fact, conflict generally passes through several stages:

1. Latent conflict - At this stage, the basic conditions for conflict exist but have not been recognized by the involved parties.
2. Perceived conflict - The basic conditions for conflict are recognized by one or both of the parties.
3. Felt conflict - Internal tensions begin to build in the involved parties, but the conflict is still not out in the open.
4. Manifest conflict - The conflict is out in the open and the existence of the conflict becomes obvious to other parties who are not involved.
5. Conflict aftermath - The conflict is stopped by some method. How the conflict is stopped established new conditions that lead either to a new conflict or to more effective cooperation between the involved parties.

A particular conflict situation does not necessarily pass through all of the stages. In addition, the parties who are involved in the conflict may not be at the same stage at the same time. For example, it is entirely possible for one party to be at the manifest stage, while one party is at the perceived stage.

CONFLICT RESOLUTION STRATEGIES

Using authority when the function, which has equal power and authority, cannot solve the conflict themselves, the CEO or corporate office interferes and imposes a solution.

- Changing controls
- Changing task relationship
- Implementing strategic change
- Changing the strategy [successful turnaround]

TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. In the absence of coordinating and controlling mechanisms, individual managers may pursue goals, which are inconsistent with the overall objectives of the department, division, SBU or the whole organization. We will now discuss evaluation and control in detailed way.

Strategic evaluation and control process

The process of evaluation basically deals with four steps:

1. Setting standards of performance-Standards refer to performance expectations.
2. Measurement of performance-Measurement of actual performance or results requires appraisal based on standards.
3. Analyzing variances- The comparison between standards and results gives variances.
4. Taking corrective action-The identifications of undesirable variances prompt managers to think about ways of corrective them.

TECHNIQUES

The different types of strategic controls are discussed in brief here.

a) ***Premise control*** A company may base its strategy on important assumptions related to environmental factors (e.g., government policies), industrial factors (e.g. nature of competition), and organizational factors (e.g. breakthrough in R&D). Premise control continually verifies whether such assumptions are right or wrong. If they are not valid corrective action is initiated and strategy is made right. The responsibility for premise

control can be assigned to the corporate planning staff who can identify for assumptions and keep a regular check on their validity.

b) ***Implementation control*** Implementation control can be done using milestone review. This is similar to the identification-albeit on a smaller scale-of events and activities in PERT/CPM networks. After the identification of milestones, a comprehensive review of implementation is made to reassess its continued relevance to the achievement of objectives.

c) **Strategic Surveillance** *This is aimed at a more generalized and overarching control. Strategic surveillance can be done through a broadbased, general monitoring on the basis of selected information sources to uncover events that are likely to affect the strategy of an organization.*

d) **Special Alert Control** *This is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams. Examples of such events can be the sudden fall of a government at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, or a natural catastrophe.*

e) ***Strategic momentum control*** These types of evaluation techniques are aimed at finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum.

f) ***Strategic leap control*** Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities.

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 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.

(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 with in 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.

(i) *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.

(ii) *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.

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.

(i) The **stage-gate process** is used by companies such as IBM, 3M, General Motors, Corning, and P&G. Corning's managers believe that the process enables them to better estimate the potential payback of any project under consideration. They report that the stage-gate process reduces development time, allows identification of questionable projects, and increases the ratio of internally generated products that result in commercially successful products.

(ii) The **house of quality** is another method of managing new product development. Originally developed at Mitsubishi's Kobe shipyards, it is a tool to help project teams make important design decisions by getting them to think about what users want and how to get it to them most effectively. It enhances communication and coordination among engineering, marketing, and manufacturing and ensures better product/customer fit. House of quality is a matrix that maps customer requirements against product attributes.

A study of 15 multinational companies with successful R&D operations focused on three measures of R&D success:

(1) Improving technology transfer from R&D to business units,

(2) Accelerating time to market for new products and processes, and

(3) Institutionalizing cross-functional participation in R&D. The companies participated in basic, applied, and developmental research activities. The study revealed 13 **best practices** that all the companies followed.

Thirteen "Best Practices" for Improving R&D

- Corporate and business unit strategies are well defined and clearly communicated.
- Core technologies are defined and communicated to R&D.
- Investments are made in developing multinational R&D capabilities to tap ideas throughout the world.
- Funding for basic research comes from corporate sources to ensure a long-term focus; funding for development comes from business units to ensure accountability.
- Basic and applied researches are performed either at a central facility or at a small number of labs, each focused on a particular discipline of science or technology. Development work is usually performed at business unit sites.
- Formal, cross-functional teams are created for basic, applied, and developmental projects.
- Formal mechanisms exist for regular interaction among scientists, and between R&D and other functions.
- Analytical tools are used for selecting projects as well as for ongoing project evaluation.
- The transfer of technology to business units is the most important measure of R&D performance.
- Effective measures of career development are in place at all levels of R&D.
- Recruiting of new people is from diverse universities and from other companies when specific experience or skills are required that would take a long time to develop internally.
- Some basic research is performed internally, but there are also many university and third party relationships.
- Formal mechanisms are used for monitoring external technological developments.

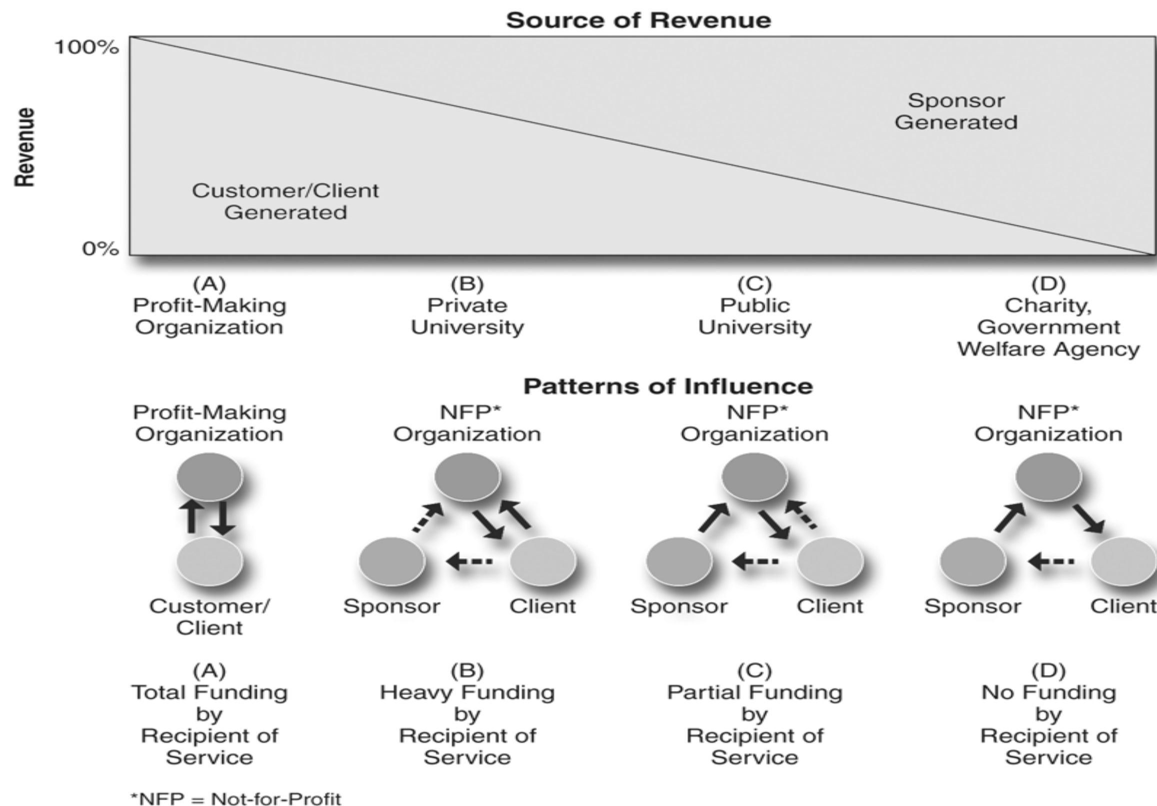
STRATEGIC ISSUES IN NOT–FOR-PROFIT ORGANIZATIONS

Not-for-profit organization may be

- Private NFPO such as private hospitals, private educational institution, charities, etc and
- Public government agencies such as libraries, universities, and museums.

Nature of NFPO

- Self –help groups and NGOS receive a lot benefits from society
- NFPOS depend heavily on donations from members and from sponsoring agency
- In NFPOS, the beneficiaries don’t pay fully for the service they receive, hence the need for outside sponsors.



Application of strategic management concept

- SWOT analysis
- Mission statements
- Stakeholders analysis
- Corporate government
- Industry analysis
- Competitor analysis

Constraints on strategic management

- Service is intangible and difficult is measure
- Beneficiary's influence may be weak
- Sponsors and contributors (government) may interfere with internal management
- Strong employers are more committed to their profession rather than the organization
- Reward-punishment system is under severe restraints.

Issues in strategy formulation

- Goal conflict interferes with rational planning
- Shift from results is resources
- Goal displacement and internet politics is
- Professionalism Vs rigidity

Issues in strategy implementation

- Decentralization is complicated
- Linking pins for external – internal integration become important
- Jot enlargement and executive development can be restrained by professionalism.

