M.B.A IV Semester

Course 401

STRATEGIC MANAGEMENT

LESSONS 1 TO 10

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CONTENTS

Master of Business Administration 4th Semester

401 Strategic Management

Objective of the Course:-

The course is designed to provide a framework for integrating the knowledge acquired by a student in diverse foundation and functional course offered throughout the two-year MBA. Programme. The case studies and other participative methods of instruction will be extensively used for developing knowledge skills, and attitudes relevant to policy formulation and administration.

UNIT-I

Strategy Implementation Process:

Interdependence of formulation and implementation of Corporate Strategy, Forward linkage and Backward Linkage, Strategy Implementation Process, Selection of an implementation approach.

Unit-II

Analysing Organization Structure:

Organization Structure, Approaches to Organization Structure, matching Structure to Strategy, Resource Allocation.

Unit-III

Analysing Strategic Change:

Need for Change, Type of Change, Change Agents, Strategic Change, Levels of Strategic Change, Resistance to Change, Corporate Culture and Climate, Organization Development Interventions.

Unit-IV

Leadership and Functional Implementation:

Leadership Implementation, Source of Organizational Power and Politics, Functional Implementation-Production Policies, Marketing Policies, Financial Policies, Human Resources Policies and Research & Development Policies.

Unit-V

Strategic Evaluation and Control:

Organizational Control and Strategic Control, Process of Strategic Control, Strategic Control and Environmental Factors, Information for Strategic Control, Implementing Strategic Control.

Recommended Books:

1. Hamel E. Prahalad C.K., Competing for the future, Harward Business School Press : Boston, MA.
2. H. Lgor Ansoff, Corporate Strategy, Tata McGraw Hill.
3. Simul C. Carto & J. Paul Peter, Strategic Management-A Focus on Process, McGraw Hill International Edition.
4. C. Appa Rao, B Parvathiswara Rao and K. Srivaramakrishna, Strategic Management and Business Policy, Excel Books, Delhi.
5. George Luffman, Edward Lea, Staurt Sanderson and Brian Kenny, Strategic Management & Business Policy, Person Education, Delhi.
6. Thomas L. Wheetan, J, David Hunger and Krish Rangarajan, Strategic Management & Business Policy, person Education, Delhi.
7. Ahzar Kazmi, Business Policy and Strategic Management, Tata McGraw hill, New Delhi.
8. Lawrence R. Jauch, Gupta Rajeev, Willian F. Glueck, Business Policy & Strategic Management, Frank Bros. & Co., Delhi.

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Lesson – 1
Strategic Management: An Introduction

STRUCTURE

1.0 Introduction

Strategy and Strategic Management are the prominent words used often in today's business world. Strategy refers to decisions bearing on the future of an enterprise defining its direction and scope in long run. While shaping the future of an organization, strategic decisions often mould the organizational activities and deciding whether the organization will continue to be in the same line of business. Strategic management is the process which deals with fundamental organizational renewal and growth with the development of the strategies, structures and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes.

2.0 Lesson Objectives:

- Explain the meaning and approaches to strategy.
- To describe the central concept of decision making of strategic planning.
- To describe the process of strategic management.
- To explain the concept of mission statement.

3.0 Presentation of Contents

3.1 Concept and Nature of Strategy:

The word 'Strategy' is derived from the Greek word 'Strategia' which means the art and science of directing military forces. Strategy refers to decision making on the future of an enterprise defining its direction and scope in the long run. These decisions help to take advantage of the future market opportunities. Strategy is a plan or course of action, which is of vital, pervasive or continuing importance to an organization as a whole.

Strategy is one of the most significant concepts to emerge in the subject of management studies in the recent past because every organization required engaging in active formulation of a strategy to achieve its objectives. Strategy begins with the concept of how to use the resources of an organization most effectively in a changing environment. A strategy for a firm is like a game plan. Before a team goes into the field, it examines the competitors past plans and their strengths and weaknesses and at the same time team examines their own strength and weaknesses. Then the team designs a competitive strategy to achieve the objective. Similarly, a firm deals with a number of competitors and with government, suppliers, owners and others. So, in case of a firm the strategy is oriented toward basic issues such as business products, markets, opportunities and threats posed by environment, competitors position etc.

Strategic decisions are different from operating decisions which relate to day-to-day activities or current operations, e.g. resource allocation among functional areas and product lines, scheduling operations, monitoring performance and applying controls, all aimed at maximizing profitability of current operations through pricing and marketing policies, production planning and scheduling inventory management and control. Strategic decisions also differ from administrative decisions which are concerned with structuring the firms resources so as to create a maximum performance potential, i.e., decisions concerned with establishing authority – responsibility relationships, work flows commutation, distribution channels location of facilities as well as acquisition and development of resources developing sources of raw materials supply, personnel training and development, financing and acquisition of plant and equipment.

3.2 Two Approaches to Strategy

The idea of strategy has received increasing attention in the management literature. The literature on strategy is now voluminous and strategic management texts grow ever larger to include all the relevant material. A firm needs a well defined sense of its mission, its unique place in its environment and scope and direction of growth. Such a sense of mission defines the firm's strategy. A firm also needs an approach to management itself that will harness the internal energies of the organization to the realization of its mission.

Historically, views of strategy fall into two camps. There are those who equate strategy with planning. According to this perspective, information is gathered, sifted and analyzed, forecasts are made, senior managers reflect upon the work of the planning department and decide what the best course for the organization is. This is a top-down approach to strategy. Others have a less structured view of strategy as being more about the process of manager according to this second perspective, the key strategic issue is to put in place a system of management that will facilitate the capability of the organization to respond to an environment that is essentially unknowable, unpredictable and, therefore, not amenable to a planning approach. Good strategic management actually encompasses elements of each perspective.

There is no one best way of strategy. The planning approach can work in a stable, predictable environment. Its critics argue that such environments are becoming increasingly scarce, events make the plan redundant, creativity is buried beneath the weight and protocols of planning and communication rules. Furthermore, those not involved in devising the plan are never committed to its implementation. The second approach emphasizes speed of reaction and flexibility to enable the organization to function best in an environment that is fast-changing and essentially unpredictable. The essence of strategy, according to this view, is adaptability and incrementalism. This approach has been criticized for failing to give an adequate sense of where the organization is going and what its mission is. Critics speak disparagingly of the 'mushroom' approach to management. (Place in a dark room, shovel manure/money on the seeds, close the door, wait the it to grow!).

3.3 Elements of Strategy

Definitions of strategy have their roots in military strategy, which defines itself in terms of drafting the plan of war, shaping individual campaigns and, within these deciding on individual engagements (battles/ skirmishes) with the enemy. Strategy in this military sense is the art of war, or, more precisely, the art of the general – the key decision maker. The analogy with business is that business too is on a war footing as competition becomes more and more fierce and survival more problematic. Companies and armies have much in common. They both, for example, pursue strategies of deterrence, offence, defense and alliance. One can think of a well developed business strategy in terms of probing opponents' weaknesses: with drawing to consider how to act, given the knowledge of the opposition generated by such probing: forcing opponents to stretch their resources: concentrating one's own resources to attack an opponent's exposed position; overwhelming selected markets or market segments: establishing a leadership position of dominance in certain markets: then regrouping one's resources. Deciding where to make the next thrust: then expanding from the base thus created to dominate a broader area.

Strategic thinking has been much in influenced by military thinking about 'the strategy hierarchy' of goals, policies arid programmes. Strategy itself sets the agenda for future action, strategic goals state what is to be achieved and when (hut not how), policies set the guidelines and limits for permissible action in pursuit of the strategic goals, and programmes specify the step-by-step sequence of actions necessary to achieve major objectives and the timetable against which progress can be measured. A well defined strategy integrates organizations major plans, objectives, policies and programmes and commitments into a cohesive whole. It marshals and allocates limited resources in the best way, which is defined by an analysis of a firm's unique strengths and weaknesses and of opportunities and threats in the environment. It considers how to deal with the potential actions of intelligent opponents.

Management is defined both in terms of its function as those activities that serve to ensure that the basic objectives of the enterprise, as set by the strategy, are achieved, arid as a group of senior employees responsible for performing this function. Our working definition of strategic management is as billows: all that is necessary to position the firm a way that will assure its long–term survival in a competitive environment. A strategy is an organization's way of saying how it creates unique value arid thus attracts the custom that is its lifeblood.

3.4 Strategic Management

Strategic management is a process that includes analysis of organizational environment by the top management. It is a set of decisions and actions that results in the formulation of a strategy and the plan for implementing and controlling the strategy that is designed to achieve the objectives of the organization. It thus determines the long run performance of an organization.

Strategic management may be defined as "the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive, or continuing importance to the total organization".

3.4.1 Strategic Planning and Decision Making

Strategic planning refers to the formulation of a verified, comprehensive and integrated planned aimed at relating the strategic advantages of the firm to the challenges of the environment. It is a concerned with appraising the environment in relation to the company, identifying the strategies to obtain sanction for one of the alternatives to be interpreted and communicated in an operationally useful manner. Thus, strategic planning provides the framework within which future activities of the company are expected to be carried out. It contributes positively to the performance of enterprises. Strategic decision making is the prominent task of the senior management. Decision making in performing strategic tasks is, therefore, an extremely difficult, complicated and at times, intriguing and enigmatic process. Decision makers are unable to describe the exact manner in which strategic decisions are made. Strategic decisions are associated with several fields of organizational operations and call for obligation of the organization to long term activities that aim the operation of substantial resources. These decisions have a impact on the organization's prospective growth and success. This is a challenging dimension that involves real time issues. The organization should therefore remain flexible and prepared to make strategic decisions at any point of time.

3.4.2 Importance of strategic management:

The process of strategic management has become significant because of several other benefits:

(i) *Financial Benefits*: The impact of strategic management is primarily that of improved financial performance in terms of profit. The growth of firms with a developed strategic management system has a major impact on both planning and implementation of future strategies.

(ii) *Improved Ability to prevent problems:* This is likely to result from encouraging and rewarding subordinate attention of planning considerations and managers being assisted in their monitoring and forecasting role by employees who are altered to the needs of strategic planning.

(iii) *Improved quality of strategic decisions through group Incentives:* The process of group interaction for decision making helps in generating alternative strategies. It also helps in better screening of options due to specialized perspectives of group members. Thus the best alternatives are selected and pursued effectively.

(iv) *Better Employee Incentive:* Participation of employees or their representatives in strategy formulation leads to a better understanding of the priorities. Also they appreciate the link between productivity on their part and its subsequent rewards that is inbuilt in a strategic plan. Thus goal-directed behaviour is likely to follow the incentives.

(v) *Reduced gaps and overlaps in activities:* With strategy formulation there is better understanding of the responsibilities of individuals and groups. This helps in a clear role identification by the employees which reduces the gaps and overlaps in the activities of groups and individuals.

3.4.3 Process of Strategic Management:

The process of strategic decision making leads to the formulation and implementation of a chosen strategy that is strategic management. Figure 1.1 shows the various strategic issues.

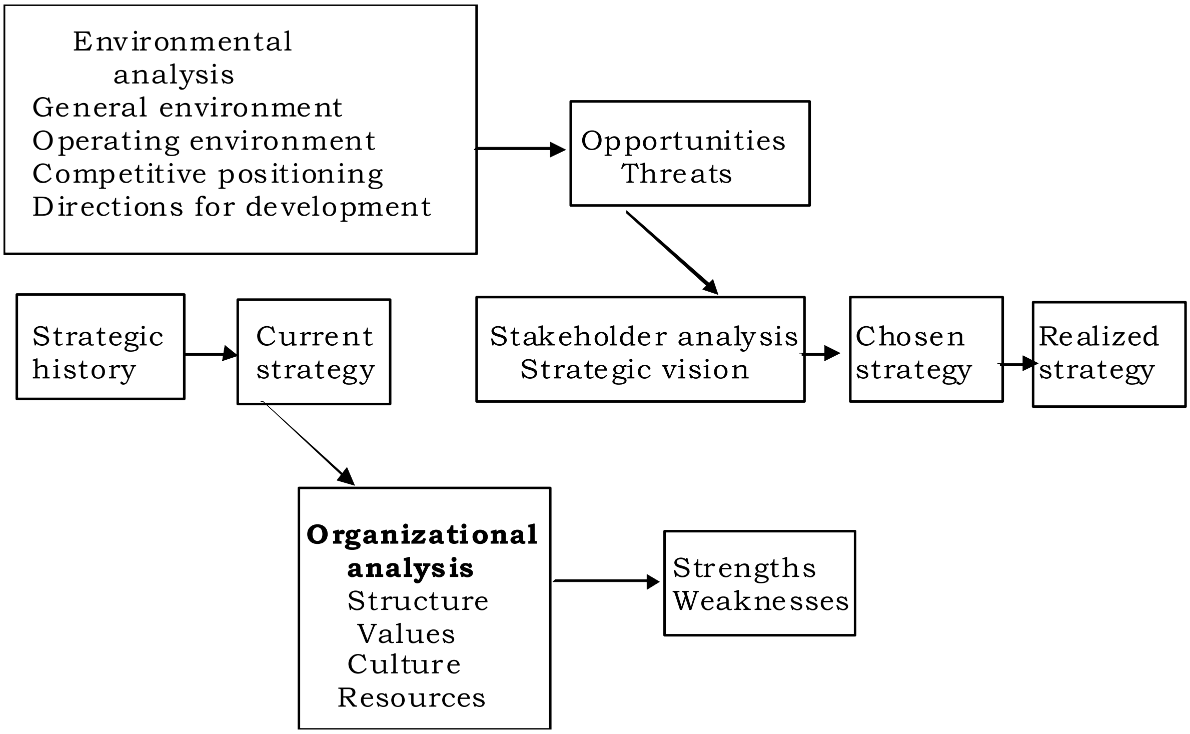

Figure 1.1 The strategic management process

Current strategy has its roots in the *strategic history* of a firm and its management and employees. Both management and employees here because, though in many cases senior management is the source of strategic decisions, it is the employees at the point of production or delivery of a product or service who are responsible for the actual implementation of a strategy. (Of course, in the final analysis it is management who are ultimately responsible for the performance of employees). *Current strategy* is the result of the interaction of *intended strategy* and *emergent strategy.* The organization's actual strategy (its *realized strategy)* can be the direct result of strategic planning, the deliberate formulation and implementation of a plan. More often it is the outcome of the adaptation of such a plan to *emergent* issues in the environment. In some cases actual strategy can be very different from the strategy as planned or the firm may not have a very clear plan in the first place. In such cases the strategy can be described as *emergent* in the sense that strategy emerges from an ongoing series (sometimes described as a pattern or stream) of decisions.

Managers can decide that they are happy with their current strategy. They can take this decision in two ways. In a proactive sense they can scan their environment and the potential for change within their own organization and decide that to carry on doing what they are doing and what they are good at the best way to face the future. In a less active, and far less satisfactory, way they can proceed on the basis of tradition- This is the way we have always done it. It has worked so far. That's good enough for us' – or inertia. Or management may decide that change in necessary. Again this can come about in a variety of ways. They may scan their environment and decide that there are major changes occurring in their business world to which they have to adapt. Or they might decide, through internal analysis, that they have the ability to develop a new way to doing business that will redefine the nature of the business they are in. Another stimulus to change can be the new manager appointed to a senior position that wants to leave his or her mark on the company and changes strategy primarily for this self-centered reason.

If change is the order of the day, then two issues need to be addressed: *environmental (external) analysis* and *organizational (internal) analysis.* (Remember, this is the ideal was of proceeding. In practice, managers may adopt only a partial solution and analyze only external or internal factors.) For a change of strategy to work there must be alignment between internal capability and external opportunity. This is described as 'strategic fit'. The ideal situation is where there is a fit between the environment, a business need arising out of that environment that is strongly felt by a firm that has the sense of purpose (*mission*) and a management *system* that enables it to respond to this need with a coherent and practicable strategy. The potential to act in this way depends upon managerial judgment, managerial skill to exploit windows of opportunity and management ability to motivate other employees to support and commit themselves to the firm's new strategic objectives.

The analysis of the environment can be segmented into four interactive elements. There is the issue of the firm's *general environment*, the broad environment comprising a mix of general factors such as social and political issues. Then there is the firm's *operating environment*, its more specific industry/business environment. What kind of industry is the firm competing in? What 'Forces' make up its 'industry structure'? Having examined its business environment, the issue then arises: how is the firm to compete in its industry? What is to he the unique source of its *competitive positioning* that will give it an edge over its competitors? Will it go for a broad market position, competing on a variety of fronts, or will it look for niches? Will it compete on the basis of cost or on the basis of added value, differentiating its products and charging a premium? What is the range of *options* that managers have to choose from? How are they to prioritize between these options? Does the company have strategic vision, a strong sense of mission, a 'reason for being' that distinguishes it from others? If change is necessary, what is to be the firm's *direction for development*? Having identified the major forces affecting its environment how is the firm to approach the future?