Issues in evaluation and control

- Rewards and penalties have little or no relation to performance
- Inputs rather than outputs are controlled
- Wastage of money on administrative costs and expenses

Popular strategies of NFPOS

- *Strategic piggybacking* – New found generation activity undertaken by the NFPO, which is aimed at reducing the gap between expenses and revenue
  Ex: Educational institution running some courses and commercial
  Hospitals running a meditation class and fitness programme
- *Merger* – NFPOS prefer merger in the light of reduced resources to light down their cost of operation.
- *Strategic alliance* – Is pursued by NFPOS to increase their capacity and to get more resources and to serve the clients letter.
  Ex: Indian school of business was started with the support from state
  Govt. of A.P.

NEW BUSINESS MODELS AND STRATEGIES FOR THE INTERNET ECONOMY

INTERNET ECONOMY:

The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web. An internet economy differs from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

Industry competition in the internet economy

The Impact on Competitive Rivalry

- Use of Internet widens a firms geographic market reach
- Rivalry is often increased by freshly launched e-commerce initiatives of existing rivals
- Rivalry is often increased by entry of enterprising dot-com rivals with sell-direct strategies
- Rivalry is often increased when an industry consists of online sellers against pure brick-and mortar sellers against combination brick-and-click sellers

The Impact on Barriers to Entry

- Entry barriers into e-commerce are often relatively low
- Can be easy for new dot-coms to gain entry into some businesses
- Can be easy for many existing firms to expand into new geographic markets via online sales

The Impact on Buyer Bargaining Power

- Use of Internet allows buyers to gather extensive information about competing products and brands
- Buyers can readily use the Internet to “shop the market” for the best deal
- Buyer efforts to seek out the best deal spurs competition among rival sellers to provide the best deal
- Internet makes it easier for buyers to join buying groups and store their purchases to negotiate better terms and conditions

Impact on Supplier Bargaining Power

- Helps companies extend geographic reach for the best suppliers
- Sometimes via online marketplaces or "emarkets"
- Helps companies collaborate closely with suppliers across a wide front—fosters long-term partnerships with key suppliers

Impact on threat on substitution of products

Internet fosters the R&D activity which in turn increases the threat of product substitutions.

INTERNET BUSINESS MODELS

The business model spells-out how a company makes money by specifying where it is positioned in the value chain. The basic categories of business models discussed in the table below include:

a) Brokerage
b) Advertising
c) Infomediary
d) Merchant
e) Manufacturer (Direct)
f) Affiliate
g) Community
h) Subscription
i) Utility

a) Brokerage model

Brokers are market-makers, they bring buyers and sellers together and facilitate transactions. Brokers play a frequent role in business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. Usually a broker charges a fee or commission for each transaction it enables. The formula for fees can vary. Brokerage models include:

i) Marketplace Exchange: offers a full range of services covering the transaction process, from market assessment to negotiation and fulfillment. Exchanges operate independently or are backed by an industry consortium. [Orbitz, ChemConnect]

ii) Buy/Sell Fulfillment: takes customer orders to buy or sell a product or service, including terms like price and delivery. [CarsDirect, Respond.com]

iii) Demand Collection System: the patented "name-your-price" model pioneered by Priceline.com. Prospective buyer makes a final (binding) bid for a specified good or service, and the broker arranges fulfillment. [Priceline.com]

iv) Auction Broker: conducts auctions for sellers (individuals or merchants). Broker charges the seller a listing fee and commission scaled with the value of the transaction. Auctions vary widely in terms of the offering and bidding rules. [eBay]

v) Transaction Broker: provides a third-party payment mechanism for buyers and sellers to settle a transaction. [PayPal, Escrow.com]

vi) Distributor: is a catalog operation that connects a large number of product manufacturers with volume and retail buyers. Broker facilitates business transactions between franchised distributors and their trading partners.

vii) Search Agent: a software agent or "robot" used to search-out the price and availability for a good or service specified by the buyer, or to locate hard to find information.

viii) Virtual Marketplace: or virtual mall, a hosting service for online merchants that charges setup, monthly listing, and/or transaction fees. May also provide automated transaction and relationship marketing services. [zShops and Merchant Services at Amazon.com]

b) Advertising model

The web advertising model is an extension of the traditional media broadcast model. The broadcaster, in this case, a web site, provides content (usually, but not necessarily, for free) and services (like email, IM, blogs) mixed with advertising messages in the form of banner ads. The banner ads may be the major or sole source of revenue for the broadcaster. The broadcaster may be a content creator or a distributor of content created elsewhere. The advertising model works best when the volume of viewer traffic is large or highly specialized.

i) Portal: usually a search engine that may include varied content or services. A high volume of user traffic makes advertising profitable and permits further diversification of site services. A personalized portal allows customization of the interface and content to the user. A niche portal cultivates a well-defined user demographic. [Yahoo!]

ii) Classifieds: list items for sale or wanted for purchase. Listing fees are common, but there also may be a membership fee. [Monster.com, Craigslist]

iii) User Registration: content-based sites that are free to access but require users to register and provide demographic data. Registration allows inter-session tracking of user surfing habits and thereby generates data of potential value in targeted advertising campaigns. [NYTimes]

iv) Query-based Paid Placement: sells favorable link positioning (i.e., sponsored links) or advertising keyed to particular search terms in a user query, such as Overture's trademark "pay-for-performance" model. [Google, Overture]

v) Contextual Advertising / Behavioral Marketing: freeware developers who bundle adware with their product. For example, a browser extension that automates authentication and form fill-ins, also delivers advertising links or pop-ups as the user surfs the web. Contextual advertisers can sell targeted advertising based on an individual user's surfing activity.

vi) Content-Targeted Advertising: pioneered by Google, it extends the precision of search advertising to the rest of the web. Google identifies the meaning of a web page and then automatically delivers relevant ads when a user visits that page. [Google]

vii) Intromercials: animated full-screen ads placed at the entry of a site before a user reaches the intended content. [CBS MarketWatch]

viii) Ultramercials: interactive online ads that require the user to respond intermittently in order to wade through the message before reaching the intended content. [Salon in cooperation with Mercedes-Benz]

c) Infomediary model

Data about consumers and their consumption habits are valuable, especially when that information is carefully analyzed and used to target marketing campaigns. Independently collected data about producers and their products are useful to consumers when considering a purchase. Some firms function as infomediaries (information intermediaries) assisting buyers and/or sellers understand a given market.

i) Advertising Networks: feed banner ads to a network of member sites, thereby enabling advertisers to deploy large marketing campaigns. Ad networks collect data about web users that can be used to analyze marketing effectiveness. [DoubleClick]

ii) Audience Measurement Services: online audience market research agencies. [Nielsen//Netratings]

iii) Incentive Marketing: customer loyalty program that provides incentives to customers such as redeemable points or coupons for making purchases from associated retailers. Data collected about users is sold for targeted advertising. [Coolsavings]

iv) Metamediary: facilitates transactions between buyer and sellers by providing comprehensive information and ancillary services, without being involved in the actual exchange of goods or services between the parties. [Edmunds]

d) Merchant model

Wholesalers and retailers of goods and services. Sales may be made based on list prices or through auction.

i) Virtual Merchant --or e-tailer, is a retail merchant that operates solely over the web. [Amazon.com]
ii) Catalog Merchant: mail-order business with a web-based catalog. Combines mail, telephone and online ordering. [Lands' End]
iii) Click and Mortar: traditional brick-and-mortar retail establishment with web storefront. [Barnes & Noble]
iv) Bit Vendor: a merchant that deals strictly in digital products and services and, in its purest form, conducts both sales and distribution over the web. [Apple iTunes Music Store]

e) Manufacturer (Direct) model

The manufacturer or "direct model", it is predicated on the power of the web to allow a manufacturer (i.e., a company that creates a product or service) to reach buyers directly and thereby compress the distribution channel. The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences. [Dell Computer]

i) Purchase: the sale of a product in which the right of ownership is transferred to the buyer.
ii) Lease: in exchange for a rental fee, the buyer receives the right to use the product under a “terms of use” agreement. The product is returned to the seller upon expiration or default of the lease agreement. One type of agreement may include a right of purchase upon expiration of the lease.
iii) License: the sale of a product that involves only the transfer of usage rights to the buyer, in accordance with a “terms of use” agreement. Ownership rights remain with the manufacturer (e.g., with software licensing).
iv) Brand Integrated Content: in contrast to the sponsored-content approach (i.e., the advertising model), brand-integrated content is created by the manufacturer itself for the sole basis of product placement.

f) Affiliate model

In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model, provides purchase opportunities wherever people may be surfing. It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites. The affiliates provide purchase-point click-through to the merchant. It is a pay-for-performance model: if an affiliate does not generate sales, it represents no cost to the merchant. The affiliate model is

inherently well-suited to the web, which explains its popularity. Variations include, banner exchange, pay-per-click, and revenue sharing programs. [Barnes & Noble, Amazon.com]

i) Banner Exchange: trades banner placement among a network of affiliated sites.
ii) Pay-per-click: site that pays affiliates for a user click-through.
iii) Revenue Sharing: offers a percent-of-sale commission based on a user click-through in which the user subsequently purchases a product.

g) Community model

The viability of the community model is based on user loyalty. Users have a high investment in both time and emotion. Revenue can be based on the sale of ancillary products and services or voluntary contributions; or revenue may be tied to contextual advertising and subscriptions for premium services. The Internet is inherently suited to community business models and today this is one of the more fertile areas of development, as seen in rise of social networking.

i) Open Source: software developed collaboratively by a global community of programmers who share code openly. Instead of licensing code for a fee, open source relies on revenue generated from related services like systems integration, product support, tutorials and user documentation. [Red Hat]
ii) Open Content: openly accessible content developed collaboratively by a global community of contributors who work voluntarily. [Wikipedia]
iii) Public Broadcasting: user-supported model used by not-for-profit radio and television broadcasting extended to the web. A community of users support the site through voluntary donations. [The Classical Station (WCPE.org)]
iv) Social Networking Services: sites that provide individuals with the ability to connect to other individuals along a defined common interest (professional, hobby, romance). Social networking services can provide opportunities for contextual advertising and subscriptions for premium services. [Flickr, Friendster, Orkut]

h) Subscription model

Users are charged a periodic: daily, monthly or annual: fee to subscribe to a service. It is not uncommon for sites to combine free content with "premium" (i.e., subscriber- or member-only) content. Subscription fees are incurred irrespective of actual usage rates. Subscription and advertising models are frequently combined.

i) Content Services: provide text, audio, or video content to users who subscribe for a fee to gain access to the service. [Listen.com, Netflix]

ii) Person-to-Person Networking Services: are conduits for the distribution of user-submitted information, such as individuals searching for former schoolmates. [Classmates]

iii) Trust Services: come in the form of membership associations that abide by an explicit code of conduct, and in which members pay a subscription fee. [Truste]

iv) Internet Services Providers: offer network connectivity and related services on a monthly subscription. [America Online]

i) Utility model

The utility or "on-demand" model is based on metering usage, or a "pay as you go" approach. Unlike subscriber services, metered services are based on actual usage rates. Traditionally, metering has been used for essential services (e.g., electricity water, long-distance telephone services). Internet service providers (ISPs) in some parts of the world operate as utilities, charging customers for connection minutes, as opposed to the subscriber model common in the U.S.

i) Metered Usage: measures and bills users based on actual usage of a service.

ii) Metered Subscriptions: allows subscribers to purchase access to content in metered portions (e.g., numbers of pages viewed). [Slashdot]

The models are implemented in a variety of ways, as described below with examples. Moreover, a firm may combine several different models as part of its overall Internet business strategy. For example, it is not uncommon for content driven businesses to blend advertising with a subscription model.

Business models have taken on greater importance recently as a form of intellectual property that can be protected with a patent. Indeed, business models (or more broadly speaking, "business methods") have fallen increasingly within the realm of patent law. A number of business method patents relevant to e-commerce have been granted. But what is new and novel as a business model is not always clear. Some of the more noteworthy patents may be challenged in the courts.

UNIT- I STRATEGY AND PROCESS

PART A

1. Define Strategy. (Apr/May 2014)

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

2. What are the types of strategy?

The two types of strategies are
1. Intended/Planned Strategy
2. Reactive/ Emergent Strategy

3. What is Planned Strategy?

The planned strategy can also be called as Intended Strategy which is formulated with clear intention .The activities and resources are allocated to implement the same. The leader is the centre of authority with their intentions being very clear and precise and the goal is to transform the intention to collective action with minimum distortion.

4. What is Emergent Strategy?

This Strategy is also called as reactive Strategy which is formulated in response to changes in and around the organisation. These are set of certain consistent actions that form an unintended pattern that was not initially anticipated or intended in the initial planning phase. For example, although unintended, adopting an emergent strategy might help a business adapt more flexibly to the practicalities of changing market conditions.

5. How was the term Strategy formed? What does it mean

The term 'strategy' is derived from Greek word *Strategos,* which means generalship-the actual direction of military force

6. What is Strategy?

Strategies are the course of actions which are believed necessary to achieve the organizational objectives. Strategies are the complex plans for bringing the organization from a given position to a desired position in the future period.

7. What is Strategic Management? (Apr/May 2011)

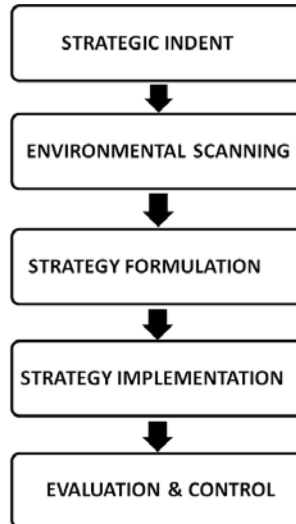
Strategic management is defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives.

It is the set of managerial decisions and actions that determine the long-run performance of an organization**.**

8. Define Strategic Management (Nov/Dec 2015, April/May2015, Nov/Dec 2014)

"A stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives"- Glueck

9. State the Process of Strategic Management.



10. What is Vision? (April/May2015, Nov/Dec 2014)

Vision is a "description of something (an organisation, corporate culture, a business, a technology, an activity) in the future".

What the Company aspires to be in Future

.

11. State the differences between Goals and Objectives. (Nov/Dec 2015)

Goals are the end results towards activities are aimed. It denotes What company hopes to accomplish in future period of time.

Objectives are the ends that state specifically how the goals shall be achieved. These are concrete & specific. Objectives are SMART-Specific, Measurable,Achieveble,Realistic and Time Bound

	Goals	Objectives
Meaning	Goals are the end results	Objectives are the ends that state specifically how the goals shall be achieved.
Measure	Goals may not be strictly measurable or tangible.	Must be measurable and tangible
Time frame	Longer term	Mid to short term

12. What is mission? (April/May2015, Nov/Dec 2014, Apr/May 2014)

Definition: A sentence describing a company's function, markets and competitive advantages; a short written statement of your business goals and philosophies.

A **mission statement** is a statement of the purpose of a **company** or **organization**. The mission statement should guide the actions of the organization, spell out its overall goal, provide a path, and guide decision-making. It provides "the framework or context within which the company's strategies are formulated."

"Purpose or reason for the Organisation's existence" – Hunger & Wheelan

13. **State the major objectives of a business.**

- Profit maximization
- Wealth Maximization
- Maximization of sales revenue
- Maximization of firm's growth rate
- Making satisfactory rate of profit
- Long-run survival of the firm
- Entry - prevention and risk avoidance

14. What is a Policy?

A Policy is a broad guideline 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 and take actions that support the corporation's mission, objectives, and strategies.

15. What is a Program?

A program 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 of the corporation, changing the company's internal culture, or beginning a new research effort.

16. What is a Budget?

A Budget is a statement of a corporation's programs in financial terms.
It is used in planning and control, a budget lists the detailed cost of each program.
The budget not only serves as a detailed plan of the new strategy in action, but also specifies the expected profits on the firm's programs in future

17. What is a procedure?

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.

18. What is Performance and how is it measured?

Performance is the end result of activities. It includes the actual outcomes of the strategic management process.The practice of strategic management is justified in terms of its ability to improve an organisation's performance, typically measured in terms of profits and return on investment.

19. State the benefits of Strategic Management.

- Strategy formulation activities enhance the firm's ability to prevent problems.
- Group-based strategic decisions are likely to be drawn from the best available alternatives.
- The involvement of employees in strategy formulation improves their understanding.
- Gaps and overlaps in activities among individuals and groups are reduced.

20. What is Corporate Social responsibility?

A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources. See also corporate citizenship.

21. What is Corporate Governance?(Nov/Dec 2014, Apr/May 2011)

It refers to the relationship among the board of directors, top management, and shareholders in determining the direction and performance of the corporation.

22. What are the responsibilities of Board of Directors?

- Setting corporate strategy, overall direction, mission or vision
- Hiring and firing the CEO and top management
- Controlling, monitoring, or supervising top management
- Reviewing and approving the use of resources
- Caring for shareholder interests

23. What is Corporate Social Responsibility?

Corporate social responsibility (CSR) is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups. In short, it is a company's sense of responsibility towards the community and environment in which it operates.

24. What are the Carroll's different types of Responsibility?

- Economic
- Legal
- Ethical
- Discretionary

25. What is Social Responsibility from Friedman's view

There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud"

26. State the roles of Board of Directors

a. Monitor
   Developments inside and outside the corporation
b. Evaluate & Influence
   Review proposals, advise, provide suggestions and alternatives
c. Initiate & Determine
   Delineate corporation's mission and specify strategic options

27. State the types of Board of Directors.

Inside directors
- "Management directors"
- Officers or executives employed by corporation

Outside directors
- "Non-management directors"
- May be executives of other firms but not employed by board's corporation

28. State the types of Board of Directors based on the degree of involvement in the Company

- Phantom
- Rubber Stamp
- Minimal Review
- Nominal Participation
- Active Participation
- Catalyst

29. What is Strategic Intent?

Strategic Intent refers to a "high level statement of the means by which an organisation achieves its VISION". It defines the purpose for which the organization strives. It also includes the means to fulfill its mission, have a clear definition on what their business is and to achieve Organisational goals and Objectives

30. Who is a Stakeholders in business? (Nov/Dec 2015)

Stakeholder is a person, group, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives and polices. Key stake holders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions and the community from which the business draws it resources.

<u>PART B</u>

1. Explain in detail about the components of strategic management process. Give an example. **(Nov/Dec 2015, April/May2015, Apr/May 2014, Apr/May 2011)**

2. As a corporate planner of a large MNC, how would you plan the environment for the different units located at different places and belonging to different industries

3. Why is strategic planning necessary? Discuss the steps involved in strategic planning process.

4. Discuss corporate governance in Indian industry. Describe its significance. **(Nov/Dec 2015, Apr/May 2014)**

5. Define corporate social responsibility. Define the categories of socially responsible behavior. **(Nov/Dec 2015, Apr/May 2014)**

6. i) Explain goals and objectives
   ii) Explain the different levels of strategy with examples

7. (i) Why vision and mission statements are important in strategic management?
   ii) List out two vision and mission statements.