Organizational analysis can also be thought of as fourfold. How is the firm organized? What is the *structure* of the organization, who reports to whom, how are the tasks defined, divided and integrated? How do the management systems work, the processes that determine how the organization gets things done flout day to day – for example, information systems, capital budgeting systems, performance measurement systems, quality systems? What do organizational members believe in, what are they trying to achieve, what motivates them, what do they *value?* What is the *culture* of the organization? What are the basic beliefs of organizational members? Do they have a shared set of beliefs about how to proceed, about where they are going, about how they should behave? We know, thanks to Peters and Waterman's *In Search of Excellence that* the basic values, assumptions and ideologies (systems of belief) which guide and fashion behaviour in organizations have a crucial role to play in business success (or failure). What *resources* does the organization have at its disposal – for example, capital, technology and people?

Management's role is to try to 'fit' the analysis of externalities and internalities, to balance the organizations *strength and weaknesses* in the light of environmental *opportunities and threats.* A concept that bridges internal and external analyses is that of *stakeholders,* the key groups whose legitimate interests have to be borne in mind when taking strategic decisions. These can be internal groups, such as managers themselves and employees, or the owners of the firm, shareholders. They can also be external groups: the stock market if it is a quoted company, banks, consumers, the government.

Senior management's task is to try and align the various interest groups in arriving at its chosen strategy in the light of the creation of an appropriate strategic vision for the organization. Increasingly important here is the issue of corporate responsibility, how the organization defines and acts upon its sense of responsibility to, its stakeholders. The broad responsibility to society at large is important here in, for example, such areas as 'green' (ecological) issues. Sometimes the various interest groups may be at odds with each other and management will have to perform a delicate political balancing act between them.

Having chosen a strategy, there is the issue of implementation. Very few schemes go totally (or even approximately) according to plan. The business environment changes new issues emerge — green ones, for example. Some demand to be taken op board so that in many, perhaps the majority of cases emergent strategy asserts itself to the extent that the *realized strategy* differs markedly from the chosen/planned strategy. In time, the realized strategy becomes a part of the firm's strategic history…. .. and the strategy process continues.

3.5 The Growth Vector

Strategic management involves decisions concerning what a company might do, given the opportunities in its environment: what it can do given the resources at its disposal: what it wants to do, given the personal values and aspirations of key decision makers: and what it should do, given the ethical and legal context in which it is operating. A firm needs a well defined sense of where it is going in the future and a firm concept of the business it is in. We can think of these in terms of the firm's 'product—market scope' and 'growth vector'. This specifies the particular products or services of the firm and the market(s) it is seeking to serve. A firm's 'growth vector' defines the direction in which the firm is moving with respect to its current product—market scope. The key components of the 'growth vector' are set out in figure 1.2. One qualification is necessary here. The use of the growth vector assumes that the firm is indeed growing. This is obviously not always the case, and strategic decision making may therefore involve downsizing and withdrawal from some areas of business.

Product / Mission	Present	New
Present	Market penetration	Product development
New	Market development	Diversification

Figure 1.2 Product, mission and market choices.

The *growth vector* illustrates the key decisions concerning the directions in which a firm may choose to develop. *Market penetration* comes about when the firm chooses as its strategy to increase its market share for its present product markets. If the firm pursues *product development* it sets out to develop new products to complement or replace its current offerings while staying in the same markets. It retains its current *mission* in the sense of continuing to attempt to satisfy the same or related consumer needs in *market development* the firm searches for new markets with its existing products. If a strategy of *diversification* is chosen, the firm has decided that its product range and market scope are no longer adequate, and it actively seeks to develop new kinds of products for new kinds of markets.

Governing the choice between strategic options should be the notion of *competitive advantage*. The firm has to identify *unique* opportunities for itself in its chosen area(s). It has to identify particular characteristics within its approach to individual product—markets which will give it a strong competitive position. It might go for a large market share that would enable it to dominate particular markets and define the conditions of competition in them, for instance, as regards pricing policy. It might pursue technological dominance, looking for breakthrough products or a new manufacturing technology that would give it a technological edge over the competitions.

3.6 Mission Statements

The concept of mission has become increasingly fashionable in discussions of strategy. Indeed, some analysts go as far as asserting that a good 'mission statement' can provide an actual worthwhile alternative to the whole task of corporate planning. The definition of a firm's strategic *mission* encapsulated in the mission statement can he thought of as the first stage of the strategy process. Management guru Peter Drucker', the source of much contemporary thinking about the business mission, argues bat asking the question 'What is our business? is the same as asking the question 'What is our mission?' A business is defined by its mission. Only a clear definition of the mission of the organization makes possible clear and realistic business objectives, because the mission defines the purpose of the firm in terms of its enduring sense of its reason for being.

The mission defines the long-term vision of the organization in terms of what it wants to be arid whom it wants to serve. A firm's mission should be clear and concise and distinguish it from any other firm. The mission statement has to he backed up with specific objectives and strategies, but these objectives and strategies are far more likely to be acted upon when there is a clear sense of' mission informing action. A good mission statement will contain the following:

- the purpose of the organization – a statement of the principal activities of a business or organization;
- its principal business aims – its mission as regards the position it aims to achieve in its chosen business;
- the key beliefs and values of he company;
- definitions of who are the major stakeholders in the business;
- the guiding' principles that define the code of conduct that tells employees how to behave,

Drucker illustrates the importance of a sense of mission with his story of three people working on a building site. All three were doing the same job but when asked what their job was gave very different answers. One answered 'Breaking rocks', another answered, 'earning' a living.' the third answered. 'Helping to build a cathedral'. There is a similar story told about three climbers, When asked what they were doing, one answered, 'Pitching camp', the second answered, 'Collect material for a film, 'the third answered, 'Climbing Everest.' There are no prizes for deciding who was most committed to his/her task and who would be most motivated to perform to the best of his/her ability.

Self Check Exercise:

Q.1 Define strategic management.

Q.2 Why is strategic management important?

Q.3 Explain strategic management process.

4.0 Summary:

Strategic management is an integrated process that aims at the overall growth and development of an organization. It is an activity that requires planning through strategic decisions by the organizational management. Although, it would be a part of decision making process of operating live and staff managers. Strategic decision is related to decision concerning the scope of the organization and the internal skills and resources required to achieve the scope. This needs the selection and execution of a sound strategic decision that can influence major investment patterns.

A strategy operates at several levels. Corporate level strategic management is the management of activities, which define the overall character and mission of the organization, whereas business level strategic management includes policies involving new product development marketing mix research of development, personnel etc. The strategic management process is simplified and performed effectively by a strategist, someone who is expert in developing and implement strategies. He enacts the ultimate organizational purpose of growth and success through a variety of roles in the form of forecaster, guru etc.

5.0 Glossary

Strategy: a plan of action designed to achieve a long-term or overall aim

Diversification: the process of a business enlarging or varying its range of products or field of operation

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.4

Ans.2 Refer to section 3.6

Ans.3 Refer to section 3.7

7.0 Terminal Questions:

Q.1 Define the term strategy and explain its scope and importance.

Q.2 What is strategic management? Explain its significance in decision making.

Q.3 Give the various steps involved in the strategic management process.

Q.4 Discuss the issues that are relevant for strategic decision making.

Q.5 Explain various approaches of strategy.

8.0 Suggested Readings

- Sharplin, A. 1985 “Strategic Management” McGrew Hill Book Company, New York.
- Azhar Kazmi, “Business Policy and Strategic Management,” Tata McGrew Hill.
- Ghosh, P.K., “Strategic Planning and Management” Sultan Chand and Sons, New Delhi.
- David, F.R., “Strategic Management” Prentice Hall, New Jersey.
- Prasad, L.M., “Business Policy : Strategic Management”.

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Lesson-2
Formulation of Business Level Strategies

STRUCTURE

1.0 Introduction

Business strategies are the courses of action adopted by a firm for each of its business separately to serve identified customer groups and provide value to the customer by a satisfaction of their needs. Thus, business strategies deal with the strategies that will be used by the individual business within the organization. The real action occurs at the level of business strategies as the competitive forces in the market are confronted by a firm at the formulation level of business strategies.

2.0 Lesson Objectives

1. To explain the process of formulation of various strategies.
2. To understand the importance of business level strategies for the functioning of an organization.
3. To determine the condition advantages and risks of various business level strategies.

3.0 Presentation of Contents

3.1 Strategy Formulation

Basic strategic planning is comprised of several components that build upon the previous piece of the plan, and operates much like a flow chart. However, prior to embarking on this process, it is important to consider the players involved. There must be a commitment from the highest office in the organizational hierarchy. Without buy-in from the head of a company, it is unlikely that other members will be supportive in the planning and eventual implementation process, thereby dooming the plan before it ever takes shape. Commitment and support of the strategic-planning initiative must spread from the president and/or CEO all the way down through the ranks to the line worker on the factory floor.

Just as importantly, the strategic-planning team should be composed of top-level managers who are capable of representing the interests, concerns, and opinions of all members of the organization. As well, organizational theory dictates that there should be no more than twelve members of the team. This allows group dynamics to function at their optimal level.

3.2 Strategy Formulation Process

The components of the strategic-planning process read much like a laundry list, with one exception: each piece of the process must be kept in its sequential order since each part builds upon the previous one. This is where the similarity to a flow chart is most evident, as can be seen in the following illustration.

The only exceptions to this are environmental scanning and continuous implementation, which are continuous processes throughout. This section will now focus on the discussion of each component of the formulation process: environmental scanning, continuous implementation, values assessment, vision and mission formulation, strategy design, performance audit analysis, gap analysis, action-plan development, contingency planning, and final implementation.

3.2.1 Environmental Scanning

This element of strategy formulation is one of the two continuous processes. Consistently scanning its surroundings serves the distinct purpose of allowing a company to survey a variety of constituents that affect its performance, and which are necessary in order to conduct subsequent pieces of the planning process. There are several specific areas that should be considered, including the overall environment, the specific industry itself, competition, and the internal environment of the firm. The resulting consequence of regular inspection of the environment is that an organization readily notes changes and is able to adapt its strategy accordingly. This leads to the development of a real advantage in the form of accurate responses to internal and external stimuli so as to keep pace with the competition.

3.2.2 Continuous Implementation

The idea behind this continual process is that each step of the planning process requires some degree of implementation before the next stage can begin. This naturally dictates that all implementation cannot be postponed until completion of the plan, but must be initiated along the way. Implementation procedures specific to each phase of planning must be completed during that phase in order for the next stage to be started.

3.2.3 Values Assessment

All business decisions are fundamentally based on some set of values, whether they are personal or organizational values. The implication here is that since the strategic plan is to be used as a guide for daily decision making, the plan itself should be aligned with those personal and organizational values. To delve even further, a values assessment should include an in-depth analysis of several elements: personal values, organizational values, operating philosophy, organization culture, and stakeholders. This allows the planning team to take a macro look at the organization and how it functions as a whole.

Strategic planning that does not integrate a values assessment into the process is sure to encounter severe implementation and functionality problems if not outright failure. Briefly put, form follows function; the form of the strategic plan must follow the functionality of the organization, which is a direct result of organizational values and culture. If any party feels that his or her values have been neglected, he or she will not adopt the plan into daily work procedures and the benefits will not be obtained.

3.2.4 Strategy Design

This section of strategy formulation involves the preliminary layout of the detailed paths by which the company plans to fulfill its mission and vision. This step involves four major elements: identification of the major lines of business (LOBs), establishment of critical success indicators (CSIs), identification of strategic thrusts to pursue, and the determination of the necessary culture.

A line of business is an activity that produces either dramatically different products or services or that are geared towards very different markets. When considering the addition of a new line of business, it should be based on existing core competencies of the organization, its potential contribution to the bottom line, and its fit with the firm's value system.

3.2.5 Performance Audit Analysis

Conducting a performance audit allows the organization to take inventory of what its current state is. The main idea of this stage of planning is to take an in-depth look at the company's internal strengths and weaknesses and its external opportunities and threats. This is commonly called a SWOT analysis.

Looking internally, there several key areas that must be analyzed and addressed. This includes identifying the status of existing line of business and unused resources for prospective additions; identifying the status of current tracking systems defining the organization's strategic profile; listing the available resources for implementing the strategic thrusts that have been elected for achieving the newly defined mission: and an examining the current organizational culture. The external investigation should look closely at competitors, suppliers, markets and customers, economic trends, labor-market conditions, and governmental regulations. In conducting this query, the information gained and used must reflect a current state of affairs as well as directions for the future. The result of a performance audit should be the establishment of a performance gap, that is, the resultant gap between the current performances of the organization in relation to its performance targets. To close this gap, the planning team must conduct what is known as a gap analysis, the next step in the strategic planning process.

3.2.6 Gap Analysis

A gap analysis is a simple tool by which the planning team can identify methods with which to close the identified performance gap(s). All too often, however, planning teams make the mistake of making this step much more difficult than need be. Simply, the planning team must look at the current state of affairs and the desired future state. The first question that must be addressed is whether or not the gap can feasibly be closed. If so, there are two simple questions to answer: “What are we doing now that we need to stop doing?” and “What do we need to do that we are not doing?” In answering these questions and reallocating resources from activities to be ceased to activities to be started, the performance gap is closed. If there is doubt that the initial gap cannot be closed, then the feasibility of the desired future state must be reassessed.

3.2.7 Action Plan Development

This phase of planning ties everything together. First, an action plan must be developed for each line of business, both existing and proposed. It is here that the goals and objectives for the organization are developed.

Goals are statements of desired future end-states. They are derived from the vision and mission statements and are consistent with organizational culture, ethics, and the law. Goals are action oriented, measurable, standard setting, and time bounded. In strategic planning, it is essential to concentrate on only two or three goals rather than a great many. The idea is that a planning team can do a better job on a few rather than on many. There should never be more than seven goals. Ideally, the team should set one, well-defined goal for each line of business.

Writing goals statements is often a tricky task. By following an easy-to-use formula, goals will include all vital components.

- Accomplishment/target
- A measure (e.g., sales on the East Coast)
- Standards (e.g., number one)
- Time frame (e.g., long-term)

Objectives are near-term goals that link each long-term goal with functional areas, such as operations, human resources, finance, etc., and to key processes such as information, leadership, etc. Specifically, each objective statement must indicate what is to be done, what will be measured, the expected standards for the measure, and a time frame less than one year (usually tied to the budget cycle). Objectives are dynamic in that they can and do change if the measurements indicate that progress toward the accomplishment of the goal at hand is deficient in any manner. Simply, objectives spell out the step-by-step sequences of actions necessary to achieve the related goals.

With a thorough understanding of how these particular elements fit and work together, an action plan is developed. If carefully and exactingly completed, it will serve as the implementation tool for each established goal and its corresponding objectives as well as a gauge for the standards of their completion.

3.3 Business-Level Strategies

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. In contrast to corporate-level strategy, however, they focus on only one rather than a portfolio of businesses. Business units represent individual entities oriented toward a particular industry, product, or market. In large multi-product or multi-industry organizations, individual business units may be combined to form strategic business units (SBUs). An SBU represents a group of related business divisions, each responsible to corporate head-quarter for its own profits and losses. Each strategic business unit will likely have its own competitors and its own unique strategy. A common focus of business-level strategies are sometimes on a particular product or service line and business-level strategies commonly involve decisions regarding individual products within this product or service line. There are also strategies regarding relationships between products. One product may contribute to corporate-level strategy by generating a large positive cash flow for new product development, while another product uses the cash to increase sales and expand market share of existing businesses. Given this potential for business-level strategies to impact other business-level strategies, business-level managers must provide ongoing, intensive information to corporate-level managers. Without such crucial information, corporate-level managers are prevented from best managing overall organizational direction. Business-level strategies are thus primarily concerned with:

1. Coordinating and integrating unit activities so they conform to organizational strategies (achieving synergy).
2. Developing distinctive competencies and competitive advantage in each unit.
3. Identifying product or service-market niches and developing strategies for competing in each.
4. Monitoring product or service markets so that strategies conform to the needs of the markets at the current stage of evolution.

In a single-product company, corporate-level and business-level strategies are the same. For example, a furniture manufacturer producing only one line of furniture has its corporate strategy chosen by its market definition, wholesale furniture, but its business is still the same, wholesale furniture. Thus, in single-business organizations, corporate and business-level strategies overlap to the point that they should be treated as one united strategy. The product made by a unit of a diversified company would face many of the same challenges and opportunities faced by a one-product company. However, for most organizations, business-unit strategies are designed to support corporate strategies. Business-level strategies look at the products life cycle, competitive environment, and competitive advantage much like corporate-level strategies, except the focus for business-level strategies is on the product or service, not on the corporate portfolio.

Business-level strategies thus support corporate-level strategies. Corporate-level strategies attempt to maximize the wealth of shareholders through profitability of the overall corporate portfolio, but business-level strategies are concerned with (1) matching their activities with the overall goals of corporate-level strategy while simultaneously (2) navigating the markets in which they compete in such a way that they have a financial or market edge-a competitive advantage-relative to the other businesses in their industry.