8. Discuss the strengths and weakness of formal strategic planning.

9. Explain the benefits of strategic planning.

10. i)List the different levels of strategy.
    ii) Provide examples for levels of strategy in detail.

UNIT – II COMPETITIVE ADVANTAGE

PART A

1. **What is an environment? What are its types? (Nov/Dec 2015)**

   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. Its types are

   - Internal Environment
   - External Environment

     Micro environment
     Macro environment

2. **What is Internal Environment?**

   Internal environment Consist of factors which are within the organization. It includes

- 5 M's(Men,Money,Material,Maachinery and Methodology)of an organisaation
- Organisational Structure, Policies, Programs and procedures
- Functional areas

3. **What is External Environment?**

External environment Consist of factors which are outside the organization. It is of two types.

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

- Customers
- Suppliers
- Government
- Banks/creditors
- Trade unions
- Mass Media
- Share holders

Macro Environment: An organization's macro environment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. It includes

- Political factors
- Economic factors
- Social factors
- Technological factors

4. **Explain briefly about Industry Analysis**

   It Is an analysis of various key factors relating to the industry. It may include an analysis of the industry life cycle, the history of the industry, an in-depth ratio analysis of

the industries financial performance, a review of how differing trends such as seasonal fluctuations affect the industry, external influences on the industry such as government laws and a review of levels of competition both present and future for the specific industry.

5. **What are the different tools used for Industry Analysis.**
    - SWOT analysis
    - TOWS Analysis
    - PEST analysis
    - Porter's five forces analysis
    - value chain analysis

6. **What is SWOT analysis? (Nov/Dec 2014)**

    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**.

7. **What is Micro Environment?**

    These are external factors close to the company that have a direct impact on the organizations process**.**
    - Customers
    - Suppliers
    - Government
    - Banks/creditors
    - Trade unions
    - Mass Media
    - Share holders

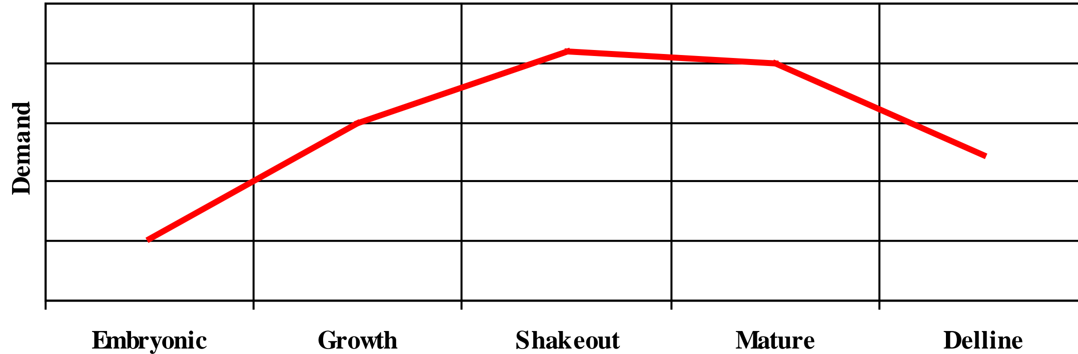
8. **What is Macro Environment?**

    An organization's macro environment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. It includes
    Political factors
    Economic factors
    Social factors
    Technological factors

9. **What are the stages in industry evolution?**
    - Embyonic
    - Growth
    - Shakeout

- Mature
- Decline

10. Outline the stages in industry evolution.



Time

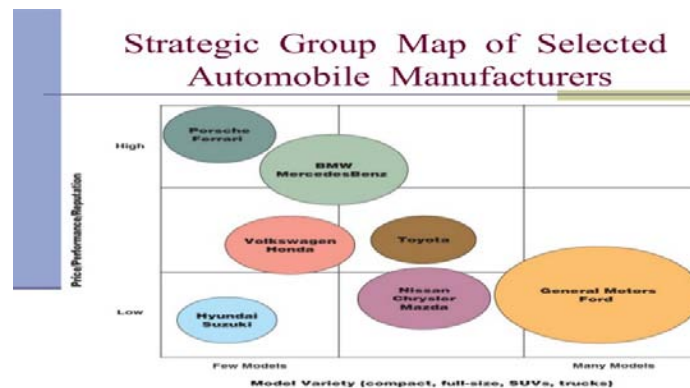
11. Define strategic group

A strategic group is a set of business units or firms that pursue similar strategies with similar resources. Companies belonging to a particular strategic group within the same industry tend to be strong rivals and tend to be more similar to each other to competitors in other strategic groups within the same industry

12. What is strategic group mapping?

Strategic group mapping is used to display the competitive positions occupied by rivals in the industry.

13. Give an example for strategic group mapping.



14. What is strategic Myopia?

Management's failure to recognize the importance of changing external conditions because they are blinded by their shared, strongly held beliefs.

15. What is an Entry Barrier?

Barriers to entry are factors that prevent a startup from entering a particular market. It could be because of the following factors possessed by the existing firms

- Brand loyalty
- Absolute Cost Advantage
- Economies of Scale
- Switching Cost
- Government Regulation

16. What is Exit Barrier?

These are the factors which prevents an organization to leave from an industry and it could be because of

- Emotional Value
- Economical Value
- Strategic value

17. What is a mobility Barrier? State few major barriers.

Structural barrier that blocks one's mobility among strategic groups. The major barriers are

- High capital requirements
- Economies of scale
- Parents and licensing requirements
- Scarce locations
- Raw material availability
- Distribution channels
- Reputation requirements

18. Define the term Core Competency.(Nov/Dec 2014,Apr/May 2011)

Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace. Theoretically, a core competency should allow a company to expand into new end markets as well as provide a significant benefit to customers. It should also be hard for competitors to replicate.

19. Mention the five forces in Michael E Porter Model. (Apr/May 2014)

- Threat of new competition
- Threat of substitute products or services
- Bargaining power of customers (buyers)

- Bargaining power of suppliers
- Intensity of competitive rivalry.

20. What is Competitive advantage? (Nov/Dec 2015, April/May2015, Nov/Dec 2014, Apr/May 2014)

Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment. A company is said to have competitive advantage if its profits are greater than industry's average profit

21. How does a firm acquire competitive cost advantage?

When a firm sustains profit that exceeds the average for its industry, the firm is said to possess a Competitive advantage over its rivals. Two basic types of competitive advantage are

- **Cost Advantage**

  Cost competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost

- **Differentiation advantage**

  When a company delivers benefits that exceed those of competing products it is said to have differentiation competitive advantage

22. What is distinctive Competency?

Distinctive competencies are firm-specific strengths that allow a company to differentiate its products or achieve substantially lower costs than its rivals and thus gain a competitive advantage. Distinctive competencies arise from two complementary sources: resources and capabilities.

23. What is core competency? (Nov/Dec 2014)

It is a **fundamental enduring strength** which is a key to competitive advantage.

- It may be in technology, process, engineering capability or expertise
- It is a long term process

24. What is value chain?

The term Value Chain refers to the idea that a company is a chain of activities for transforming inputs into outputs that customer value.

- Primary Activity – concerned with the design, creation and delivery of the product, its marketing and its support and its after-sales service.
- Support Activity- Provides inputs that allow primary activities to take place(Materials Management, Human Resources, Information System, Company Structure)

25. Define 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.

- Tangible resources: land, building, plant, equipment, inventory and money.
- Intangible Resources: brand names, reputation of the company, knowledge of the employees and their experience, and intellectual property of the company, including patents, copyrights, and trademarks.

26. Define Capabilities.

It refers to company's skills at coordinating its resources and putting them to productive use. These skills reside in an organization's rules, routines, and procedures, that is, the style or manner through which it makes decisions and manages its internal processes to achieve organizational objectives.

27. What are the different factors specified by Porter's to achieve National Competitive advantagae?

Factor endowments: a nation's position in factors of production such as skilled labour or the infrastructure necessary to compete in a given industry.

Demand conditions: The nature of home demand for the industry's product and service.

Relating and supporting industries: The presence or absence in a nation of supplier industries and related industries that are internationally competitive.

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

28. Why do Companies fail?

When a company loses its competitive advantage, its profitability fails.

The reasons are:

- Inertia (Difficulty in changing its strategies and structures in order to adapt to changing competitive conditions).
- Too Much inner Directedness
- Prior strategic commitments
- The Icarus Paradox

29. What is the durability of Competitive advantage?

The extent to which an organization can sustain its competitive advantage depends on various factors like

- Barriers to Imitation
- Capability of competitors
- Industry Dynamism

30. How to avoid failures and sustain competitive advantage?

- Focus on the building blocks of competitive advantage.
- Continuous improvement and learning.
- Track best industrial practices and use benchmarking.
- Overcome Inertia.

PART B

1. Enumerate Porter"s five force model. Give an example **(Nov/Dec 2015, April/May2015, Apr/May 2014)**
2. Explain the environment"s influencing business strategies **(Nov/Dec 2015, (Apr/May 2011))**
3. Discuss the generic building blocks of competitive advantage
4. Explain the durability of competitive advantage. What are the causes of failure of competitive advantage and explain steps to avoid failure and sustain competitive advantage? **(Nov/Dec 2015)**
5. Explain the steps of industry life cycle analysis. Give an industry analysis report for consumer durable industry. Discuss five forces for the same industry. **(Nov/Dec 2015, Apr/May 2011)**
6. Describe the determinants of national competitive advantage (Porter model)
7. Explain the components of internal environment analysis
8. What is competitive advantage? ii) Outline the concept of the roots of competitive advantage.
9. Explain the factors influencing competitive advantage?
10. How competitive advantage helps in differentiating the organization Recall the causes of failure of competitive advantage?