3.4 Analysis of Business-Level Strategies

Porter's Generic Strategies:

Harvard Business Schools Michael Porter developed a framework of generic strategies that can be applied to strategies for various products and services, or the individual business-level strategies within a corporate portfolio. The strategies are (1) overall cost leadership, (2) differentiation, and (3) focus on a particular market niche. The generic strategies provide direction for business units in designing incentive systems, control procedures, operations, and interactions with suppliers and buyers, and with making other product decisions.

3.4.1 Overall Cost Leadership

Cost-leadership strategies require firms to develop policies aimed at becoming and remaining the lowest cost producer and/or distributor in the industry. Note here that the focus is on cost leadership, not price leadership. This may at first appear to be only a semantic difference, but consider how this fine-grained definition places emphases on controlling costs while giving firms alternatives when it comes to pricing (thus ultimately influencing total revenues). A firm with a cost advantage may price at or near competitors prices, but with a lower cost of production and sales, more of the price contributes to the firm's gross profit margin.

A second alternative is to price lower than competitors and accept slimmer gross profit margins, with the goal of gaining market share and thus increasing sales volume to offset the decrease in gross margin. Such strategies concentrate on construction of efficient-scale facilities, tight cost and overhead control, avoidance of marginal customer accounts that cost more to maintain than they offer in profits, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. The low-cost leader gains competitive advantage by getting its costs of production or distribution lower than the costs of the other firms in its relevant market. This strategy is especially important for firms selling unbranded products viewed as commodities, such as beef or steel.

Cost leadership provides firms above-average returns even with strong competitive pressures. Lower costs allow the firm to earn profits after competitors have reduced their profit margin to zero. Low-cost production further limits pressures from customers to lower price, as the customers are unable to purchase cheaper from a competitor. Cost leadership may be attained via a number of techniques. Products can be designed to simplify manufacturing. A large market share combined with concentrating selling efforts on large customers may contribute to reduced costs. Extensive investment in state-of-the-art facilities may also lead to long run cost reductions. Companies that successfully use this strategy tend to be highly centralized in their structure. They place heavy emphasis on quantitative standards and measuring performance toward goal accomplishment.

Efficiencies that allow a firm to be the cost leader also allow it to compete effectively with both existing competitors and potential new entrants. Finally, low costs reduce the likely impact of substitutes. Substitutes are more likely to replace products of the more expensive producers first, before significantly harming sales of the cost leader unless producers of substitutes can simultaneously develop a substitute product or service at a lower cost than competitors. In many instances, the necessity to climb up the experience curve inhibits a new entrant's ability to pursue this tactic.

3.4.2 Differentiation

Differentiation strategies require a firm to create something about its product that is perceived as unique within its market. Whether the features are real, or just in the mind of the customer, customers must perceive the product as having desirable features not commonly found in competing products. The customers also must be relatively price-insensitive. Adding product features means that the production or distribution costs of a differentiated product will be somewhat higher than the price of a generic, non differentiated product. Customers must be willing to pay more than the marginal cost of adding the differentiating feature if a differentiation strategy is to succeed.

Differentiation may be attained through many features that make the product or service appear unique. Possible strategies for achieving differentiation may include warranty (Sears tools have lifetime guarantee against breakage), brand image (Coach Handbags, Tommy Hilfiger sportswear), technology (Hewlett-Packard laser printers), features (Jenn-Air ranges. Whirlpool appliances), service (Makita hand tools), and dealer network (Caterpillar construction equipment), among other dimensions. Differentiation does not allow a firm to ignore costs; it makes a firm's products less susceptible to cost pressures from competitors because customers see the product as unique and are willing to pay extra to have the product with the desirable features.

Differentiation often forces a firm to accept higher costs in order to make a product or service appear unique. The uniqueness can be achieved through real product features or advertising that causes the customer to perceive that the product is unique. Whether the difference is achieved through adding more vegetables to the soup or effective advertising, costs for the differentiated product will be higher than for non-differentiated products. Thus, firms must remain sensitive to cost differences. They must carefully monitor the incremental costs of differentiating their product and make certain the difference is reflected in the price.

3.4.3 Niche Strategy

Focus, the third generic strategy, involves concentrating on a particular customer, product line, geographical area, channel of distribution, stage in the production process, or market niche. The underlying premise of the focus strategy is that the firm is better able to serve its limited segment than competitors serving a broader range of customers. Firms using a focus strategy simply apply a cost-leader or differentiation strategy to a segment of the larger market. Firms may thus be able to differentiate themselves based on meeting customer needs through differentiation or through low costs and competitive pricing for specialty goods.

A focus strategy is often appropriate for small, aggressive businesses that do not have the ability or resources to engage in a nation-wide marketing effort. Such a strategy may also be appropriate if the target market is too small to support a large-scale operation. Many firms start small and expand into a national organization. Wal-Mart started in small towns in the South and Midwest. As the firm gained in market knowledge and acceptance, it was able to expand throughout the South, then nationally, and now internationally. The company started with a focused cost-leader strategy in its limited market and was able to expand beyond its initial market segment.

Firms utilizing a focus strategy may also be better able to tailor advertising and promotional efforts to a particular market niche. Many automobile dealers advertise that they are the largest-volume dealer for a specific geographic area. Other dealers advertise that they have the highest customer-satisfaction scores or the most awards for their service department of any dealer within their defined market. Similarly, firms may be able to design products specifically for a customer. Customization may range from individually designing a product for a customer to allowing the customer input into the finished product. Tailor-made clothing and custom-built houses include the customer in all aspects of production from product design to final acceptance. Key decisions are made with customer input. Providing such individualized attention to customers may not be feasible for firms with an industry-wide orientation.

3.5 Important factors for Formulation Business Strategies

A tactic is a sub strategy. It is “a specific operating plan detailing how a strategy is to be implemented in terms of *when* and *where* it is to be put into action. By their nature, tactics are narrower in their scope and shorter in their time horizon than are strategies. We shall consider here the two tactics of timing (when) and market location (where) used in formulating and implementing business strategies.

3.5.1 Timing Factor

When to make a business strategy move is often as important as what move to make. It is here that the timing of the application of a business strategy becomes important. A business strategy of low-cost or differentiation may be essentially a right move but only if it is made at the right time.

The first company to manufacture and sell a new product or service is called the pioneer or the first-mover firm. The firms which enter the industry subsequently are late-mover firms. Sometimes an intermediate category of second-movers is also considered to include those firms which react immediately to the first-movers. Each industry has its first-movers, second-movers and late-movers. Our discussion here will, however, be limited to the first-movers and the late-movers only, as second-howsoever quick they might be to react, are in any case late-movers.

There are advantages and disadvantages associated with being the first-mover or late-mover. Often the advantages of one type are the disadvantages for the other. This means that the advantages enjoyed by the late-movers can be disadvantages for the first-mover firms.

First let us see the advantages that might accrue to the first-mover firms.

1. They can establish a position as the market leaders. They can establish business models and gain valuable experiences that can enable them to reap the benefits of a learning curve that can help them in assuming cost leadership.
2. Moving first in an industry results in forming early commitments to suppliers of raw materials, new technology, and distribution channels creating cost advantages over late-movers.
3. They develop an image of being pioneers which helps to build image and reputation. First-movers create standards in different areas for all subsequent products and services in the industry.
4. Moving first constitutes a pre-emptive strike and creates lead for the first-movers. For the late-movers, imitation may be difficult and risky.
5. First-time customers are likely to remain loyal.

The disadvantages of being a first-mover are listed below. Note that these may be the advantages for the late-movers.

1. Being a pioneer is often costlier than being a follower. Pioneering firms have to spend resources on creating customer awareness and education regarding the products, especially if these are new products. Late-movers face lesser risks when the markets are already developed.
2. Late-movers can imitate technological advances, skills, know-how and marketing approaches easily negating the advantages that first-movers are likely to have.
3. Technological change is often rapid creating obsolescence for the first-movers. Late-movers can jump the technological thresholds and use the latest technology available.
4. Customer loyalty is not guaranteed and can often prove to be ephemeral. Late- movers can snatch the market share from the first-mover. If the first-movers have to retain market share and customer loyalty then additional efforts have to be put in.

The advantages and disadvantages for a first-mover show that good timing is important. But advantages cannot just flow to the first-movers. In case conditions are conducive to being a first-mover, then what matters are the strategies, positioning, and entry barriers that the first-mover firm is able to create. It is not always that a firm has to be a first-mover even if it has the opportunity. Smart late-movers can overturn the apple-cart and beat the first-movers at their own game. Sometimes fence-sitting till some other firm has tested the waters in an industry may be a prudent business strategy than jumping straight away in order to be the first-mover. Late-movers can Succeed if they have the staying power, can learn from the mistakes of the first movers and fine tune their business tactics accordingly.

3.5.2 Market Location Factors

The second important aspect of business tactics is market location. This aspect deals with the issue of where to compete. By this is meant .the target market the firm aims at while applying its business strategies. Every industry has a number of firms that offer the same or substitute products or services. The total market share in an industry is carved up by these firms. One firm has the largest market share, some others firms have a relatively larger market share, a few others have a small market share, and there are firms that operate only on the fringes and not in the mainstream markets.

Market location could be classified according to the role that firms play in the target market and the types of business tactics they adopt to play such a role. We have adopted the classification of market location tactics provided by the marketing guru, Philip Kotler. He terms these tactics as competitive strategies. We expect that you have studied these strategies in your marketing management courses and so we will only, review them here. It would be helpful if you review your marketing text as you read further.

On the basis of the role that firms play in the target market, market location tactics could be of four types: *leader*, *challenger*, *follower*, and *nichers*. As you will note, the essence of these tactics has been derived from military science. This is understandable since the competitive industries are virtual battlefields for competing firms. At this point let us recall that the term strategy too is a gift to management studies from military science. A brief description of the four types of market location tactics follow below.

1. **Market leaders** are firms that have the largest market share in the relevant product market and usually lead the industry in factors, such as, technological developments, product and service attributes, price benchmarks, or distribution channel design. In order to take up the market leader position and to retain it, Kotler proposes these three strategies (we would prefer to call these 'approaches' to distinguish these from 'strategy' which has a much broader meaning for us in business policy and strategic management):

- *Expanding the total market* through new users, new uses, and more usage
- *Defending the market share* through position defense, flank defense, counteroffensive defense, mobile defense and contraction defense
- *Expanding the market share through the enhancement of operational effectiveness* by means of new product development, raising manufacturing efficiency, improving product quality, providing superior support services, or increasing marketing expenditure.

2. **Market challengers** are firms that have the second, third or lower ranking in the industry. These firms can either challenge the market leaders or choose to follow them. When they seek to challenge the market leader they do so in the hope that they would be able to gain the market share. The tactics adopted by the market challenger have several components. First, the challenger has to define the objective and the opponents, choose a general attack strategy, and then choose a specific attack strategy. The most common objective of the challenger is to increase the market share, but it could also have a somewhat devious aim, say to drive the opponent out of the industry. A general attack strategy could be of five types:

- *Frontal attack* involving matching, the opponent in terms of the product, price, promotion, and distribution
- *Flank attack* involving challenging the opponent's weak or uncovered geographical or segmental areas
- *Encirclement attack* involving a grand move to capture the opponent's market share through means, such as, launching an advertising blitzkrieg, making an unbeatable product-related offering, or presenting a unique service guarantee

- *Bypass attack* involving ignoring the opponent and attacking the easier markets by means of diversifying into unrelated products, moving into new geographical areas or leapfrogging into new technologies
- *Guerrilla attack* involving small, intermittent attacks to harass and demoralize the opponent firm, and eventually secure a firm foothold in the industry. This could be done by means of price cuts, price discounts, intensive comparative advertising, or initiating legal action

3. **Market followers** are firms that imitate the market leaders but do not upset the balance of competitive power in the industry. They prefer to avoid direct at tack, keep out of the way of other firms, and reap the benefits of the innovations made by the market leaders through imitation. The market follower may adopt four broad strategies as under.

- *Counterfeiter strategy* involving duplicating the market leader's product and packaging and selling it in the black market
- *Clone strategy* involving emulating the market leader's products, name, and packaging
- *Imitator strategy* involving copying some things from the market leader while retaining some other features, such as, pricing, packaging or advertising
- *Adapter strategy* involves adapting one's own products to those of the market leader and selling them in different markets

4. **Market niches** are firms that carve out a distinct niche for themselves, which has been left uncovered by the other firms in the industry, or a niche that is of little or no interest to others. The niche strategies are akin to the 'focus' business strategies as they target a market position that is small and unique and requires special competencies in order to be served. There are several means by which the specialization for serving a niche market can be developed. Excelling in providing a special product or service attribute, serving a distinct geographical area, or offering customized products or services to a select group of customers are some such means. Market niche strategies carry the risks that we have identified for focus business strategies. For instance, a market leader may choose to expand its own market coverage to serve a niche thereby negating the advantages enjoyed by the market nicher. Market nichers have to adopt three strategies which are as under.

- *Creating niches* involves looking for ways and means by which niches ca be identified or created in an industry
- *Expanding niches* involves enhancing the coverage of the present niche to include similar market niches or new niches
- *Protecting niches* involves shielding the niches served from attacks by other firms in the industry

With this we complete our discussion of tactics for business strategies.

The next chapter is related to the subject of strategic analysis and choice.

Self Check Exercise:

Q.1 What is environmental scanning?

Q.2 What is meant by a niche strategy?

Q.3 What is a market leader?

4.0 Summary

Business strategies are related to the individual businesses in an organization. The real action occurs at the level of business strategies as the competitive forces in the market are confronted by a firm at the level of business strategies.

The main points covered in this chapter are as below :

- 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 satisfying their needs.
- Competitive advantage is derived from the core competencies of the organization. Firms operate in the context of an industry, where competitive advantage is ultimately won or lost. Firms attempt to define and establish an approach to compete in their industry through their business strategies.
- The dynamic factors that determine the choice of a competitive strategy are two: namely, the industry structure and the positioning of a firm in the industry.
- Industry structure is determined by the competitive forces like the threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and rivalry among the existing competitors in an industry.
- Positioning is the firm's overall approach to competing. It is based on the two variables of competitive advantage and competitive scope. Competitive advantage can arise due to the two factors of lower cost and differentiation. Competitive scope can also be in terms of the two factors of broad target and narrow target.
- Business strategies are of three types: cost leadership (lower cost/broad target); differentiation (differentiation/broad target); and focus (lower cost or differentiation/narrow target).
- Action needs to be taken for achieving the aims of the business strategies. There are special conditions under which these strategies work the best. Each business strategy has a set of benefits and risks associated with it.
- A tactic as a sub strategy is a specific operating plan detailing how a strategy is to be implemented in terms of when and where It is to be put into action Two types of tactics—timing (when) and market location (where)—are used in formulating and implementing business strategies.

5.0 Glossary

SWOT analysis: a study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats

Niche: relating to products, services, or interests that appeal to a small, specialized section of the population

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.2.1

Ans.2 Refer to section 3.4.3

Ans.3 Refer to section 3.5.2

7.0 Terminal Questions

Q.1 How is business strategy related to corporate level strategy?

Q.2 Explain these type of business strategies

(a) Cost Leadership

(b) Differentiation

(c) Focus

Q.3 Discuss Michael Porter's approach to defining business strategies.

Q.4 Explain what are the advantages and disadvantages in being a first mover in an industry a later mover?

8.0 Suggested Readings

- Sharplin, A. 1985 "Strategic Management" McGrew Hill Book Company, New York.
- Azhar Kazmi, "Business Policy and Strategic Management," Tata McGrew Hill.
- Ghosh, P.K., "Strategic Planning and Management" Sultan Chand and Sons, New Delhi.
- David, F.R., "Strategic Management" Prentice Hall, New Jersey.
- Prasad, L.M., "Business Policy : Strategic Management".

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Lesson-3
Formulation of Corporate Level Strategies

STRUCTURE

1.0 Introduction

Corporate level strategy is formulated by the top level management for achieving overall objectives of the organization. It could mean the adoption of courses of action that would yield a better profit for the small firm. In case of large firm the corporate level strategy is about managing the various businesses to maximize their contribution to the overall corporate objectives. There are various corporate level strategies such as integration, intensive and diversification strategies that are used by organization to face the given situation. Corporate restructuring and synergy are also important corporate level strategies.

2.0 Lesson Objective:

- To explain the meaning of corporate strategies.
- To explain the various types of strategies.
- Explaining how to improve the performance of an organization with the help of corporate strategies.
- Explaining corporate restructuring

3.0 Presentation of Contents:

3.1 Corporate Strategy: Conceptual Framework

Strategic management of organizations is useful today, with the growth of multinational corporations, strategic alliances and united technologies. Corporate strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various strategic Business Units (SBUs) for optimal performance. Such decisions are made by top management of the organization. A strategic business unit is any part of organization, which is treated separately for strategic management purpose. The nature of strategic decisions tends to be value oriented; conceptual and less concretes those decisions at the business or functional level.

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 situations to formulate strategy, implement the strategy, evaluate the progress and make adjustments as necessary to stay on the track. The figure 1.1 shows the simplified view of the strategic planning process and the formulation of various strategies itself is a part of strategic planning process.

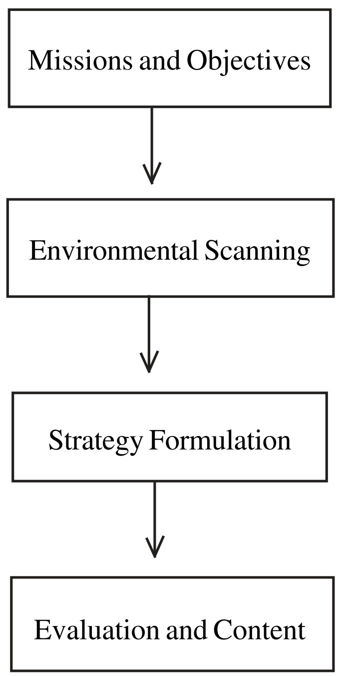

Figure 3.1 Strategic Planning Process

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm. The environmental scan analyzes the firm and industry specific internal and external factors. Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified while addressing its weaknesses and external threats. After formulation the selected strategy is implemented by means of programs, budgets and procedure. The implementation of the strategy must be monitored and adjustments made as needed by the corporate management.

Corporate level strategies are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of business to another, and managing and nurturing a portfolio of business in such a way that the overall corporate objectives are achieved. An analysis based on business definition provides a set of strategic alternatives that on organization can consider.

3.2 Essentials for Effective Corporate Strategies:

The following are the important essentials for effective strategic management.

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***:** It means where the corporation is competition is to be localized. When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Managing Activities and Business Interrelationships:

Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units and using business units to complement other corporate business activities.

Management Practices: Corporations decide how business units are to be governed through direct corporate intervention or through more or less autonomous government that relies on persuasions and rewards.

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

3.3 Different Types of Corporate Strategies

The different strategies used by obligations to achieve desired objectives are as follows:

3.3.1 Intensive Strategies:

There are the strategies which require intensive efforts for the improvement of a firm's competitive position with existing products. Following are the intensive strategies:

(a) **Product Development:** In this a company could monitor the product sales by improving its present products or services. Product development involves excessive research and development expenditure. This strategy is effective when an organizations has successful products that are in the maturity stage of the produced life cycle and competes in a highly growing industry.

(b) **Market Development:** With the help of market development, a company can launch its current products or services into new geographic areas. This strategy is effective when an organization having new sources of distributions that are reliable and inexpensive.

(c) **Market Penetration:** A Market penetration is a strategy that helps in enhancing the market share for current product or services. It may be effective when the market shares of competitors have been deceasing and total industry sales have been rising.

3.3.2 Stability Strategy:

A stability strategy arises out of a basic recognition by management that the firm should concentrate on utilizing its present resources so as to develop its competitive strength. It implies that the company will continue in the game or similar business as it is pursuing. This strategy generally aims at stable growth. Small and medium type company many pursue stability strategy so as to strengthen their existing product market postures by glaring up functional efficiency.

Followings are the situations when stability strategy may be an effective strategy

(a) When the firm is achieving its objectives and the level of performance is satisfactory.

(b) The management visualize that there is no major change in the existing environment.

(c) When organizational changes are not accepted by the key personnel of the firm.

(d) When there is no attractive opportunity in the market and threats are not serious.

(e) It the organizations have limited managerial capabilities, or government restrictions are there.

3.3.3 Growth Strategy:

This strategy aims to achieve higher level of objectives in terms of market share or sales revenue than what the organization achieved in the immediate past. It signifies something different from stability strategy. The reason for using growth strategy indicates the effectives of the organization and provide strength and motivates the present employees. It helps an organizations to face frequent changes in technology and other external conditions. The variants of growth strategy are as follow :

(a) Intensive Growth strategy

(b) Diversification strategy

(a) Intensive growth strategy:

Internal growth which consists of increasing the sales revenue, profits and market share of the existing product line or services is generally known as intensive growth strategy. It is a widely used strategy that focuses on use of resources in a high growth product or market segment. It is suited to organizations whose market share is small and product is not in the maturity stage.

(b) Diversification Strategy:

It is a strategy in which the growth objective is sought to be achieved by adding new products or services to the existing product or service line. When a firm is not able to grow any more through market penetration then it must consider adding new products or markets to its existing business line. There are different ways in which a firm could possible diversity its products or service line. The types of diversification commonly used are:

*Horizontal Diversification***:** Under this type of diversification parallel product or service are added to the existing product or service line. It may be group as internal and external diversification.

*Vertical Diversification***:** In this type of diversifications new products or services are added which are complementary to the existing product or service line. It is a growth strategy that involves the expansions of business by moving backward or forward from the present products or services, establishing linkages of products, processes or distribution system.

3.3.4 Retrenchment Strategy:

This strategy is followed when an organization aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more of its businesses in respective of customer groups, customer functions and alternative technologies either singly or jointly to improve its performance. This strategy may be used under the following conditions:

(a) When the firm is one of the weaker competitors in a given industry

(b) When the firm his failed to capitalize external available opportunities.

(c) When a firm is not able to meet its objectives and goals.

(d) To secure better management and improved efficiency of existing running operations.

The variants of retrenchment strategy, are : (a) Turnaround Strategy (b) Divestment Strategy, and (c) Liquidation Strategy.

*Turnaround Strategy***:** This strategy is called for when there is a substantial and sustained documented in the indicators of business performance which may be caused by external factors and the absence of properly time and fresh management impart. It is aimed at halting the present declining trend in performance while impending the long run efficiency of operations.

*Divestment Strategy***:** It involves selling off of the business units or product divisions of a business. It many also include giving up the control over a subsidiary, or a demurrer whereby the wholly owned subsidiaries many be floated off as independently quoted companies.

Liquidation Strategy: Liquidation is the strategy involving selling off of the assets or closing down of an organization. It is regarded as the last resort for an organization to avoid bankrupting and securing a better deal for shareholders than running at a loss.

3.3.5 Combination Strategy:

The combination strategy is used in multi product, divisonalized companies. The main purpose of such a strategy is optimization of the enterprise profitability. As the single strategy does not for all products or all markets. Hence, the purpose of a mixed strategy is to allocate resources to the high growth and high potential areas of business while reducing investments in or selling off the less profitable endeavors. A company may pursue the combination strategy for one or more of the following reasons:

(a) It helps multi product organizations where products are into different stages of product cycles.

(b) It helps to maximize the profits and minimize losses of an organization to follow different strategies according to the requirements of the various business activities.

(c) When recessionary conditions prevail in a product market, the strategy more suited to it is combination strategy.

3.3.6 Joint Venture:

This is a strategy developed by two or more organizations that mutually participate in a business venture, contribute to the total equity capital and establish a new organization. Firms within a country as well as firms in different countries may participate in a venture, though instances of joint venture happen to be more common among firms in different countries. The main purpose of Joint Venture is to control, influence and reduce competition among the organization. It may enable new technology to be introduced more conveniently and minimize the risk involved in new ventures. Organization of different countries finds it beneficial to enter into joint venture to reduce the amount of capital outlays to be made by respective parties and conveniently finance the import contents of a project.

3.3.7 Merger and Acquisition:

Combination of two or more firm is known as merger. It may be of two types (i) acquisition of one business unit by another, or (ii) creation of a new company by uncompleted consolidation of two or more units. A combination of two or more business units in which one acquires the assets and liabilities of other is exchange for cash or shares and/or debentures is generally known as merger through acquisition or absorption. When all the combining units are dissolved and a new company is formed to take over the assets and liabilities of those units against issue of new shares or debentures, it is known as 'Consolidation'. Mergers help an organization to achieve higher growth rate increase the price earning ratio and market price of shares with better investment of funds. It helps to achieve economics of scale and leads to diversification of activities that provides stability and higher profits.

3.3.8 Strategic Alliances:

It is a co-operative arrangement between two or more companies where:

- Two or more firms unit to pursue a set of agreed upon goals but remain independent subsequent to the foundation of alliance.
- The partner firm share the benefits of the alliance and control over the performance of assigned tasks,.
- The partner firms contribute on a continuing basis in one or more key strategic areas for example technology product and so forth.

Liberalization and globalization has led to a situation where most of the companies have had to look for growth opportunities. In order to capitalize on the opportunities firms could either depend on their own resources or look for co-operative partnership outside. Since developing own resources is a time consuming and costly process, firms have often looked for outside help. Global partners can help local firms by developing global quality consciousness, creating adherence to international quality standards, providing access to state

3.3.9 Corporate Restructuring:

Corporate restructuring is the process through which an organization brings major changes in the contractual associations that exist between organization and its creations, shareholders, employees and stockholders. The restructuring aims to best the overall market value of the organization.

The rationale for restructuring at two levels. The first is a deeper level reasoning relating to the fundamental ways in which organizations work. The second is a more practical reasoning that attempts to analyze the changes in the environment and the organization and relate such changes to strategic actions that organizations need to take. Peter F. Drucker, State that an organization has various theories for their business. These theories have an assumption about (a) The environment, especially markets, customers and technology (b) The mission or purpose of the organization (c) The core competencies required to fulfill the mission.

This assumption must be realistic and should be evaluated regularly. At time of functioning the managers, create mental models about the ways of doing the business. These models represent the knowledge the managers have about the industry and the organization. The assumptions and the mental models are required continuously. Restructuring is the result of such revision state-of-the art technology, gaining entry to would wide mars markets and making funds available for expansion. These reasons make strategic alliances an attractive proposition.

Self Check Exercise

Q.1 What do you understand by a corporate strategy?

Q.2 What is a strategic alliance?

Q.3 What is a joint venture?

4.0 Summary:

Corporate level strategies are basically about the chance of duration that the firm adopts in order to achieve its objectives. They are basically decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others, and managing the portfolio objectives are achieved. The various alternative strategies that an organization can follow are categorized into different ways namely: intensive strategies, stability strategy, growth strategy, diversification strategy, retrenchment strategy, combination strategy, and corporate restructuring i.e. joint venture, mergers and acquisitions, and strategic alliances etc.

5.0 Glossary

Retrenchment: reduction in the extent or quantity of something.

Merger: a combination of two things, especially companies, into one

Acquisition: the buying or obtaining of assets of a company by another company

6.0 Answers to self check exercise:

Ans.1 Refer to section 3.1

Ans.2 Refer to section 3.3.8

Ans.3 Refer to section 3.3.6

7.0 Self Assessment Questions:

1. Explain various strategies that an organization can use depending on different situations.
2. What are the guidelines of effective strategy management?
3. Describe the important issues or considerations involved in joint ventures and strategic alliance.
4. Explain the concept of corporate restructuring.

8.0 Suggested Reading:

- Sharplin, A. 1985 “Strategic Management” McGrew Hill Book Company, New York.
- Azhar Kazmi, “Business Policy and Strategic Management,” Tata McGrew Hill.
- Ghosh, P.K., “Strategic Planning and Management” Sultan Chand and Sons, New Delhi.
- David, F.R., “Strategic Management” Prentice Hall, New Jersey.
- Prasad, L.M., “Business Policy : Strategic Management”.

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Lesson – 4
Organisational Appraisal

STRUCTURE

1.0 Introduction

Internal environment deals with the protection of an organization from external threats. The nature of internal environment is determined by the resources, behaviour, strengths and weaknesses, synergistic effects and competncies of an organization. These factors also determine the organizational capability that helps in the founnlation of strategic advantage. The organizational appraisal is a method for determining the organizational capability. It determines the organizational capability in terms of strengths and weaknesses that is present in various functional areas. The various methods and techniques of determining the organizational appraisal include internal analysis, comparative analysis and comprehensive analysis.

2.0 Lesson objective

1. To understand the internal environment of an organization.
2. To Describe organizational appraisal and factors affecting organizational appraisal.
3. To understand organizational capability in different functional area.
4. To explain how the various methods and techniques help in identifying the organizational appraisal.

3.0 Presentation of Contents

3.1 Internal Environment

When we talk about an organization and its capabilities to perform the work we think about the external environment and the internal environment. These are the two sides of a coin where external environment helps an organization to think what it might choose to do and internal environment helps an organization to decide what it can do. In other words, we can describe internal environment as the way of avoiding external threats to protect the organization.

The internal environment can be explained in terms of resources and behaviour, strengths and weaknesses, synergistic effects and competencies. An organization when adopts various types of resources shows a certain type of behaviour. The relationship between various resources and common behaviour results in synergy or dysergy within an organization. This leads to the development of strengths and weaknesses over a certain period of time, which helps an organization to compete in the market, and helps it to develop competencies. These factors of internal environment thus helps in forming the organizational capability, which further helps in the development of strategic advantage for the organization. Figure 4.1 shows the framework for the development of strategic advantage.

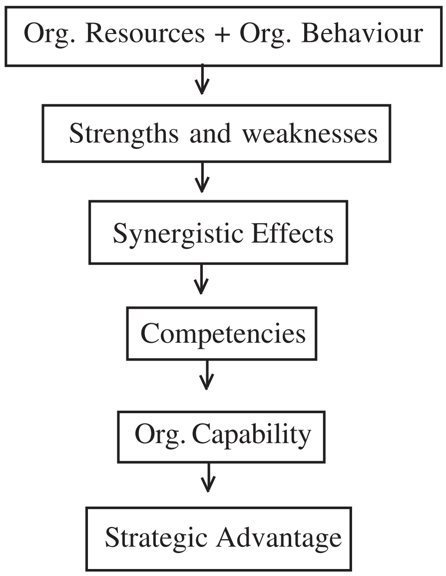

Figure 4.1 Framework for the Development of strategic Advantage

3.1.1. Organizational Resources

Resources are one of the most important aspects of any organization. The function of an organization cannot be performed if there are no resources available. Resources do not only include raw materials or equipments but also the employees working in the organization and the place where it is located. According to Barney "A firm is a bundle of resources-tangible and intangible- that include all assets, capabilities, organizational processes, information, knowledge and so on." We can classify these resources as physical, human and organizational. Technology, plant and equipment, geographic location and access to raw materials are the various types of physical resources while training; experience judgement, intelligence and relationship are the types of human resources. The organizational resources include formal and informal systems and structures. If these resources have characteristics such as they are valuable, not easily accessible and costly to reproduce and are non-substitutable, then they can help in the strategic advantage.

The success of most of the organizations depends on the availability and cost of resources. If an organization is established at the location from where resources such raw materials and machineries are easily accessible and the cost of production is also minimal, then such organizations can use this as a strategic weapon to compete in the market.

3.1.2 Organizational Behavior

The availability of resources in an organization does determine the capability of an organization. The capability of an organization depends on how the organization is using the resources within its premises. We can define organizational behaviour as the force or influence in the internal environment of an organization, which helps in the proper usage of resources.

Some of the essential factors that affect the organizational behaviour are the quality of leadership, management philosophy, shared values and culture, quality of work environment and organizational climate, organization politics and use of power. The proper and collective usage of resources and behaviour of an organization helps forming the strength and weakness of the organization.

3.1.3 Strengths and Weaknesses

The organizational resources and behaviour helps in determining the strengths and weaknesses of an organization. The strength and weakness are always present in a combined form and never occur in isolation. Strength is the inbuilt capability that the organization can use as a strategic weapon to compete in the market. In the similar manner, weakness results as a disadvantage in the formation of strategy. For example, if we talk about financial strength, we say that there is a good availability of finance, low cost of capital and efficient use of funds. If we talk about weaknesses in the operation area, we say that the plant is not located in the right place, there are out of date machineries and uneconomical operations. When the strengths and weaknesses combine, they form the basis for synergy.

3.1.4. Synergistic Effects

As said above, the strengths and weaknesses occur when organizational resources and behaviour combine. In the same way, when strengths and weaknesses combine, synergistic effects occur. Basically, synergy is the combination of two or more elements or divisions such as it can be a combination of two organization, or two functional departments and so on in a particular area. For example, two organizations can combine to produce a better quality product. The output after the combination is double than what it could have produced alone. Therefore, from this example we can say that synergy is the thought in which the whole part is described as the greater or lesser than the sum of its parts. It is also expressed as "the two-plus-two-is-equal-to-five-or-three effect."

Synergistic effect can occur in various ways within an organization. For example, for marketing, the synergistic effect may occur when the product, pricing, distribution and promotion aspects support each other and results in a high level of marketing synergy. In the same way inefficiency in the marketing strategy can reduce the production efficiency. This is called dysergy or the negative synergy.

3.1.5 Competencies

Competency is the combination of the synergistic effects and the special qualities that organizations possess such as availability of unique resources to avoid the pressure of competition in the market. The main factors that help an organization to stand as a competitor in the market are unique resources, core capabilities, invisible assets and skilled employees.

When an organization forms various competencies over a period of time and changes them into a fine art by which it can compete with its competitors in a better way. This capability of using the competencies in an improved way is called the core competencies. When an organization posses a specific ability or competence that other organization does not posses is called a distinctive competence.