UNIT - III STRATEGIES

1. **What are the different levels of Strategy?**
    - Corporate level
    - Business level
    - Functional level
    - Global Level

2. **What is Business level Strategy?**

   Business strategies are the courses of action adopted by a firm for each of its businesses separately to serve identified customer groups and provide value to the customer by a satisfaction of their needs. The different types are

1. Cost leadership (lower cost / broad target)
2. Differentiation (Differentiation / broad target)
3. Focus (Lower cost or differentiation / narrow target)

3. **What is Cost Leadership Strategy?**

When the competitive advantage of a firm lies in a lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. Cost leadership offers a margin of flexibility to the firm to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

4. **State merits of Cost Leadership Strategy.**

Advantages

- Protected from industry competitors by cost advantage
- Less affected by increased prices of inputs if there are powerful suppliers
- Less affected by a fall in price of inputs if there are powerful buyers
- Purchases in large quantities increase bargaining power over suppliers
- Ability to reduce price to compete with substitute products
- Low costs and prices are a barrier to entry

5. **State demerits of Cost Leadership Strategy.**

   Disadvantages

- Competitors may lower their cost structures
- Competitors may imitate the cost leader’s methods
- Cost reductions may affect demand

6. **What is Differentiation Strategy?**

It is the ability of an organistion 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.

7. What are the advantages of Differentiation Strategy?

- Customers develop brand loyalty
- Powerful suppliers are not a problem because the company is geared more toward the price it can charge than its costs
- Differentiators can pass price increases on to customers
- Powerful buyers are not a problem because the product is distinct
- Differentiation and brand loyalty are barriers to entry
- The threat of substitute products depends on competitors' ability to meet customer needs

8. What is Focus Strategy?

It is a strategy which focuses on 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.

9. State the merits of Focus Strategy?

- The focuser is protected from rivals to the extent it can provide a product or service they cannot
- The focuser has power over buyers because they cannot get the same thing from anyone else
- The threat of new entrants is limited by customer loyalty to the focuser
- Customer loyalty lessens the threat from substitutes
- The focuser stays close to its customers and their changing needs

10. What is Corporate Strategy? (Apr/May 2011)

CORPORATE STRATEGY is the direction an organization takes with the objective of achieving business success in the long term. Recent approaches have focused on the need for companies to adapt to and anticipate changes in the business environment, i.e. a flexible strategy.

The development of a corporate strategy involves establishing the purpose and scope of the organization's activities and the nature of the business it is in, taking the environment in which it operates, its position in the marketplace, and the competition it faces into consideration; most times analyzed through a SWOT analysis..Corporate Strategy Provides overall direction for the firm irrespective of its size. It's main Objective is to maximize Long run Profitability

11. State the types of Corporate Strategy.

- Growth Strategy
- Stability Strategy
- Retrenchment Strategy
- Combination

12. What are the different types of Growth Strategy?

- Expansion through integration
- Expansion through Concentration
- Expansion through diversification
- Expansion through cooperation
- Expansion through internationalization

13. What is Vertical integration? Mention its types(April/May2015)

Vertical Integration can be achieved by taking over a function previously provided by a supplier or by a distributor. The company, in effect, grows by making its own supplies and/or by distributing its own products. This may be done in order to reduce costs, gain control over a scarce resource, guarantee quality of key input, or obtain access to potential customers.

14. What are the types of Vertical integration?

Forward Integration
Backward Integration
Full Integration

15. What are the advantages of vertical integration?

- Lowers operating costs
- Increases product differentiation (can be accomplished through product bundling)
- Reduces rivalry within an industry
- Increases bargaining power over suppliers and buyers

16. What are the Disadvantages of vertical integration?

- May actually increase cost of inputs if cheaper inputs are available
- Ties a company into old, obsolescent, and high cost technology

- Not advisable in unstable demand conditions

17. What is Horizontal integration?

Absorption into a single firm of several firms involved in the same level of production and sharing resources at that level.In other words it is acquiring another firm that produces the same type of products with similar Production Process/ Marketing practices

18. What is Diversification? Mention its types

Diversification is a corporate strategy to increase sales volume from new products and new markets. Diversification can be expanding into a new segment of an industry that the business is already in, or investing in a promising business outside of the scope of the existing business. Its types are (i) Related and (ii) Unrelated/Conglomerate Diversification

19. What is Strategic Alliance?(Nov/Dec 2015)

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. Strategic alliances occurs when two or more organizations join together to pursue mutual benefits. The partner firms contribute on a continuing basis in one or more key strategic areas, for example, technology, product, and so forth.

20. What are the different modes of entering International Business?

The different entry modes to International business are

- Direct exports,
- Indirect exports
- Contracts
- Licensing
- Franchising
- Joint Ventures and strategic alliance
- Independent ventures or wholly-owned subsidiaries

21. What is Retrenchment strategy? Mention its types

The retrenchment strategy is adopted when an organisation substantially reduces the scope of its activity with the view to cut expenses and reach to a more stable financial position. This results in different kinds of retrenchment strategies namely

1. Turnaround Strategies
2. Divestment Strategies
3. Liquidation Strategies

22. What is Stability strategy?(Apr/May 2014)

A firm is said to be following a stability strategy if it is satisfied with the same consumer groups and maintaining the same market share, satisfied with incremental improvements of

functional performance and the management does not want to take any risks that might be associated with expansion or growth. It is a Status Quo Strategy.

23. What are the types of Retrenchment strategy?

- Turnaround Strategies
- Divestment Strategies
- Liquidation Strategies

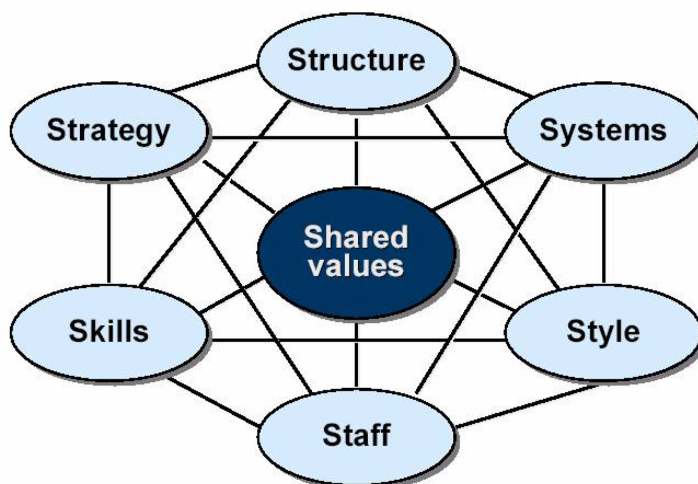
24. What is Balance Score Card? (Nov/Dec 2015, Nov/Dec 2014, Apr/May 2011)

A performance metric used in strategic management to identify and improve various internal functions and their resulting external outcomes. The balanced scorecard attempts to measure and provide feedback to organizations in order to assist in implementing strategies and objectives. The balanced scorecard is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Dr. Robert Kaplan.

25. What are the different strategies in Global Business?

- International Strategy
- Global Strategy
- Multi Domestic Strategy
- Transnational Strategy

26. Mention the 7s in Mckinsey framework. (Nov/Dec 2014, Apr/May 2014)



27. What is OCP?

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

Capability Factors	Weakness (-5)	Normal (0)	Strength (+5)
Financial	-5		
Technical		0	
Human Resource	-5		
Marketing			5
R&D		0	

28. What is SAP?

SAP – Strategic Advantage Profile is a tool used by any organization to find its Strengths or advantages and disadvantages/weakness. . 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

29. What are the different tools used for Corporate Portfolio Analysis?

- BCG Matrix
- GE Nine-Cell Matrix
- Balanced Score Card
- GAP Analysis
- SWOT Analysis

30. What is ETOP?

ETOP stands for Environmental Threat and Opportunity Profile. ETOP 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. This analysis also helps a strategist of which sector have favourable impact on the organizations.

PART B

1. Explain the different techniques in corporate portfolio analysis **(Apr/May 2011)**
2. Discuss the corporate strategy in detail. **(Nov/Dec 2015, Nov/Dec 2014, Apr/May 2014, Apr/May 2011)**
3. What is strategic analysis & choice? How will you do this?Analyse the Indian car manufacturers current strategies. **(April/May2015, Apr/May 2014)**

4.. Discuss the importance of SWOT analysis, ETOP, SAP and OCP **(Nov/Dec 2015)**

5 . Explain the generic business strategies (**Nov/Dec 2014)**

6. Discuss in detail the strategy in global environment and functional level.
7. Define what is a diversification strategy? Describe the diversification strategies in the Indian context.
8. Outline the concept of corporate portfolio analysis. Explain the different techniques in corporate portfolio analysis.
9. Enumerate the conceptual application of Balance Score Card and its advantages in modern business scenario.
10. Explain the different types of strategic alliances. What are the advantages and disadvantages of strategic alliances?

UNIT – IV STRATEGY IMPLEMENTATION & EVALUATION

PART A

1. **What is Politics? (Apr/May 2011)**

Politics as a term is generally applied to the art or science of running governmental or state affairs, including behavior within civil governments, but also applies to institutions, fields, and special interest groups such as the corporate, academic, and religious segments of society. It consists of "social relations involving authority or power" and to the methods and tactics used to formulate and apply policy.