Organization possessing distinctive competence is very advantageous as it is some kind of capability that their comperitor does not possess. But it is not possible that every organization has a distinctive competence.

3.1.6 Organization Capability

Organization capability is the inbuilt capacity of an organization to use its strengths and overcome its weaknesses, in order to use opportunities and face threats. Organizational capability is also seen as a skill for organising resources and managing the resources in such a way that they can be used for production. Since organizational capability is the capacity or potential of an organization, it is viewed as a feature that can be measured or calculated. As we can calculate the organizational capability, we can say that we can compare two capabilities. It is a sum total of resources and behaviour, strengths and weaknesses, synergistic effects that appear in an organization and the competencies of any organization, if we talk about organizational capability in terms of attribute.

Most of the strategists believe that the organizational capability is the skill and the knowledge that its employees possess. If the employees are not skilled and not well educated then the organization can never gain success. The strategists believe that every organization is a learning organization and it is this attitude of learning that makes an organization to compete in the market and ultimately to gain success.

3.1.7 Strategic Advantage

The strategic advantages are the consequences of organizational activities that enable an organization to be successful in terms of financial parameters as well as non-financial parameters suchas, profit or shareholder value, market share or reputation. Strategic disadvantages are penalties in the form of financial loss or the damage to the market share. Therefore, we can say that such advantages and disadvantages are the results of the presence or absence of organizational capabilities. Strategic advantages can be calculated using the parameters in which they are expressed. For example, profitability could be used to measure the strategic advantage. Higher the profitability better is the strategic advantage. They are comparable in terms of the historic performance of an organization.

3.2 Organizational Capability Factors

Capabilities are most often developed in specific functional areas, such as, marketing or operations, or in a part of a functional area, such as, distribution or R & D. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills or a company could be competitive in operations owing to a superior R & D infrastructure.

Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization which are of crucial importance to strategy formulation and implementation. Other terms synonymous with organizational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, and so on.

3.2.1 Financial Capability

Financial capability factors relate to the availability, usage, and management of funds, and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the financial capability of any organization are as follows:

1. Factors related to surces of funds. Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus, and relationship with lenders, bank and financial institutions.
2. Factors related to usage of funds. Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution, and relationship with shareholders.
3. Factors related to the management of funds. Financial, accounting, and budgeting systems; management control systems; state of financial health, cash, inflation, credit, return and risk management; cost reduction and control; and tax planning and advantages.

3.2.2 Marketing Capability

Marketing capability factors relate to the pricing, promotion, and distribution of products or services, and all the allied aspects that have a bearing on an organization's capacity and ability to implement its strategies.

Some of the important factors which influence the marketing capability of an organization are as follows:

1. Product related factors. Variety, differentiation, mix quality, positioning, packaging and others.
2. Price-related factors. Pricing objectives, policies, changes, protection, advantages, among others.
3. Place-related factors. Distribution, transportation and logistics, marketing channels, marketing intermediaries, and so on.
4. Promotion-related factors. Promotional tools, sales promotion, advertising, public relations, and so on.
5. Integrative and systemic factors. Marketing mix, market standing, company image, marketing organization, marketing system, marketing management information system, and so on.

• ***Example:*** A premium pricing strategy for its colour television has caused a dent in the marketing capability of Philips India. Customers have not been able to relate better quality or features with the higher prices as compared to what other brands like BPL and Videocon have to offer.

3.2.3 Operations Capability

Operations capability factors relate to the production of products or services, the use of material resources, and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the operations capability of an organization are as follows:

1. *Production Factors:* Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and others.
2. *Operations and control system:* Aggregate production planning, material supply; inventory, cost and quality control; maintenance systems and procedures, and so on.
3. *Factors related to the R & D system:* Personnel, facilities, product development, patent rights, level of technology used, technical collaboration and support, and so on.

• ***For Example:*** JK Tyres pioneered radial tyres in India but has not been able to capitalise on this. Technologically, its competitors, such as, Bridgestone, who have access to the latest tread patterns, have proved to perform better. JK Tyres faces a strategic disadvatage owing to its lower operations capability.

3.2.4 Personnel Capability

Personnel capability factors relate to the existence and use of human resources and skills, and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the personnel capability of an organization are as follows:

1. The personnel system. System for manpower planning, selection, development, compensation, communication, and appraisal; position of the personnel department within the organization; procedures and standards; and so on.
2. Organizational and employees' characteristics. Corporate image, quality of managers, staff and workers; perception about and image of the organization as an employer; availability of developmental opportunities for employees; working conditions; and so on.
3. Industrial relations. Union-management relationship, collective bargaining, safety, welfare and security; employee satisfaction and morale; among others.

This exemple show how strengths and weaknesses affect the personnel capability of organizations.

In the advertising business, personnel talent enjoys a high priority and status. Besides, being a competitive industry, personnel turnover is a problem which affects the efficiency of an advertising agency. Lintas India Ltd, which is considered a leading advertising agency, lays great emphasis on building up personnel capability by believing in the philosophy of offering not just a job but a career, and making large investments in training and development. The result is high productivity per employee and low overhead costs, creating a strategic advantage for the company.

3.2.5 Information Management Capability

Information management capability factors relate to the design and management of the flow of information from outside into, and within, an organization for the purpose of decision-making and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the information capability of an organization are as follows:

1. *Acquisition and retention of information:* Sources, quantity, quality, and timeliness of information, retention capacity, and security of information.
2. *Processing and usage of information:* Availability and appropriateness of information formats, and capacity to assimilate and use information.
3. *Retrieval and usage of information:* Availability and appropriateness of information formats, and capacity to assimilate and use information.

4. *Transmission and dissemination:* Speed, scope, width, and depth of coverage of information, and willingness to accept information.

5. *Integrative, systemic and supportive factors:* Availability of IT infrastructure, its relevance and compatibility to organizational needs, upgradation of facilities, willingness to invest in state-of-the-art systems, availability of computer professionals, and top management support.

An illustration of how information capability is used to develop a product can be seen in the case of Hero Motors. The foundation for sound product management is an extensive communication system, in the form of an information chain, and interlinking various functional areas, such as, marketing, operations, purchase, materials management and services.

3.3 Organizational Appraisal

Organization appraisal is a process which can look at an organization and appraise it in a given context. Organizational appraisal is also called the internal appraisal, internal, organizational or company analysis. Its main aim is to determine the capability of an organization on the basis of strengths and weaknesses that is present in the various functional areas such as marketing, finance and operations. The organizational appraisal is essential as strengths and weaknesses need to be associated with the external opportunities and threats. The external opportunities need to be referred for strategy formulation. In organizational appraisal, different forces and influences operating within the internal environment of an organization have to be analyzed. These forces and influences are the consequences of organizational resources and behaviours, synergistic effects and competencies of an organization. The capability of an organization is dependent on these factors. By appraising an organization, the strategists develop a report of its organizational capability to compete in the market. For this there are various considerations that need to be taken into account. These considerations include factors that affect appraisal, the approaches that can be adopted to appraise them and the sources of information available to perform the appraisal.

3.3.1 Factors Affecting Organizational Appraisal

The factors affecting the organizational appraisal are related to the strategists, the organization and the internal environment. The various characteristics of strategies affect the manner in which organization appraisal is to be done. The nature of an organization, its internal environment, its complexity and diversity determines how well the appraisal can be done. The following situations help us to understand how the various factor the organizational appraisal:

- The ability of strategist to under stand the complexity determines how well the various forces and influences within the internal environment are analysed.
- The size of the organization that affects the quality of appraisal. It is generally difficult for big organization to appraise than the small organization.

3.4 Methods and Techniques of Organizational Appraisal

Organizational appraisal is an important factor for analysing the internal environment. There are few methods and techniques that are used in the organizational appraisal. These methods are to some extent similar to the techniques used for performance evaluation in an organization. Performance appraisal is short term in nature. Performance appraisal means to assess the current behaviour of an organization keeping in mind its efficiency and effectiveness. While, organizational appraisal emphasises on the long-term needs of an organization such as to gain capability to compete in the market and to utilize the available resources optimally. The various methods and techniques of organizational appraisal are as follows:

3.4.1 Internal Analysis

In this analysis, an investigation about the strengths and weaknesses of an organization is carried out using various techniques. Internal analysis provides the value chain analysis and quantitative analysis techniques.

3.4.1.1 Value Chain Analysis

Value chain analysis is a way of looking at a business as a chain of activities that converts inputs such as raw materials into outputs such as final product as per the requirement of the customers. In 1985, Michael Porter was the first person to describe value chain analysis in his book called Competitive Advantage. He identified value chain analysis as a set of interrelated generic activities that are common to a wide range of organizations. The main objective of the activities of a firm is to create value, that is, customer satisfactions that exceed cost of providing the service or product that generates the profit margin.

The activities that are the output of any firm and that a customer values is derived from three basic sources, which are as follows:

- Activities that differentiate the product
- Activities that lower its cost
- Activities that meet the need of the customers rapidly

Therefore, value chain analysis helps understand how a business creates customer value by examining the contribution of various activities within the business to that value. Value chain analysis is a process in which the point of view of different individuals is considered. In this method, the business in divided into sets of activities such as receiving the raw material, transforming the raw material to a finished product and finally dispatching the finished product to the customers. These activities are described in a model called value chain model. Figure 4.2 shows the value chain model.

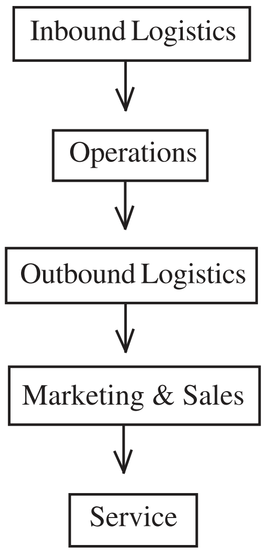

Figure 4.2 Value chain model

Following is the brief description about the main activities that are described in the value chain model:

- **Inbound Logistics:** This type of activity includes receiving and storing of raw materials. It also includes distribution of raw materials to the consumers as and when required.
- **Operations:** This type of activity includes storing and distribution of the finished products.
- **Marketing and Sales:** This type of activity includes identifying the needs of the customers and generating sales accordingly.
- **Service:** This type of activity includes providing support to the customers after the products are sold to them.

Following are the departments and functionalities that support the main activities of the value chain model:

- The firm's infrastructure: This includes the structure of the organization control systems, culture of the firm and so on.
- Human resource management: This includes the recruitment of appropriate employees, hiring, training, development and compensation to the employees as and when required to boost them so as to produce a quality product.
- Technology and research department: This includes technologies that help in supporting the value-creating activities.
- Procurement: This includes purchasing inputs such as raw materials and equipments.

The profit margin depends on the usefulness in performing the activities effectively, so that the amount the customer is ready to pay for the product exceeds the cost of activities in the value chain. It is in these activities that the firm has an advantage in generating high amount of value. The value chain model is an efficient method for defining the core competencies and activities in which it can follow a competitive advantage as given below:

- Cost advantage: It means understanding the cost in a better way and taking the cost out of the value adding activities so that there is more profit and a good product is also produced.
- Differentiation advantage: It means focusing on those activities that are connected to the core competencies and capabilities so as to perform them in a better my than the competitors.

Cost Advantage and the value Chain

A firm can create a cost advantage either by reducing the cost of individual chain activities or by rearranging the value chain. A cost analysis can be performed by assigning cost to the value chain activities once the value chain is defined. There may be a need to modify the cost that is obtained from the accounting reports so as to assign them properly in the value creating activities. Michael Porter has identified 10various cost driving factors that are related to value creating activities, which are as following:

- Economies of scale
- Learning
- Utilisation of capacity
- Linkages among activities
- Interrelationship among business units
- Degree of vertical integration
- Timing of market entry

- Policy of cost and differentiation in a firm
- Geographic location
- Institutional factors such as taxes, union activity and regualtions.

A firm develops the cost advantage by controlling all these cost driving factors than the competitors do it. The cost advantage can also be performed by rearranging the value chain activities. Rearrangement of the value chain activities means structural changes such as a new production process, new distribution channel and new approach to sales.

Differentiation Advantage and the Value Chain

Differentiation advantage can come up from any part of the value chain. For example, obtaining inputs that are unique and not available to the competitors can create differentiation or the distribution channels that offer high service levels can create differentiation.

Michael Porter has identified various uniqueness driving factors:

- Policies and decisions
- Linkages among activities
- Timing
- Location
- Interrelationships
- Learning
- Integration
- Scale (e.g. better Service as a result of large scale)
- Institutional factors

Many of these factors also serve as cost driving factors. Differentiation often results in higher costs, resulting in exchange between cost and differentiation. There are various ways in which a firm can rearrange its value chain so as to create uniqueness in its product. It may adopt new process technologies or utilise new distribution channels. Eventually, the firm needs to be creative in order to develop a dignified value chain configuration that increases product differentiation.

3.4.1.2 Quantitative Analysis

This is one of the most popular techniques to assess the performance of an organization. This technique involves use of financial figures along with other numbers to assess the strengths and weaknesses. The use of financial figures is called financial analysis and the use of numbers is called non-financial analysis.

Financial analysis: In this method, evaluation of financial performance is covered in various functional areas within an organization. The traditional technique used for financial analysis. This technique is used to assess the liquidity, profitability and leverage of an organization. It also provides valuable data that can be used in organizational appraisal. It is therefore, a selective approach to measure the effectiveness and efficiency of the activities performed within the organization. the use of ratio analysis in strategic management is limited as it is more used in the financial area. Apart from ratio analysis, some other techniques used, which are considered to be an improvement over ratio analysis such as EVA (Economic Value-Added Analysis) and ABC (Activity-Based Cost analysis). EVA is developed by Stern Stewart & company to determine the wealth of a company. It helps in determining the profitability in terms of returns on capital above the cost of servicing the capital employed. It is considered as a wealth of an organization that is created for the owners and is expressed as the difference of the after-tax operating profits and the total cost of capital. It depicts that anorganization needs to earn more form a business as compared to the cost of capital invested. The EVA provides a benchmark for accessing whether the organizationis capable to take the strategic action and if the potential returns from that action will be greater than the required cost of capital. The second technique in financial analysis is ABC technique. It helps in identifying the factors that determine cost and the areas where there is the involvement of cost. This method is used mostly is the value chain analysis and helps in avoiding the limitation of traditional accounting methods.

Non-financial analysis: Non-financial analysis is used where it is not possible to express the result in monetary terms such as rupees, pounds or dollars. To quantify intangible goods such as goodwill or employee morale, non-financial analysis is helpful. The various non-financial measures are employee turnover, absenteeism, market ranking, rate of advertising recall, total cycle time of production, inventory units used per period, etc.

3.4.1.3 Qualitative Analysis

The Qualitative analysis is used to cover the limitations of quantitative analysis, which is based on figure only. There are many strengths and weaknesses of an organization which cannot be expressed, in quantitative terms.

3.4.2. Comparative Analysis

Comparative analysis is the basis of the assessment of strengths and weaknesses of an organization. It helps in comparing strengths, weaknesses and other competencies of an organization to that of its competitors. It can be done in three ways, historical analysis, industry norms and benchmarking. They are described below:

3.4.2.1 Historical Analysis

This is one of the ways to compare the organizational performance. It begins with historical analysis of the organization over a period of time. It is a good measure of assessing how well an organization has progressed with respect to its own past performance. The performance of an organization is judged by the comparative figures over the last few years. Various comparative figures can be judged by the balance sheet adn profit and loss accounts presented in the annual report of an organization. These comparative figures are common parameters for assessing the organizational performance as with the help of these figures, the overall position of any organization can be judged. All past figures of an organization, which are consistently good over a period of time, are the indicators of strengths and those that are consistently bad are the indicators of weaknesses of an organization.

3.4.2.2 Industry Norms

The industry to which an organization belongs also plays a major role in assessing the past organizational performance. Various parameters in this regard such as cost structure, advertising budget, etc. which when compared with teh rival organizations helps in knowing about the strengths and weaknesses of an organization. In this analysis, the business environment of various organizations is assumed to be same to make the comparison easier. In this analysis, apart from making the comparisons, evaluation of performances can also be done by taking all those organizations, which follow similar strategies. This is also helpful in comparing the similar organizations.

Industry norms have some limitations, which are as follows:

- This analysis based on comparisons can lead to erroneous conclusions in assessing the capability of an organization.
- Industry norms are aggregated fugures of several types of organizations. So an organization is bound to make comparison only with the similar organizations.
- Industry norms are difficult to obtain as each and every organization closely guards is annual reports.

3.4.2.3 Benchmarking

The process of benchmarking helps in finding the best performers in an area as that the performance of that organization can be compared with other organizations.

According to the American productivity and Quality Centre, "the practice of being humble enough to admit that some else is better at something and being wise enough to learn how to match and even surpass them at it."

There are ways in which benchmarking can be followed such as:

- Performance benchmarking: This analysis is used to compare the performance of an organization with that of another organization. Its purpose is to determine how good an organization is as compared to others.
- Process benchmarking: This analysis is used to compare the methods and practices followed to perform processes with that of other organization.
- Strategic benchmarking: This analysis helps compare the long-term and significant decisions as well as actions carried out by other organizations to attain their objectives with the strategies and decisions of our organization.
- Internal benchmarking: It is used to compare that units or departments of the same organization.
- Competitive benchmarking: It is the simplest analysis in which a comparison made between the performance of an organization with the best competitiors.
- Functional benchmarking: It involves the comparison of process or functions against non-competitive organizations within the same sector or technological area.
- Generic benchmarking: This type of benchmarking is much similar to competitive benchmarking. It includes comparison of a process of an organization to the best processes in any other organization

In this way, an organization can use different types of benchmarking in order tofind out the best practices. Therefore, it is helpful in assessing the strengths and weaknesses of an organization.

3.4.3 Comprehensive Analysis

While it would be useful to use a range of analytical methods to evaluate the strengths and weaknesses of a firm and to determine its capability, a better way is to use a combination of techniques as each one of these have a different purpose and limitations. Comprehensive analysis helps to deal with these limitations. We shall describe below two popular methods and techniques of balanced socorecard and key factor rating for performing a comprehensive analysis.

3.4.3.1. Balanced Scorecard

Among the newer techniques used to measure the performance of an organizationis that of the balanced scorecard. Proposed by Robert S Kaplan and David P Norton, a balanced scorecard attempts to do away with the bias in performance measure towards financial indices and tries to build a holistic system of measurement. Balanced scorecard is considered as “a set of measure that gives top managers a fast but comprehensive view of the business.... (It) includes financial measures on customer satisfaction, internal processes, and the organization’s innovation and improvement activities-operational measures that are the drivers of future financial performance”.

3.4.3.2 Key factors rating

A comprehensive method, which can be used in association with financial analysis, is that of key factor rating.

Many systems have been evolved by consultants assess organizational strengths and weaknesses. Essentially, these systems are based on rating, depending on a number of key factors, each of which is analysed on the basis of a series of thoughtful and penetrating questions. A detailed study of the areas covered by these questions leads to a reliable appraisal of an organization.

For financial capability factors 1. Sources of funds. It thje organization’s capital structure satisfactory? Can the organization raise capital in the market? Where does the effective controllership rest? Is the debt-equity ratio satisfactory as compared to other competitive organizations? Does the financing pattern cause the organization to be dependent on outsiders? Is the reserves and surplus position healthy? Is the relationship with banks and financial institutions cordial? 2. Usage of funds. Are adequate investment opportunities available? How does the organization compare with others so far as dividend record is concerned? What type of a relationship exists with the shareholders? 3. Management of funds. How effective and efficient are the financial, accounting, and budgetary systems? Does the management control system satisfy the organizational needs? What trends do the various financial ratios indicate? Have they been satisfactory over the last few years? What strengths and weaknesses does the ratio analysis indicate? Has there been time-and cost-overruns? How far have the tax advantages accrued to the organization?

- For marketing capability factors

1. Question related to products or services. Does the organization offer the requisite variety of products or services? What is the level of product differentitation? Does the product-mix satisfy market requirements? Are there products which do not contribute to profitablity? What steps have been taken to phase out such products? How do the products compare with others in the industry in terms of quality, packaging, and so on?
2. Questions related to price. What are the pricing objectives pursued? Are they oriented towards profit maximisation and sales revenue maximization? Do the pricing policies conform to market requirements? Does the organization avail of price protection and the advantage available to it?
3. Questions related to promotion. Does the organization use relevant promotional tools? Are the different forms of promotion used effectively in generating sales? What does market research indicate with regard to: promotion? Public relations? Are the funds allocated to promotion used effectively?
4. Questions related to integrative and systemic factors. How does the organization compare with others of its kind in terms of market standing and image? What strengths and weaknesses are there in the marketing organization? How effective is the marketing management information system?

• For operations capability factors

1. Questions related to the production system. Does the plant location offer any unique advantages or disadvantages? Is the layout appropriate? Is the plant capacity of the requisite level? Do work systems support efficiency and productivity? What is the extent of vertical integration? Does it offer certain unique advantages to the organization?
2. Questions related to operations and control. Is aggregate planning able to absorb short-term demand fluctuations? Is there an adequate supply of the factors of production? Does the organization have any unique advantages with respect to its factors of production? Is the material supply system reliable? Does the organization have access to sources of material supply not available to its competitors? What is the efficiency and effectiveness of the inventory control system? How effective are the cost, quality and maintenance systems?
3. Question related to the R & D system. Does the organization possess certain distinct advantages with respect to its R & D personnel, facilities and technology? Does it posses patent rights? Does it have access to the latest technology? How far do technology collaborations benefit the organization?

• **For general management capability**

1. Question related to the general management system. Does the organization use strategic management systems and what is the level of their effectiveness? Have the mission, purpose, and objectives been identified clearly? What is the effectiveness level of the strategy formulation, implementified and evaluation processes? Is the management information system reliable? Does the organization possess distinctive advantages with respect to its corporate planning system? Are the rewards and incentives system for top managers consistent with the achievement of the objectives?
2. Questions related to external relationships. What is the level of influence that the organization has on governmental regulatory institutions and financial institutions? Is the organization able to manage its public relations well? Does the organization discharge its social responsibilities well? How does the organization compare with regard to its public image with respect to its competitors?

Once they answer the question delineated above, the strategists are in a positon to pinpoint the strategic strengths and weakness in each of the functional areas. On this basis, organizational capability can be judged. A comprehensive picture of organizational capability can be prepared through structuring the process of organizational appraisal.

Self Check Exercise

Q.1 What are the components of internal environment of an organisation?

Q.2 Define organisational appraisal.

Q.3 How is an organisational appraisal done?

4.0 Summary

Internal environment plays an important role in the determination of organizational capabilities. There are various factors which eleteurine the internal environment such as organizational resources and behaviour, strengths and weaknesses, synergistic effects and competencies. Organizational capability is the ability of an organization to perform work in various functional areas. Organizational appraisal is the way of determining the capability of an organization. It is also called the internal organizational or company analysis. The result of organizational appraisal helps in preparing the organizational capability profile and stratagic advantage profile.

5.0 Glossary

Appraisal: assessment of the performance of an employee or an organisation

Synergy: the interaction or cooperation of two or more organizations, substances, or other agents to produce a combined effect greater than the sum of their separate effect

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.1

Ans.2 Refer to section 3.3

Ans.3 Refer to section 3.4

7.0 Terminal Questions

Q1. What do you meant by organizational appraisal? What are the factors affecting organizational appraisal?

Q2. Explain the different aspects of the internal environment of an organization.

Q3. Explain organizational capabilities and strategic advantage.

Q4. Write a detailed note on the methods and techniques used for organizational appraisal.

Q5. Explain value chain analysis in detail.

8.0 Suggested Reading:

- Azhar Kazmi, “Business policy and strategic Management”.
- P.K. Ghosh, “Strategic planning and Management”.
- L.M. Parsad, “Business policy: Strategic Management”.
- John Parnell, “Strategic Management: Theory and practice”.
- Thomas L. Whellen, J Dakid Hunger and Krish Rangarajous, “Strategic Management and Business policy”.

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Lesson – 5
Resource Allocation

STRUCTURE

1.0 Introduction

Strategists have the power to decide which divisions departments or SBUs are to receive how much money, which facilities and which executives. This is called resource allocation. Due to difference between official and operative objectives, the resource allocation decisions are very similar in that they set the operative strategy for the firm. Resource allocation's important to several strategic options. If new-product development is seen as the key to an active offensive strategy more funds and personnel will be needed in reseach and development with the possibility of longer-term capital expenditures for new equipment. If the strategy calls for expansion in new markets, greater flows of funds for advertising, sales personnel and/or market research will be required. Resource allocation decisions are linked to objectives through the strategies being implemented.

2.0 Lesson Objectives:

1. To understand the concept of resource allocations and approaches to resource allocation.
2. To Explain strategic budgeting process.
3. To Explain basis for resource allocation.

3.0 Presentation of contents

3.1 Resource allocation

A strategic plan is the representation of the hopes and aspirations of strategists. Project implementation is meant for the creation of an infrastructure to enable them to put such a plan into action. Procedural implementation provides the 'go-ahead' signal. But nothing really happens until resources are procured and allocated to tasks for the accomplishment of objectives.

Resource allocation deals with the procurement and commitment of financial, physical, and human resources to strategic tasks for the achievement of organizational objectives. Organizational resources in tandem with organizational behavior constitute the foundation for the creation of strengths and weaknesses, synergistic advantages, core competencies, and organizational capability, ultimately leading to the competitive advantage that an organization has.

Resource allocation is both a one-time and a continuous process. When a new project is implemented, it would require the allocation of resources. An on-going concern would also require a continual infusion of resources. Strategy implementation should deal with both these types of resource allocation. Several questions have to be dealt with in resource allocation: what sources can be tapped for resources? What factors affect resource allocation? What different approaches could be adopted? How does resource allocation take place? and finally, what are the difficulties encountered? We deal with these questions in the following sub-sections.

3.1.1 Procurement of Resources

The different types of resources-financial, physical, and human-are derived from different sources. But finance is generally considered to be the primary source; it is used for the creation and maintenance of other resources. We deal with the sources of finance here. The procurement of physical and human resources will be dealt with in operations and personnel functional strategies.

Basically, there are two types of finances: long-term and short-term. Long-term finance is required for the creation of capital assets. Short-term finance is for working capital. Both types of finances can be procured from the internal and external sources.

Internal sources include retained earnings, depreciation provisions, taxation provisions, and other types of reserves, like, development rebate and investment allowance reserves. External sources consist of capital market sources, such as, equity and loans and money market source, such as, bank credit, hire-purchase debt, trade credit, instalment credit and fixed deposits. While both internal and external sources carry benefits as well as disadvantage, given a choice, a business firm would prefer the internal sources. But much depends on the management policy related to financing. The cost of capital from different sources has to be considered.

When modernisation, expansion, and diversification strategies lead to the creation of a new company or require additional investments, and when external sources of financing are tapped, certain important issues have to be considered. These are the requirements of the SEBI and financial institutions, and the stipulations of stock exchanges. The SEBI would consider the total capital cost outlays and the scheme of finance for project, debt-equity ratio, and equity-preference ratio. The financial institutions (IFCI, ICICI, IDBI, IRCI,LIC,UTI,NSIC, which are central-level institutions besides the state-level SFCs and SIDCs have their own norms and specific areas and types of financing. The primary support of working capital is provided by commercial banks.

Having procured financial resources, the strategists set out to implement the strategies in right earnest. The first task is to distribute the resources within the organisation to different SBUs, divisions, departments, functions, tasks and individuals and second is to look at the approaches that could be adopted for resource allocation.

3.1.2. Approaches to Resource Allocation

The main instrument for resource allocation is a budget. Broadly, there could be three approaches to resource allocation. The first type is a top-down approach where resources are distributed through a process of segregation down to the operating levels. The corporate management, consisting of the Board of Directors, the CEO or managing director, and executive committee could decide the requirements, and distribute resources accordingly. The top-down approach is usually adopted in an entrepreneurial mode of strategy implementation. The second type is a bottom-up approach where resources are allocated after a process of aggregation from the operating level. A third type of approach is a mix of these two and involves an iterative form of strategic decision-making between different levels of management. This approach (or other similar approaches) has been termed as strategic budgeting. Besides the strategic budget, there are several other means of resource allocation such as the BCG matrix, PLC, and so on.

3.2 Resource Allocation and budgeting

A major issue in strategy implementation is the allocation of resources available with the organisation, or which can be mobilized by it. Resources include not only money, buildings, plants, or other physical facilities but what are probably the scarcest resources of management talents and technical skills. These resources are the means or instrumentalities used by an organisation to produce goods and services of value through the conversion process. The success of an organisation and its units/subunits depends on the quality of resource availability and its effective utilisation. Therefore, an organisation may feel concerned about from where these resources may be obtained and how these resources may be allocated among its various units and subunits.

While allocating the resources, an organisation may take two alternative steps:

(i) Resources should be allocated at a place where these have their maximum contributions, or (ii) Resources should be put according to the needs of various organisational units/subunits. Both these alternatives may become complementary to each other if there is an objective evaluation of the resource requirement of various units.

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

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

3.2.1. Capital Budgeting

Capital budgeting is the planning of deployment of financial resources of an organisation for the purpose of maximising the long-term profit ability of the organisation. In this budgeting, various techniques like average rate of return, payback period, internal rate of return, and net present value, are used to determine where a rupee put will earn maximum profit. This method, however, a more useful at the stage of considering the various alternative project proposals. From strategic management point if view, it does not offer much help at the strategy implementation level. Also it does not consider the allocation of human resources who really matter in making project successful.

3.2.2. Performance Budgeting

A performance budgeting is an input/output or costs/result budgeting. It emphasizes non-financial measurement of performance which can be related to financial measurement in explaining changes and deviations from planned performance. Historical comparisons of non-financial measurements of an activity are particularly helpful in justifying budget proposals and in showing how resources are being used. These measurements are useful for evaluating past performance and for planning future activities.

3.2.3. Zero-base Budgeting

Zero-base budgeting (ZBB) is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated. It requires each manager to justify his entire budget in detail from scratch, that is zero base. Each manager states why he should spend any money at all. The process of ZBB involves the four basic steps: (i) Identification of decision units, that is cluster of activities or assignments with in a manager's operations for which he is accountable; (ii) analysis of each decision unit in the context of total decision package; (iii) evaluation and ranking of all decision units to develop the budget request; and (iv) allocation of resources to each unit based upon ranking. Thus emphasis is placed upon resource allocation according to the contributions of each decision unit.

ZBB results into a number of benefits over traditional budgeting. Such benefits may be in the form of (i) effective allocation of resources, (ii) improvement in productivity and cost effectiveness, (iii) effective means to control costs, (iv) Elimination of unnecessary activities, (v) better focus on organisational objectives, and (vi) saving time of top management. However, ZBB may result into some problems if not followed properly. For example, it may result into extra paper work, difficulty in identifying decision package, tendency to establish minimum level of efforts, etc. However, these problems can overcome when an organisation gains experience of ZBB.

3.3 Strategic Budgeting

Strategic budgeting is comparatively a newer concept as a tool of resource allocation among various SBUs and units of an organisation. Under strategic budgeting, in determining the resource needs of an organisation unit, the basic question that is put is: 'What sort of performance and results do we want to generate?' This should be followed by another question: 'What key activities, organisational units, tasks, and jobs need to be set up and organised to produce these results/ The answer should suggest the kinds of skills expertise, and funding which will be needed to allow the various organisational units to accomplish the designated results. Therefore, jobs and tasks should be defined in terms of the desired strategic results and performance rather than in terms of the functions to be performed. Specific objectives should be developed not only for the organisation as a whole but for each major organisational submit and, through the efforts of subordinate managers, for each job. Every manager in the organisation needs to be required to accomplish those results. One of the major advantage of setting up of careful network of verifiable results to be achieved and a requirement of resources for achieving these effectively is the opportunity to tie up the resources with results which ultimately helps in implementing the strategy.

3.3.1 Strategic Budgeting Process

The BCG product portfolio matrix is one tool that strategists can use to link resource allocation decisions to choices of strategy. If you recall, several prescriptions for investment and cash flow decisions were made depending on the type of SBU identified in the matrix. Thus “cash cows” are SBUs from which resources can be obtained for allocation to “question marks” or “stars.” Of course, we suggested that there are several problems with this approach for strategic choice, and they apply here as well. For instance, resource allocation for new SBUs with initially low market shares might be overlooked. But for multiple-SBU firms this is one tool to aid thinking about how to allocate resources.

The primary approach to resource allocation in the implementation process is through the budgeting system. One system for budgeting resources within one firm is the product life cycle budgeting system used by Lear Siegler, This firm believes that the product life cycle of the product lines should influence its budgeting of resources. It believes that cash flow, departmental expenses, revenues, and capital expenditures should vary during the cycle. Therefore the balance sheets and income statements should look different at different stages of the cycle. The firm suggests adjusting resources accordingly. Thus to the extent that the product life cycle influences strategy, budgest tied to such a cycle will affect the product strategy. Others agree with this approach and suggest that zero-based budgeting is particularly useful when retrenchment strategies are being used.