The science of government; that part of ethics which has to do with the regulation and government of a nation or state, the preservation of its safety, peace, and prosperity, the defense of its existence and rights against foreign control or conquest, the augmentation of its strength and resources, and the protection of its citizens in their rights, with the preservation and improvement of their morals.

2. **What is MBO? (Apr/May 2011)**

- Management by objectives aims to serve as a basis for (a) greater efficiency through systematic procedures, (b) greater employee motivation and commitment through participation in the planning process, and (c) planning for results instead of planning just for work. In management by objectives practice, specific objectives are determined jointly by managers and their subordinates, progress toward agreed-upon objectives is periodically reviewed, end results are evaluated, and rewards are allocated on the basis of the progress.
- A management model that aims to improve performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans should ensure better participation and commitment among employees, as well as alignment of objectives across the organization. The term was first outlined by management guru Peter Drucker in 1954 in his book "The Practice of Management."

3. **What is conflict? (Apr/May 2014)**

Organisational Conflict is a Situation where goal directed behaviour of one group blocks the other

4. **What is conflict management?**

Conflict management is the practice of identifying and handling conflict in a sensible, fair, and efficient manner. Conflict management requires such skills as effective communicating, problem solving, and negotiating with a focus on interests

5. **What is Organisational Politics?**

It is the tactics by which self interested individuals and groups try to influence goals and objectives of the organization to further their own interest.

6. **What is power? (Apr/May 2014)**

Power is the ability of a person or a group to influence the beliefs and actions of other people. It is the ability to influence events. Power can be personal power. A person gets his personal power from his personality or from his expert knowledge. Power can also be legitimate or official power. This power comes from a higher authority

7. What are the different sources of power?

- Ability to cope up with Uncertainty
- Control over Information
- Control over Resources
- Control over contingency
- Non Substitutability

8. What are the different types of power?

The different types of power are

1. Reward Power

2. Coercive Power

3. Expert Power

4. Legitimate Power

5. Referent Power

9. **What is an Organisational Structure? (Apr/May 2014)**

Organizational structure defines how tasks are divided, grouped, and coordinated in organizations. Every organization has a structure that clarifies the roles that organizational members perform, so that everyone understands their responsibilities to the group. It is the way in which a company allocates people and resources to organisational tasks in order to create value.

9. Mention the types of Organisational Structure

The types are

- Horizontal Differentiation
- Vertical Differentiation

10. What is Horizontal Differentiation?

Horizontal Differentiation is referred to as Departmentalization. Departmentation is the process of dividing the Organization into different Departments. People with similar abilities working together on Specialized tasks. There are different bases for diving an organization.

11. What is Span of Management? (Nov/Dec 2015)

It is the Number of subordinated effectively controlled by a superior. In other words, it the number of subordinates reporting to a particular Superior. It could be of two types

- Narrow Span of Management
- Wide Span of Management

12. What is Vertical Differentiation?

It is establishment of reporting relationship, Which connects people, tasks and functions at all levels of the firm. In other words, it is the way in which decision making authority gets distributed. This results in either of this structure

- Flat Structure
- Tall Structure

13. What are the different bases of Departmentalization?

1.Functional departmentalization

2.Product departmentalization

3.Customer departmentalization
4.Geographic departmentalization
5.Process departmentalization
6.Divisional departmentalization
7.Matrix Organisation

14. What is Functional departmentalization ?

It is grouping of 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, IT, accounting, manufacturing, logistics, and engineering. Functional departmentalization can be used in all types of organizations.

15. What is Product departmentalization?

It is grouping of 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.

16. What is Customer departmentalization ?

It is grouping of activities on the basis of common customers or types of customers. Jobs may be grouped according to the type of customer served by the organization. The assumption is that customers in each department have a common set of problems and needs that can best be met by specialists.

17. What is Geographic departmentalization ?

It is grouping of activities on the basis of territory. If an organization's customers are geographically dispersed, it can group jobs based on Location.

18. What is Process departmentalization ?

It is grouping of activities on the basis of product or service or customer flow. Because each process requires different skills, process departmentalization allows homogenous activities to be categorized. For example, the applicants might need to go through several departments namely validation, licensing and treasury, before receiving the driver's license.

19. What is Divisional departmentalization ?

When the firm develops independent lines of business that operate as separate companies, all contributing to the corporation profitability, the design is call divisional departmentalization

20. What is Matrix departmentalization ?

With large, complex organizations, matrix departmentalization is very common. Matrix departmentalization uses cross-functional groups to work on both products and functions. For example, an automobile manufacturer might combine units from its X100 model with units from the marketing division to create a marketing plan specifically for that model, thereby combining the knowledge and skills of both distinct groups.

21. What is Divisional departmentalization ?

When the firm develops independent lines of business that operate as separate companies, all contributing to the corporation profitability, the design is call divisional departmentalization

22. State the major advantages of a Matrix Organization structure.

The **benefits** or merits or advantages of a matrix organization are:-

Sound Decisions: In a Matrix Organization, all decisions are taken by experts. Therefore, the decisions are very good.

Development of Skills: It helps the employees to widen their skills. Marketing people can learn about finance, Finance people can learn about marketing, etc.

Top Management can concentrate on Strategic Planning: The Top Managers can spend more time on strategic planning. They can delegate all the routine, repetitive and less important work to the project managers.

Responds to Changes in Environment: Matrix Organization responds to the negative changes in the environment. This is because it takes quick decisions.

Specialization: In a matrix organization, there is a specialization. The functional managers concentrate on the technical matters while the Project Manager concentrates on the administrative matters of the project.

Optimum Utilization of Resources: In the matrix organization, many projects are run at the same time. Therefore, it makes optimum use of the human and physical resources. There is no wastage of resources in a matrix organization.

Motivation: In a matrix organization, the employees work as a team. So, they are motivated to perform better.

Higher Efficiency: The Matrix organization results in a higher efficiency. It gives high returns at lower costs.

23. What is strategic control? (April/May2015, Nov/Dec 2014)

Strategic control can be defined as process of monitoring as to whether to various strategies adopted by the organization are helping its internal environment to be matched with the external environment. Strategic control processes allow managers to evaluate a company's program from a critical long-term perspective. This involves a detailed and objective analysis of a company's organization and its ability to maximize its strengths and market opportunities.

24. What are the different types of Strategic Control?(Nov/Dec 2014)

- Premise control
- Implementation control
- Strategic surveillance
- Special alert control

25. Explain in brief the different types of Strategic Control?

- Premise control: is designed to check systematically and continuous whether or not the premises set during the planning and implementation process are still valid
- Implementation control: is designed to assess whether the overall strategy result associated with incremental steps and actions that implement overall strategy.
- Strategic surveillance: It is designed to monitor a broad range of events inside and outside the company to threaten the course of firm's strategy.
- Special alert control: is the need to thoroughly and often rapidly reconsider the firm's basic strategy based on a sudden unexpected event

26. What is strategic Momentum Control?

These types of evaluation techniques are aimed at finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum.

27. What is strategic Leap Control?

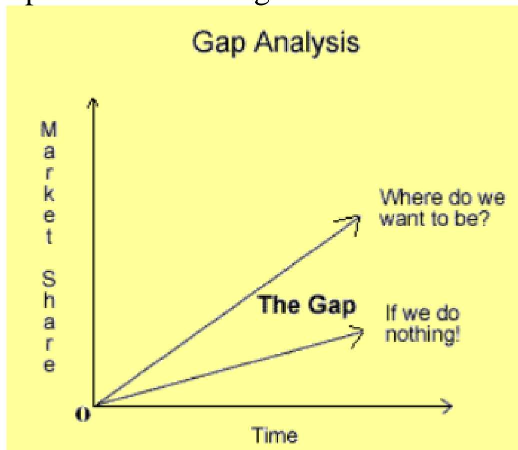
Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities.

28. State the process of Strategic Evaluation & Control?

The process of evaluation basically deals with four steps:

1. Setting standards of performance-Standards refer to performance expectations.
2. Measurement of performance-Measurement of actual performance or results requires appraisal based on standards.
3. Analyzing variances- The comparison between standards and results gives variances.
4. Taking corrective action-The identifications of undesirable variances prompt managers to think about ways of corrective them.

29. Define GAP Analysis.(Nov/Dec 2015, Nov/Dec 2014)



30. What are the different techniques for strategic Evaluation and control?

- Strategic Momentum Control
- Strategic Leap Control

PART B

1. Explain the types of organization structure. Write a short note on the most suitable form of organization structure for a highly innovative technology based firm

2. Explain the types of strategic control

3. Discuss the process and techniques of evaluation and strategic control cycle. **(Nov/Dec 2015, Nov/Dec 2014, Apr/May 2014, Apr/May 2011)**

4. Discuss the (i) Power and Conflict (ii)Politics

5. Discuss the strategic implementation process **(Nov/Dec 2015, Nov/Dec 2014)**

6. What is strategic change? How will you implement strategic change?

7. Discuss the match /interaction of strategy and structure? **(Apr/May 2014)**

8. Enumerate the different stages of organizational life cycle Highlight the suitable strategies of each stage

9. Define Strategic choice. Discuss the different techniques used in strategic choice.

10. Implementing a strategy successfully depends on selecting the right combination of organizational structure, control system and culture‟-Explain.

.