From a long-term perspective, the capital budget is very critical. Here, plans for securing and distributing capital for large-scale investments are needed to accomplish strategy. Mergers, introductions of major new

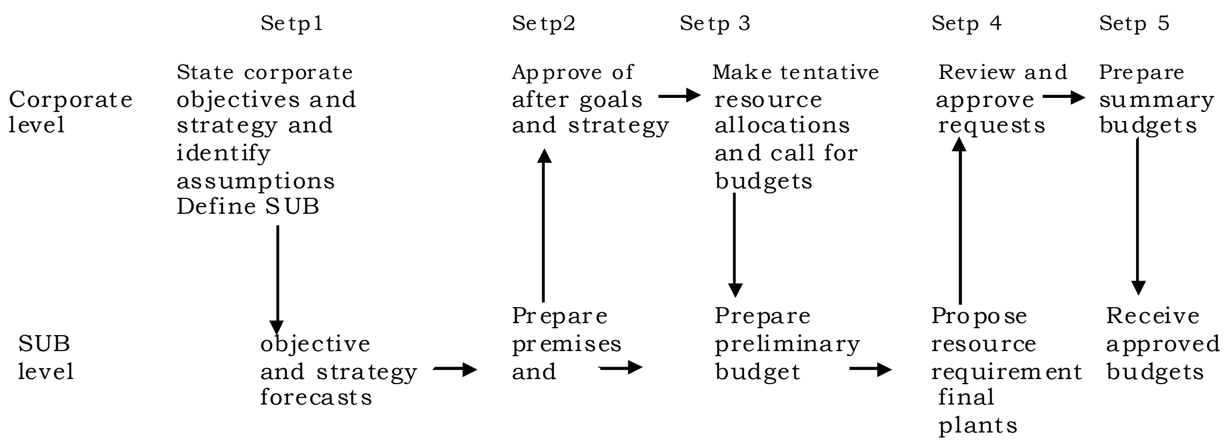

Figure 5.1 A framework for the strategic budgeting process.

product lines, an increase in plant capacity, and vertical integrations are key mission changes which will require long-term capital investment decisions.

The more routine year-to-year allocation decisions are made within this context. But they are also important for making sure that the strategic direction of the firm is being followed, and they serve as a guide to future strategy. So let’s look at this budget process in more detail.

Remember that resource allocation as expressed in the budget needs to be carefully linked to strategy. Exhibit 5.1 shows one explanation of how these can be linked in a multiple-SBU firm. Note that the process will involve planning at various levels in a back-and-forth fashion over time. In a series of negotiations among managers at the SBU and corporate levels, the strategy and plans to implement it are worked out. The final output is a set of budgets which give force to the overall plan. Let's look at these stages of the budgeting process in a bit more detail

1. Determination of objectives

Top management initiates the budgeting process. It does this by communicating the objectives of the firm for the period. It also announces the assumptions it uses-the predicted economic and competitive conditions, for instance-to set these objectives.

Of the various internal planning premises and assumptions which must be formulated, the sales forecast is clearly the most fundamental. Indeed, since anticipated product demand must be determined before budgets and plans for resource inputs are made, the sales forecast is typically cited as the basis or "key" for all internal planning. Among other things, the sales forecast is the basis for production planning, materials planning, capital panning cash-flow analysis, personnel planning, and advertising and sales promotion planning. Thus on the basis of forecasted sales, an organization is able to project production requirements, establish what materials need to be purchased, determine the number of personnel to be recruited, estimate the level and timing of required financial resources, and decide what it can afford in the way of operating expenses (such as those for advertising and slaes promotion) for the purpose of exacting a certain profit level.

2. Budget Communication

The budget department (in large firms) or administrator communicates information and offers advice to the units preparing the budgets. This unit prepares the forms and procedures for developing a budget. It helps those preparing budget with technical problems and in the actual preparation. If there are budget specialists at the division level, it trains these persons and coordinates their work.

3. Preliminary Budget Preparation

Each unit prepares a preliminary budget for the next period. Normally the unit begins with the previous period's budget and performance against this budget. Next the unit states how the next period will differ from the current period. So the next year's budget that the unit proposes is based on the past budget plus or minus expected changes. This shows how the unit's management expects to achieve its objectives. This is a critical stage if strategic change is taking place. The unit must specify what resources it will need to accomplish the strategy.

4. Performance Review

The preliminary budgets developed in step 3 are reviewed and approved. The budget department analyzes and reviews each unit's past performance and determines whether its projections are realistic given likely future conditions. After comparing the budgets of the various units, the budget department submits them to top management along with recommendations for approval or adjustment. Top management examines the budgets and approves them if they are consistent with past performance, anticipated revenues, and the firm's strategy. This is the stage at which the resource allocation choice will be made.

5. Summary Budget

At this stage summary budgets are usually prepared. Projected receipts and expenses are put together, and subsidiary budgets are developed-for example, the operating budget, financial budgets, the capital budget, and expense budgets. The operating budget specifies materials, labor, overhead, and other costs. Financial budgets project cash receipts and disbursements; the capital budget projects major additions or new construction. The expense budgets project expenses not covered in other budgets, such as marketing cost. Finally, in the summary budget (profit and loss or income statement), the total obtained by combining the subsidiary budgets is subtracted from the projected receipts. The remainder is a profit or loss. If the budgets meet objectives, approvals are made, and the budgets are enacted. If changes are needed, negotiations will take place.

The mechanics of preparing capital and operating budgets are beyond our purview. But this process is important, as it relates to the formation and implementation of strategy. Through the entire process, a variety of real problems of relevance to strategists often emerge. Estimating both revenues and costs is very difficult.

Moreover, the question of who gets the most money from the budget has a major effect on the work environment as well as on the careers of managers. If, as a manager, you "lose the budget battle," your employees will have to do more work with fewer helpers and less desirable equipment. They will feel that you have failed them, and they will treat you accordingly. This is one of the problems with using the product portfolio approach. Few managers want to have their units known as dogs or cash cows. It is also a problem affecting retrenchment strategies. Negotiations to protect a unit in the budget battle may come at the expense of pursuing a strategy in the best interests of the overall organization. Indeed, gamesmanship, overstatement of real budget needs, and even secrecy can lead to highly political budget battles across departments.

The usual budget process tends to be designed for allocating resources to existing departments or various investment proposals. These may or may not be tied to strategic changes desired by the organization; if they are not, then the budget process reinforces existing resource allocation patterns.

The budget process must tied to the strategic direction of the firm. If lower levels are unaware of shifts in strategic direction, and if top managers fail to communicate strategic change or are weak negotiators, any intended strategy change is unlikely to take place.

Finally, the budget process is tied to the way units and divisions are arranged organizationally, New SBUs can be at a disadvantage if they are unaware of the "ins and outs" of the budget procedures used in their organization. And if truly major strategic shifts are occurring, the structure is likely to change along with the way resources are allocated.

3.4 Factors Affecting Resource Allocation

Resource allocation deals with the commitment and distribution of resources. Since resources are almost always scarce, the process of resource allocation is quite complex. The basic question before the strategists is how to allocate scarce resources to competitive strategic tasks that will lead to the accomplishment of organisational objectives and the realisation of strategic intent. It would be easier for strategists to allocate resources if the strategic priorities are clear. But setting clear priorities practically is often a daunting task. This is so because a variety of factors affect the process of resource allocation. These factors could be: the objectives of the organisation, preference of dominant strategists, internal politics, and external influences.

Objectives of the organization: While dealing with objectives, we stated that objective-setting is a complex process. There are a number of objectives. Some are explicit while others are implicit. Employees of any organisation tend to judge the importance given by strategists to tasks on the basis of the amount of resource allocated to them. If the chairperson of a company, while presenting the annual report, waxes eloquent on the virtues of human resource but the actual resource allocation does not reflect the importance given to this resource, then human resource development is certainly not a priority strategic task. Operative objectives tend to affect the pattern of resource allocation to the maximum extent.

Preference of dominant strategists: The dominant strategists-most often the CEO-tend to affect the process of resource allocation. Their preferences are reflected in the way the resources get allocated. Perceptive SBU, divisional, and departmental heads know that such preferences matter and try to present their demands in line with them or attempt creating an interest among the dominant strategists for their demands so that resources can be attracted easily.

Internal Politics: Resources are often misconstrued as power. Those departmental units which are able to attract more resources are perceived as being more powerful. Executives who are in a position to affect the process of resource allocation in their favour is perceived to be more effective. These perceptions make resource allocation a rational-political process. Internal politics within the organisation, therefore, affects the process of resource allocation.

External influences: Apart from internal politics, external influences also affect resource allocation. These influences arise due to government policy and stipulations, the demands of external shareholders, financial institutions, community, and other. For instance, conditions imposed on companies by legal requirements may require additional investments in labor welfare and security, pollution control and safety equipments, or energy conservation. The shareholders may expect a higher dividend or bonus shares, and resources may have to be diverted to them. Financial institutions may impose restrictions or require companies to invest in technology upgradation. The discharging of social responsibilities, such as, contribution to community services, may require the allocation of funds. Thus, external influences affect the process of resource allocation considerably.

From the factors described above, it is easy to recognise that in the absence of clear strategic priorities, the process of resource allocation could be distorted to a great extent. The value of explicit strategies at different levels, clearly laid-down objectives, and the setting down of strategic priorities lies in a balanced allocation of resources. The absence of clear strategic priorities is often the reason why the process of resource allocation gets distorted. Some of the difficulties faced in resource allocation are explained here.

3.5 Problems in Resource Allocation

Another issue which must receive the attention of the strategists in resource allocation is the problem involved in its process whatever the basis of resource allocation is adopted. The problems emerge because:

(i) Resources are limited,

(ii) There are competing organisational units with each trying to have major share of the cake, and

(iii) Organization's past commitment.

These factors taken together make resource allocation a rational-political process at the level of choice of strategy. In such a case, there is a possibility that resource utilisation becomes sub-optimal specifically; following problems in resource allocation in an organisation may emerge.

1. Every unit in the organisation tries to get maximum possible resources because allocation of more resources to a unit is considered as more power vis-a-vis other units. Further, every unit wants to have flexibility in its operation and tries to hide its inefficiency. This problem may overcome by clear by defining the expected contributions of an unit and the resources required for those contributions.
2. Organisation's past commitment of resources works as hindrance in resource allocation if the problem is not addressed to properly. Though some techniques like zero-base budgeting or strategic budgeting tries to overcome this problem by transferring the resources from the units where these are under-utilized to the units where these may be better utilized the process is not simple. The managers of those units from where the resources are taken may show lot of resistance as they feel neglected. To overcome this problem, the strategists' role of persuasion and motivation to accept the reality of the situation is the most important.
3. Sometimes, the organisation itself may become resistant to change even if it is a loser. It has been found that in may cases, the organisation puts its best managers to manage a declining product because it has been a pride of the organisation in the past but presently it may not be of any strategic importance. Similarly, the organisational units that can boast the past glories may obtain major share of available resources, even though other business area may offer more potential. This problem may be solved to a great extent by inculcating the habit of change in the light of new emerging business situations.

Self Check Exercise

1. Define zero-base budgeting.
2. What are the factors affecting resource allocation?

4.0 Summary:

Resource allocation deals with the procurement and commitment of financial, physical and human resources to strategic tasks for the achievement of organisational objectives. It is both a one time and continuous process. When a new project is implemented, it would require the allocation of resources. An on-going concern would also require a continual infusion of resources. Strategy implementation deals with both these types of resource allocation.

5.0 Glossary

Resource: a stock or supply of money, materials, staff, and other assets that can be drawn on by a person or organization in order to function effectively

Allocation: resource assigned to a particular recipient

6.0 Answers to Self Check Exercise

Ans. 1 Refer to section 3.2.3

Ans. 2 Refer to section 3.5

7.0 Terminal Questions:

Q1. What does resource allocation deals with?

How is a top-down approach different from the bottom-up approach for resource allocation?

Q2. What do you understand by strategic budgeting? Explain the process of strategic budgeting.

Q3. Point out how external influences may prove harmful for resource allocation?

8.0 Suggested Readings:

- Azhar, Kazmi., “Business policy and strategic Management”.
- Lawrance, Gupta and Glueck., “Business policy and strategic Management”.
- P.K. Ghosh., Strategic planning and management.

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Lesson – 6
Patterns Of Leadership

STRUCTURE

1.0 Introduction

In modern organizations, somebody should show the way to others for the achievement of the goals. This characteristic feature is termed as 'leadership'. It is neither mere direction nor motivation. It is one of the keys for successful management and organization. Since an organization is basically a deliberate creation of human beings for certain specified objectives, the activities and behaviour of its members need to be directed in certain way. Any departure from this leads to inefficiency in the organization and consequent failure of strategy. So, in strategic management, leadership is useful is behavioural implementation of strategy.

2.0 Lesson objective

(1) To explain leadership and qualities of effective leaders.

(2) To describe the style of leadership.

(3) To evaluate the implementation of leadership theory in modern organization.

(4) To explain the importance of leadership in implementation of strategy.

3.1 Leadership

Leadership is a complex process but its essence may be said to lie in rue capacity to frame plans which will succeed and the faculty to persuade others to carry them out in the face of all difficulties. It implies that a plan should reflect a leader's grasp and feel of the quality of his resource and the environment in which the plan has to be implemented. Secondly, the concept of leadership implies the capacity of getting things done. In the context of strategic management it implies dealing appropriately with people, which is reflected in the effectiveness of leadership capability.

3.1.1 Qualities of Effective Leaders

Every successful leader is said to have an inner hard core composed of certain universal virtues. The integrated structure of 'these virtues centres round the quality of selflessness based on an ideal along with its two components of knowledge and character. Knowledge enables a leader to take the right decisions in any given situation and the strength of character helps him to be effective, to get things done by dealing appropriately with people. In any organization the potential for effective leadership in an executive is directly proportional to the degree of his or her selflessness, which in turn is based on an ideal or vision. Thus, higher the ideal or vision, higher will he the degree of selflessness, hence greater will be the potential for effective leadership. Organization culture can go a long way in promoting selflessness—a culture that is based on 'esprit de corpse' i.e., "regard for the honour and interest of the body one belongs to."

Whereas selflessness is the hub of the universal inner structure of a good leader, other qualities which make for the structure, are the following:

- **Character**

There are a large number of virtues which may be said to constitute the character or personality of an effective leader; however, three core qualities are the most important, viz., courage, determination and initiative.

- **Courage**

A courageous leader should have the courage to take decisions and to act and being accountable for success or failure. A courageous 1eader does not lie, can set high standards of performance even at the cost of facing unpopularity; and it is because of courage that the leader's approach to work has a distinctive direction.

- **Determination or will power**

The ability to persist in spite of all odds is another virtue that goes with effective leaders. Implementation of strategies, plans and programmes is often beset with numerous difficulties and failures on the part of people concerned which may be due to natural causes, inadequacy of resources or human fraitities. A good leader has the determination or will power to persist in spite of obstacles and setbacks in he process of implementation of plans.

- **Initiative**

A leader's initiative is reflected in his ability to anticipate and overcome obstacles and difficulties on the basis of a sound information system, his alertness to opportunities that may be availed of to achieve the tasks. These abilities can he developed b the habit of forethought. Initiative can be fastered under conditions of mutual trust and confidence a long with effective delegation. Creating an appropriate structure and organizational culture so as to permit full play of the initiative of leaders at all levels is regarded as an important part of strategic management.

• **Knowledge of the job**

A leader who has full knowledge of his field of work has a strength which is always helpful in taking decisions and having necessary flexibility in responding to changes. To be effective the leaders must also have knowledge of the total system and of the internal and external environment of the organization. Knowledge and mastery of a few skills also help in time management and communication. Above all, knowledge 10 his field of work should be the basis of developing the leader's intuition—power of the mind by which the underlying truth of things can be perceived by him without reasoning and analysis.

• **Knowledge of self**

Understanding one's own personality is a must for every good leader. With that understanding a leader is least afflicted by his ego, greed, envy and similar frailties. He does not raise an accusing finger to others before introspection of his own shortcomings.

The test of effective leadership is the leader's ability to deal with people in which his total personality comes into play. According to a study of the Stamford Research Institute, 88 percent of effective management strategy is attributable to understanding people and handling them appropriately. Indeed, the essence of leadership is reflected in how the leader handles people to get the best out of them. To be able to do so, understanding of human nature is always useful.

To know and care for people, a leader must have communication skills, mainly the skills of expression and listening. The skill of expression is very well said to be a vehicle to generate trust. It is not only the nature of verbal expression but more importantly the spontaneity, straight forwardness and sincerely conveyed which matter a great deal. The skill of listening involves three elements, viz., hearing with attention, comprehension of what is said, and remembering what has been said. Listening attentively with understanding and sympathy helps generate trust.

3.1.2 Leadership and Organization Climate

The form of organization of a firm besides establishing the inter-relationship between the differentiated units and sub-units also socks to regulate the pattern of managerial behaviour and supplements the managerial efforts to achieve the organizational objectives. The structure of organization, however, is a necessary but not sufficient condition for successful implementation of strategy. Poor results may be as much manifest in an organizationally perfect company as success IS in an ill-organized company. Discerning executives in an ill-organlse' company may recognise the necessity of adjustment and adapt their actions to the informal but more effective arrangement outside the formal structure. Two other dimensions of strategy implementation are thus suggested to be of equally critical significance, viz., leadership and or climate.