UNIT – V OTHER STRATEGIC ISSUES

PART A

1. **What is meant by innovation? (April/May2015)**

Innovation is defined simply as a "new idea, device, or method". However, innovation is often also viewed as the application of better solutions that meet new requirements, unarticulated needs, or existing market needs. This is accomplished through more-effective products, processes, services, technologies, or business models that are readily available to markets, governments and Society.

2. **Who is a lead User?**

Leading buyers who are the early adopters of new methods, products, and technologies. Lead users refers to users who are ahead of the majority of the market on a major market trend

3. **What is the 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

4. **Why is internal scanning important in managing technology?**

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 with in 4 years at 65% of the cost of innovation.

5. **How is Strategy formulated while new technology is introduced?**

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.

(iii)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.

(iv) *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.

6. Mention the role of technology in strategy development (Apr/May 2014)

It is a particular generation of an organization's overall objective(s), principles and tactics relating to the technologies that the organization uses. Such strategies primarily focus on the technologies themselves and in some cases the people who directly manage those technologies. The strategy can be implied from the organization's behaviors towards technology decisions, and may be written down in a document.

Technology-related strategies primarily focus on: the efficiency of the company's spending on technology; how people, for example the organization's customers and employees, exploit technologies in ways that create value for the organization.

7. How is Strategy evaluated in technological Innovations?

- Stage-gate process
- House of quality Method.

8. What is NPO? (Nov/Dec 2015, Apr/May 2011)

A nonprofit organization is formed for the purpose of serving a public or mutual benefit other than the pursuit or accumulation of profits for owners or investors.

Not for profit is a type of organization that does not earn profits for its owners. All of the money earned by or donated to a not for profit organization is used in pursuing the organization's objectives. Typically not for profit organizations are charities or other types of public service organizations. Generally, not for profit organizations can apply for a tax exempt status so that the organization is not subject to most forms of taxation. Donations made to a tax exempt not for profit organization may also be tax-deductible for the donor.

9. State the different types of NPO

Not-for-profit organization may be

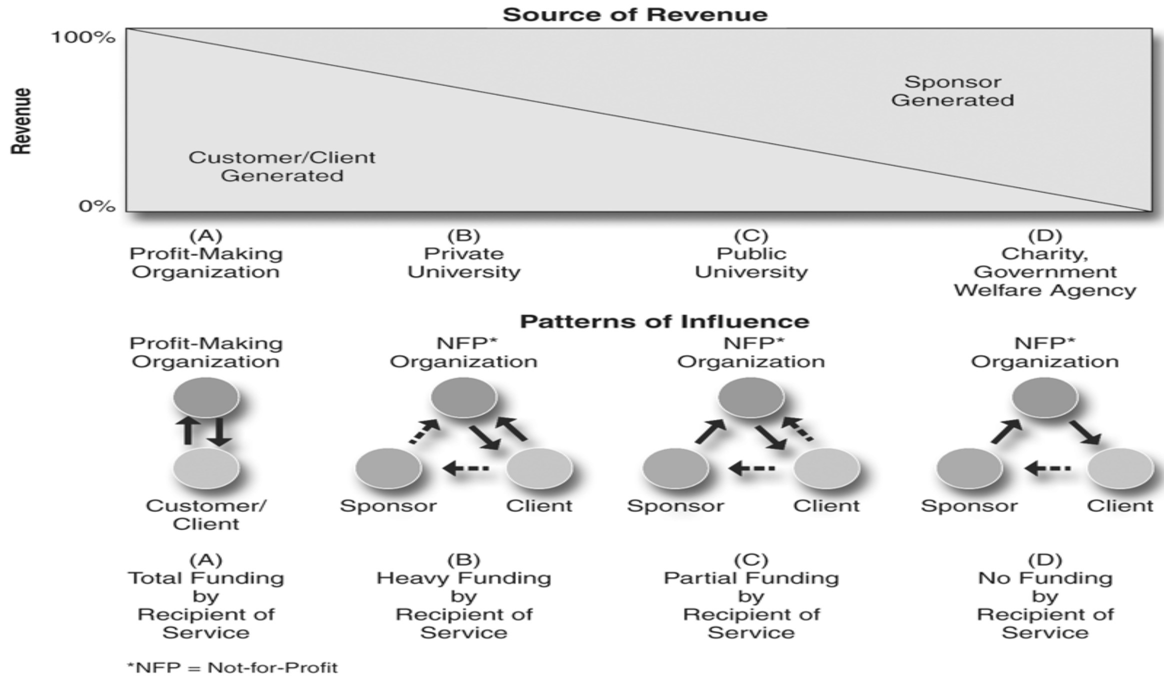
- Private NFPO such as private hospitals, private educational institution, charities, etc and
- Public government agencies such as libraries, universities, and museums.

10. State the nature of NPO.

- Self –help groups and NGOS receive a lot benefits from society
- NFPOS depend heavily on donations from members and from sponsoring agency

- In NFPOS, the beneficiaries don't pay fully for the service they receive, hence the need for outside sponsors.

11. Outline the sources of Funds to NPOs.



12. What are the different types of NPO?

Not-for-profit organization may be

- Private NFPO such as private hospitals, private educational institution, charities, etc and
- Public government agencies such as libraries, universities, and museums.

13. State the Strategic Management concepts used in NPOs

- SWOT analysis
- Mission statements
- Stakeholders analysis
- Corporate government
- Industry analysis
- Competitor analysis

14. What are the constraints in strategic Management of NPO?

- Service is intangible and difficult is measure
- Beneficiary's influence may be weak
- Sponsors and contributors (government) may interfere with internal management

- Strong employers are more committed to their profession rather than the organization
- Reward-punishment system is under severe restraints.

15. What are the strategic Issues in controlling and evaluating NPOs? (Apr/May 2014)

- Rewards and penalties have little or no relation to performance
- Inputs rather than outputs are controlled
- Wastage of money on administrative costs and expenses

16. State the popular Strategies of NPO

- Strategic piggybacking
- Merger
- Strategic alliance

17. What is Strategic PiggyBacking?

Strategic piggybacking refers to the development of a new activity that will generate the funds necessary to make up the difference between revenue and expenses.

Ex: Educational institution running some courses and commercial
Hospitals running a meditation class and fitness programme

18. What is Strategic alliance?((April/May2015)

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. This form of cooperation lies between mergers and acquisitions and organic growth.

19. What is Merger?

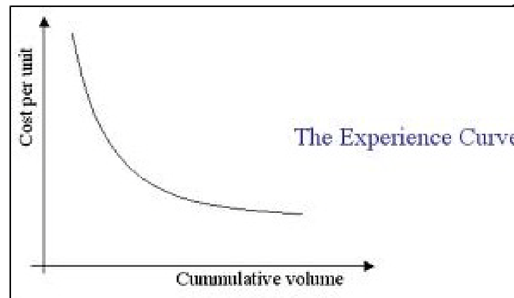
A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations.

20. How innovation's influence on business strategies?

Companies' strategies and leadership styles need to be considered because a company's approach to collaborative innovation seems to be dependent on business strategy. Constant innovation leads to long-term business success and growth. In order to leverage your company's innovation performance, the right innovation strategy, innovation culture and capabilities are needed.

21. What is 'Experience Curve'?

It refers to the effect that firms learn from doing, which means that the higher the cumulative volume of production (X), the lower the direct cost per new unit produced (C). Therefore, the **experience curve** will be convex and have a downward slope, as shown in the diagram.



22. What is Internet Economy? (Nov/Dec 2015)

The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web. An internet economy differs from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

23. State the different Internet Models.

- Brokerage
- Advertising
- Infomediary
- Merchant
- Manufacturer (Direct)
- Affiliate
- Community
- Subscription
- Utility

24. Define Small Business.

Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation.

25. Explain entrepreneurial venture.

An Entrepreneur is an individual who starts and runs a business with limited resources and planning, taking account of all the risks and rewards of his or her business venture. The business idea is usually a new innovation, product or service, rather than an existing business model. Such entrepreneurial ventures target high-returns, with high level of uncertainty. The entrepreneur is willing to put his or her financial security and career at stake to take risks on an idea, spending time as well as capital on an uncertain venture

26. How are entrepreneurial ventures different from small business?

 Small Business usually deal with known and established products & services, Entrepreneurial Ventures are for new innovative offerings
 SBs aim for limited growth and continued profitability while EVs target rapid growth and high productivity returns
 Small Businesses deal with known risks; Entrepreneurial Ventures take deep dive with lots of unknown risks
 EVs generally impact economies & communities in a significant manner, which also results in a cascading effect on other sectors like job creation. Small businesses are more limited in this perspective and remain confined to their own domain and group.

27. Explain corporate entrepreneurship

Corporate entrepreneurship is often defined as a process that goes on inside an existing firm and that may lead to new business ventures, the development of new products, services or processes and the renewal of strategies and competitive postures.

28. What are the factors influencing success of a new venture?

- Type of business and its competition
- Proper Promotion
- Creating awareness about the company and the product
- Government Support
- Employee satisfaction

29. What are the characteristics of innovative entrepreneurial ventures?

- A tolerance for **risk-taking** is a necessary attribute for entrepreneurs.
- Entrepreneurs also need **creativity**.
- Initiative
- Innovator
- Rational Analyst

30. What is Intrapreneurship:? (Apr/May 2011)

An inside entrepreneur, or an entrepreneur within a large firm, who uses entrepreneurial skills without incurring the risks associated with those activities. Intrapreneurs are usually employees within a company who are assigned a special idea or project, and are instructed to develop the project like an entrepreneur would. Intrapreneurs usually have the resources and capabilities of the firm at their disposal. The intrapreneur's main job is to turn that special idea or project into a profitable venture for the company.

Acting like an entrepreneur within a larger organization. The term is derived from a combination of "intra" or internal, and "entrepreneurship." Intraprenuers are usually highly self-motivated, proactive and action-oriented people who are comfortable with taking the

initiative, even within the boundaries of an organization, in pursuit of an innovative product or service.

PART B

1. "Strategic management process for non-profit organization differ with other organization"- discuss **(Nov/Dec 2015, April/May2015, Nov/Dec 2014, Apr/May 2011)**

2.. Explain how can a company develop an entrepreneurial culture **(Apr/May 2011)**

3.. Highlight the role of technology & innovation in strategic management with example **(April/May2015, Nov/Dec 2014, Apr/May 2014)**

4.. Discuss some of the new business models for internet economy **(Nov/Dec 2015, Apr/May 2014)**

5. Explain the organization designs for corporate entrepreneurship

6. Discuss the subtypes in small business development

7. "Innovation management involves innovation generation and innovation diffusion"- Discuss the statement and discuss the type of growth avenues available at different stages of an innovation

8. Explain the business model and strategies suitable for high-tech Company.

9. Highlight the role of technology & innovation in strategic management with example.

10. Explain the barriers in strategic evaluation

www.vidyarthiplus.com

Reg. No. :

Question Paper Code : 60346

M.B.A. DEGREE EXAMINATION, NOVEMBER/DECEMBER 2015.

Third Semester

BA 7302 — STRATEGIC MANAGEMENT

(Regulations 2013)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define 'strategic management'.
2. What are goals and objectives?
3. Define 'environment'.
4. What is meant by competitive advantage?
5. What is a strategic alliance?
6. Define the term 'balanced score card'.
7. What is the use of span of control?
8. What are the sources of organizational power?
9. What is a non profit organization?
10. Define the term 'internet economy'.

VidyarthiPlus.com

PART B — (5 × 16 = 80 marks)

11. (a) (i) Define 'strategy formulation'. Discuss the steps involved in the Strategy formulation process. (12)

(ii) Who are the stakeholders in a business? (4)

Or

(b) (i) What is Corporate Governance? Explain its benefits. (8)

(ii) What is meant by social responsibility? Explain its significance. (8)

www.vidyarthiplus.com

12. (a) (i) Explain the Porter's five forces model in detail. (8)

(ii) Discuss the various macro economic factors that affect business. (8)

Or

(b) (i) Elucidate the different stages in the industry life cycle. (8)

(ii) Explain the factors that influence competitive advantage. (8)

13. (a) Explain any four corporate strategies in detail.

Or

(b) (i) Explain the different types of strategic alliances. What are the advantages and limitations of strategic alliances? (8)

(ii) How does SWOT analysis help in strategic planning? (8)

14. (a) (i) Enumerate the steps involved in the strategic implementation process. (8)

(ii) Differentiate between strategy formulation and implementation. (8)

Or

(b) (i) Explain the concept and process of strategic evaluation. (8)

(ii) Define strategic control systems. Explain the steps involved in the strategic control process. (8)

15. (a) (i) What are the merits and demerits of technology leadership? (8)

(ii) What are the management challenges and strategic issues faced by the non profit organizations? (8)

Or

(b) (i) Elucidate the characteristics of internet market structure. (8)

(ii) Discuss the impact of internet and E-commerce on business. (8)

www.VidyarthiPlus.com

Reg. No. :

Question Paper Code : 40343

M.B.A. DEGREE EXAMINATION, APRIL/MAY 2015.

Third Semester

BA 7302 — STRATEGIC MANAGEMENT

(Regulation 2013)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define Strategic Management. List the characteristics of Strategic Management.
2. Define mission and vision of an organization.
3. How do political, social and technological factors in the environment affect strategic planning?
4. What is meant by sustaining competitive advantage?
5. What is vertical Integration?
6. Define GAP analysis.
7. What is strategic control system?
8. Identify the factors influencing strategic resource allocation
9. What is meant by innovation?
10. State the role of strategic management in new organizations

PART B — (5 × 16 = 80 marks)

11. (a) Explain the strategy formulation process with example.

Or

(b) Write a detailed note on strategic mission and vision formulation. How are objectives and goals derived to the suitability of competition?

www.rejinpaul.com

Downloaded From www.rejinpaul.com

12. (a) Describe the effect of globalization on strategic management.

Or

(b) What is meant by competitive advantage? How does Porter's strategy help in managing competitiveness?

13. (a) Explain generic strategic alternatives model with suitable illustrations.

Or

(b) Explain balanced scorecard technique.

14. (a) Discuss the steps in strategic control systems.

Or

(b) How does conflict management support and disturb the strategic implementation. Give examples.

15. (a) "Strategies of profit and nonprofit organizations differs" - Explain.

Or

(b) Discuss the relevance of strategy formulation in a changing technological environment.

www.rejinpaul.com

Reg. No. :

Question Paper Code : 10209

M.B.A. DEGREE EXAMINATION, NOVEMBER/DECEMBER 2014.

Third Semester

BA 9210/BA 932/UBA 9111/10488 MB 302 — STRATEGIC MANAGEMENT

(Regulation 2009/2010)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define strategic management.
2. Define corporate governance.
3. Define core competence.
4. What is competitive advantage?
5. Define GAP analysis.
6. What is SWOT analysis?
7. Explain Strategic control systems.
8. Define Strategic change.
9. What is Balance score card?
10. Differentiate between Organization Vision And Organization Mission.

PART B — (5 × 16 = 80 marks)

11. (a) Explain the conceptual framework of strategic management and strategy formulation process with necessary flowcharts.

Or

(b) Discuss the factors which contribute to the growing concern of business towards corporate social responsibility.

12. (a) How do political, social and technological factors in the environment affect strategic planning? Explain with examples.

Or

(b) Explain porter five forces model.

13. (a) Write short notes on Generic Business strategies and Contingency strategies.

Or

(b) Write short notes on Mc Kinsey's 7s frame work and GE 9 cell Model.

14. (a) What are the different steps involved in the implementation of strategy? Discuss each of them in brief giving examples.

Or

(b) Discuss the most appropriate methodology for evaluation of strategy.

15. (a) Discuss the strategic issues faced by the non profit organization in detail.

Or

(b) Explain the different source of innovation according to Peter Drucker.

M.B.A. DEGREE EXAMINATION, APRIL/MAY 2014

Third Semester

BA 9210 — STRATEGIC MANAGEMENT

(Regulation 2009)

Time : Three hours Maximum : 100 Marks
Answer ALL questions

PART A — (10 × 2 = 20 Marks)

1. Define Strategy.
2. What is mission?
3. Mention the five forces in Michael E Porter Model.
4. What is competitive advantage?
5. What is stability strategy?
6. Mention the 7s in Mckinsey framework.
7. What is power and conflict?
8. What is organizational structure?
9. Mention the role of technology in strategy development.
10. Highlight any four strategic issues in non profit organization.

PART B — (5 × 16 = 80 Marks)

11. (a) Discuss the corporate governance and social responsibility scenario in Indian Industry.[Marks 16]

Or

(b) Explain the steps/process involved in strategic development with example.[Marks 16]

12. (a) Apply Michael E Porter's Five force model for any industry and company of your choice and suggest a suitable strategy for the chosen company in that industry.[Marks 16]

Or

(b) Discuss distinctive competencies. How will you develop a sustainable competitive advantage for the company? Give example.[Marks 16]

13. (a) What is strategic analysis and choice? How will you do this? Explain with examples.[Marks 16]

Or

(b) Discuss the importance of GE matrix and Balance score card with Indian examples.[Marks 16]

14. (a) Explain the techniques for strategic evaluation and control.[Marks 16]

Or

(b) Critically evaluate the match between strategy and structure. Discuss the strategic issues involved in compatibility of strategy and structure.[Marks 16]

15. (a) Highlight the role of technology and innovation in strategic management
with examples. [Marks 16]

Or

(b) Discuss some of the new business models and strategies of Internet
Economy. [Marks 16]

Reg. No. :

Question Paper Code : 76509

M.B.A. DEGREE EXAMINATION, APRIL/MAY 2011

Third Semester

BA 9210 — STRATEGIC MANAGEMENT

(Regulation 2009)

Time : Three hours Maximum : 100 marks

Answer ALL questions

PART A — (10 × 2 = 20 marks)

Write short notes or Define the following terms

1. Corporate Governance
2. Strategic Management
3. Core Competency
4. Hyper Competition
5. Corporate Strategy
6. Balance Score Card
7. Politics
8. MBO
9. Intrapreneurship
10. Non Profit Organisation.

PART B — (5 × 16 = 80 marks)

11. (a) Explain the steps in Strategic Decision Making Process

Or

(b) Describe the dimensions of Corporate Social Responsibility with example.

12. (a) Enumerate Porter's Five Forces Model. Give an example.

Or

(b) Discuss the steps in Organizational Analysis or Internal Environmental Analysis. Give an example.

13. (a) Explain the concept and applications of Portfolio Strategy with illustrations.

Or

(b) Describe the components of Corporate - Directional Strategies.

14. (a) Explain how can a corporate keep sliding from birth to decline stage. Use an example.

Or

(b) Describe the different methods of Evaluation and Control in Strategic Management.

15. (a) Explain how can a company develop an Entrepreneurial Culture?

Or

(b) Discuss the Strategic issues in Non Profit Organizations.

41242142