The choice of leadership is closely related to the nature of strategy to be implemented. For, it is of foremost importance to ensure that the right type of executives are associated with the process of implementation the corporate headquarters and the SBUs. This may involve:

(a) changing the existing leadership at different levels,

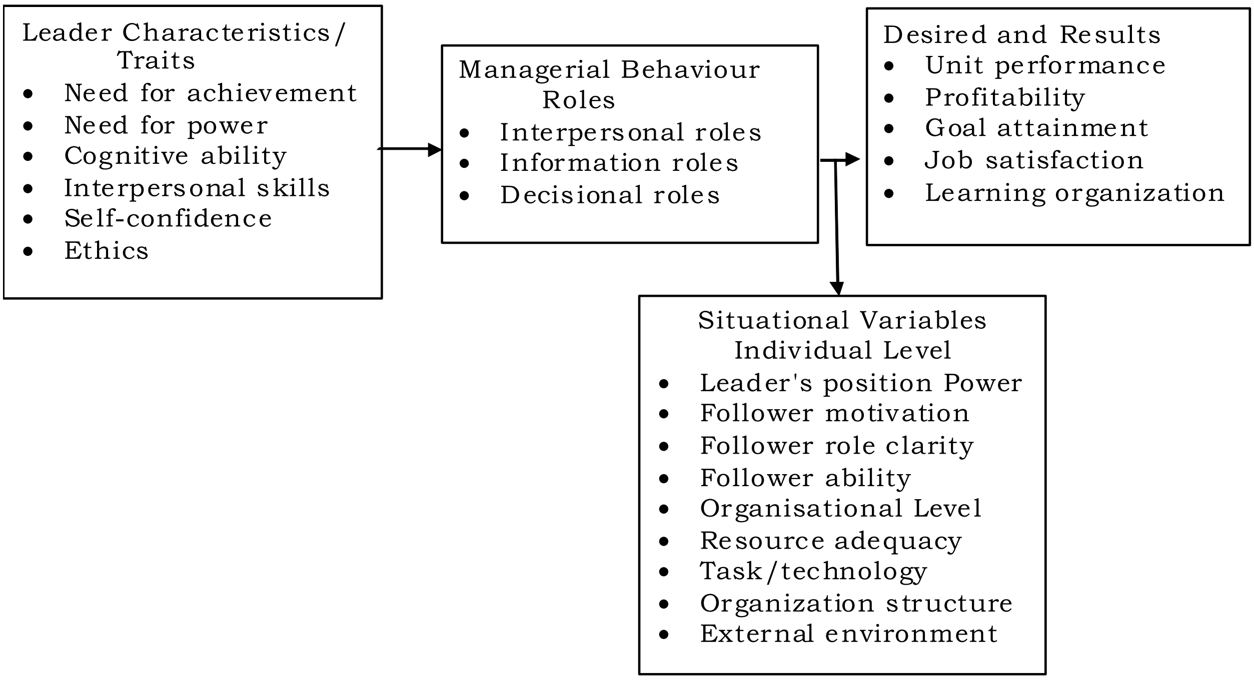
(b) developing appropriate leadership styles,

(c) initiating career development for future executives,

(d) using OD techniques for change.

Implementation of a new strategy sometimes requires the chief executive to be replaced by a new incumbent. Chief executives may also be replaced when they are unable to effectively deal with the demands of dynamic environment. Indeed, the choice of a strategy is sometimes possible after the existing chief executive has been placed. Public ads are quite frequently seen inviting professionally qualified persons to apply confidentially for executive positions to man product divisions or functional departments, and even for chief executive's position in growing concerns.

In a typical organization both leadership and management roles are combined in every individual Whether one is a leader or manager depends on what role he or she performs at any give: time. In fact, hacked hr leadership traits, an executive is in a stronger Position to perform managerial functions that result in desired outcomes. Of course several situational factors influence how effectively the end results have been obtained Fig. 6.1 summarizes the above process.



The discussion on the nature of leadership till now makes a reader believe that leadership is unidirectional i.e., the leader influencing his followers. It is true that leadership refers to the influence of the leader on followers. At the same time, the characteristics of employees and their tasks do yield influence on the leader. Leadership is, therefore, a mutual influence process.

3.2 Importance of Leadership

The importance of leadership is too well-known to need any emphasis.

Leadership is the process of committing a group of people no peen Inc goals. Without an organization would be what the sage Valmiki wrote in the Ramayana :

Like a heard of cattle without a keeper

Like an army without a general

Like a night without moon

Like a group of cows without a bull

Such would be the Country

Where the king is not seen".

A leader not only commits his followers to organizational goals, he also pools needed resource guides, and motivates subordinates to reach the goals.

The leadership process is similar in effect to that of the secret chemical that turn pupa into a butterfly with all the beauty that was the pupa's potential. Leadership, then, transfer potential into reality. This role is often seen in giant firms and tiny units. In all eases is the ultimate act that identifies, develops, and uses the potential that is in an organization and people.

Leadership is not the mere using of people and their potential for realising an organization goals. It has the ultimate aim of raising the level of human conduct and ethical aspiration of be the leader and the led. This aspect of leadership is what Burns calls the transforming leadership. The leader should elevate, inspire, and evangelise his followers to higher things in life.

High sounding words indeed! In reality, effect of leadership on organizational effectiveness seems to be relative because of the following possibilities:

- Poorly performing organizations find it difficult to attract best leaders.
- Not all leaders have the same abilities and experience.
- Environmental and organizational factors can override any effects the leader have.
- Organizations continue to flourish even after the change of leadership.

3.3 Implications of Leadership Styles

Leadership Style is the typical approach a particular person uses to lead people. Stated differently, the behaviour the leader exhibits during supervision of subordinates is known as leadership style. Style is said to comprise two distinct elements — the leader's assumptions about subordinates and the leader's actual behaviour while interacting with subordinates.

In the meanwhile the study of leadership styles is useful because it focuses on what the leader actually does in getting work accomplished through people.

Leadership style is divided into four types: (i) Styles based on the amount authority retained by the leader; (ii) Styles based on the relative emphasis placed on the task to performed versus that placed on people; (iii) Styles based on the assumptions about people made by the leader; (iv) Likert's four styles; and (v) Enterpreneurial leadership styles:

3.3.1 Authority Based Styles

This the classical approach to classifying the leadership styles and is useful even today. Styles this approach are classified depending on how much authority is retained by the leaders versus how much is delegated to the subordinate employees. We have the familiar three-way classification of authoritarian, participative and free-rein leadership.

Authoritarian Style : Known in its acronym as autocratic style, authoritarian style involves retention of full authority by the leader. Leader decides, decision is passed on to subordinates instructions about the implementation of decision are given and the subordinates are expected do what the leader has told them to do. Assuring that the leader is competent, the advantage this leadership style is that tasks are efficiently completed, since there is no opportunity for time consuming two-way communications associated with democratic styles.

Participative Style : There are three related types of participative leaders consultation consensual and democratic.

Consultative leaders solicit opinions from group before making a decision, yet they do not feel obliged to accept the group's thinking; these leaders make it clear that they alone have final authority to make final decisions.

Consensual leaders encourage group discussion on an issue and then make a decision P reflects the general agreement (consensus) of group members. Consensual leaders delegate more authority to the group than do the consultative leaders. This style leads to considerable delay decision-making because every member has to give his/or her consent.

Democratic leaders confer final authority on the group. They function as collectors of opinion and take a vote before making a decision. Democratic leaders delegate full authority subordinates. This style is more relevant for community activities than for work settings.

The participative style has merits. It is highly effective where group comprises competent and motivated members who want to get involved in making decisions and giving feedback to the leader. Secondly, employees' feelings of self-worth and satisfaction are increased because the leader conveys a sense of confidence in employee judgement. Participation allows employees to satisfy high-level needs such as esteem and self-actualization by allow them to take part in decision-making. Employee participation in decision-making improves the quality of decisions, because when more people think about problem it is likely a better solution will be found. Finally, there will be less resistance to change because those who have developed the solution will usually support its implementation.

This particular style seems to have only academic interest. In practice the style may work. Neither. Nor the leader has large heart to share authority with others. Nor the subordinates have physical and mental preparedness to take part in decision-making. Where both these possible, 'decision-making is likely to get delayed.

Free-rein style: Also called laissez-faire, free-rein leader chooses not to adopt a leadership role and actually abdicates leadership position, generally relinquishing it to someone else in the work group. While technically not a leadership style (it is more the absence of one), it warrant brief mention since the absence of leadership may have a positive or negative effect.

On the positive side, free-rein leadership works when the group is composed of highly committed members, On the negative side it may be stated that the leader abdicates leadership role because of his or her own in competency, the fear of failure or the perceived social cost of ostracisation by the workgroup.

3.3.2 Task Based Styles

Another standard way of classifying leadership styles is based on the relative concern the leader places on the task to he performed vis-a-vis the people performing the task.

Depending on task emphasis or people emphasis, four combinations are possible as shown in figure.

High Relationship and Low-Task (Supporting Style)	High Task and High-Relationship (Participative Style)
Low-Task and Low-Relationship (Free-Rein Style)	High-Task and Low-Relationship (Autocratic Style)

Low High

Task Emphasis

Figure 6.2 Four Key Leader Behaviours

A brief description of each style follows :

High-Task and Low Relationship: A high-task and low relationship leader emphasizes showing employees how to get the tasks accomplished and spends minimum time giving psychological support. This style may be effective where the employees are inexperienced the work to be performed. The high-task and low-relationship style may also he s situations where seasonal help is involved. Seasonal employees may be unfamiliar and these require direct guidance on performing the work properly. A high task and low relationship leader is not necessarily rude or discourteous. The leader simply takes expenditure route of focusing on work rather than people.

High-Task and High Relationship: This leader spends considerable time she how to get the work accomplished and providing them psychological support. The high-task relationship style is considered generally useful because it results in high pro personal satisfaction. A more critical look at this style would suggest that it works best where people need an active and involved leader. When employees are lacking in se and technical skill, the high-task and high-relationship style is particularly effective.

High-Relationship and Low-Task: A leader using the high-relationship and low-task gives employees much encouragement and support but a minimum of guidance a accomplishment. In some situations employees need more psychological support rather technical instructions. The high-relationship and low-task style is suitable for such situation.

Low-Relationship and Low-Task: A leader using this style is neither here nor there essentially a free-rein style. Subordinates are given considerable latitude in performing their. They are also given very little psychological support, encouragement and praise. They therefore, free to run their own show. When subordinates are highly skilled and psychological mature, this style can be effective.

3.3.3 Assumptions Based Style

Depending on what assumptions a leader makes about his or her followers, two distinguished. This two-way classification is based on McGregor's famous Theory X and Theory Y assumptions about people. In meantime it may he stated that Theory X leaders are autocratic. They distrust peop in close supervision and tight-control over the subordinates. Theory Y leaders are they trust subordinates and allow them to participate in decision-making.

Likert's Four Styles

Developing on the notion that leadership style consists of two extreme positions democratic-Likert develops four styles of leadership to capture the management organization: (i) exploitative authoritative, (ii) benevolent authoritative, (iii) cor (iv) participative.

Exploitative authoritative: As an exploitative authoritarian, the leader u communication is downward, superiors and subordinates are psychologically distant, an decisions are generally made at the top of the organization.

Benevolent authoritarian: Here the leader uses rewards to encourage performance, communication is permitted but to the extent the boss wants, subservience to boss and there is some delegation in decision making, though major decisions are made by the at the top of the hierarchy.

Consultative: Here the leader uses rewards, communication is two-way although upward. Communication is cautions and limited, some involvement is sought from employees and as in the benevolent authoritarian style, subordinates are involved in decision-making in a limited way.

Participative : The leader disperses economic rewards and makes full use of group participation and involvement in setting performance standards and improving methods and procedures Subordinates and superiors are psychologically close, and group decision-making is widespread in the organization There is a tendency among a number of individuals to belong to more than workgroup in order to promote intergroup links and understanding.

3.3.4 Entrepreneurship Leadership Style

An entrepreneur is a person who coverts an innovative idea into business. The word entrepreneur is generally associated with small-scale industry. What is an entrepreneurship leadership style? Based on both their personality characteristics, and the circumstances of operating a business, many entrepreneurs use a similar leadership style. The most notable features of this style are

(i) Impatience and brusquences towards employees because the entrepreneur is always busy.

(ii) A heavy task orientation combined with a very direct-approach to giving instructions to employees.

(iii) A charismatic personality that inspires others to want to do business with him or her despite the impatience.

(iv) A much stronger interest in dealing with customers than employees.

(v) A strong dislike for bureaucratic rules and regulations.

(vi) Anxiety to consolidate business gains as quickly as possible.

Some of the styles described above will be referred to again later in different contexts.

3.4 Theories of Leadership

From the beginning of the 20^{th} century, many distinguished authors and researchers have contributed

Historically, focus on leadership in theories shifted from one dimension of leadership to another. Early leadership research focused on the leader himself or herself to the virtual exclusion of other variables It was assumed that leadership effectiveness could be explained isolating psychological, physical characteristics or traits, which were presumed to differentiate the leader from the other members of the group.

As the years went by the focus shifted from the personality of the leader to his or her behaviour while delegating tasks to subordinates and communicating with them. It was believed by the behaviourists that a leader's effectiveness depended upon behaviours and not on traits alone. The theories of leadership considered are :

3.4.1 Behaviour of Theory

According to this theory Circumstances change constantly creating new situations and challenges. The behaviour of the leader is moulded by the changing patterns of group attitudes and experiences. Different dimensions of a leader's behaviour have been thoroughly probe l through Ohio's studies.

According to these studies, the following aspects influence a leader's behaviour:

Initiating structure and consideration: Initiating structure refers to the extent to which a leader defines and organizes his own role as well as the role of his subordinate. It spells out the behaviour of a leader while performing a task. On the other hand, consideration refers to the degree by which the qualities in a leader's behaviour is characterized such as mutual trust and respect for subordinates. It indicates relationship behaviour. The initiating structure and consideration are two distinct features therefore existence of one does not mean the absence of the other. Actual behaviour of a leader in a given situation may consist of combination of these two aspects. The following figure 6.3 shows the list of the findings of the Ohio state studies on leadership:

Concern For People (High)

1 2 3 4 5 4 6 7 8

HIGH CONSIDERATION AND LOW STRUCTURE	HIGH CONSIDERATION AND HIGH STRUCTURE
LOW CONSIDERATION AND LOW STRUCTURE	HIGH CONSIDERATION AND LOW STRUCTURE

The four quadrants in the figure 6.3 represent various combination of task and relationship behaviour that a leader can exhibit at a particular 'point of time. Actual behaviour varies among these four alternative combinations depending upon the situation.

3.4.2 Managerial Grid Theory

Robbert R. Black and lames S. Mouton have developed five different style of leadership through the concept of managerial grid. This concept has been exclusively used for training the managers. This is done by making them to identify the various skills of leadership styles. This concept is mainly based upon two important factors - (a) concern for production (Task orientation) and (b) concern for people (Relationship orientation). The essence of this theory is presented in the following diagram (B).

In tie figure 6.4 the, concern for production is shown on the horizontal axis and concern for people is shown on the vertical axis. The scale recorded varies from 1-9. It indicates that the concern for production/ people becomes more important to the leader as his ranking advances from 1-9 gradually. The five styles of leadership are briefly explained below :

1-9 COUNTRY CLUB	9-9 TEAM
	5-5MIDDLE ROAD
IMPROVERISHED	TASK

- **Impoverished (1-1):** As the rating indicates, this style involves little concern for both people and production. Leaders under this style have minimum involvement in their jobs and mostly act as messengers, who pass information from subordinates.
- **Country-club (1-9) :** A sort of informal environment is created wherein every one can coordinate the effort and accomplish the oh in a relaxed and friendly atmosphere. Here more emphasis is laid on the needs of the people and less on production.

· **Task:** It is another extreme style of leadership commonly referred to as autocratic style. Here leaders are concerned only with developing efficient operations by arranging tight structure and conditions of work. They have little or no concern for people.

- **Team:** He also an extreme style of leadership. Here the leaders display a rare quality of having concern for both production needs of the organization and needs of the individuals. In other words, these leaders belies that the highest concern for production as well as people alone can accomplish the organisational objectives.
- **Middle of the Road (5–5):** In reality, a leader may fall under any one of the above four styles. Sometimes, he may have a typical style which can be placed somewhere on the grid. Under this style leaders have maximum concern or production as well as for people. They set the objectives at moderate levels considering the feelings of the people. Adequate level of production and satisfaction can he reaped through this style.

Therefore, managerial grid is a useful tool for identifying different leadership styles. The answer to the question that what kind of leader he is dopends upon the personality, characteristics, enterprising ability, environment and other situations.

3.4.3 Contingency Theory

Fred E. Fielder and his associates of the University of Illinois have suggested a contingency model to leadership. According to this model, people become leader not only by virtue of their personality attributes hut also h virtue of various situational factors including leader's ability to interact with group members. According to this model three major situational factors determine the success or failure of a given leader. They are:

- **Position power:** This indicates the degree of power that a position holds which permits a leader to secure group members agreement with his direction. In other words, a leader with clear position in power can obtain good followership more easily.
- **Task–structure:** Here, the leaders success depends upon how clearly he spells the assigned tasks through his people so that subordinates are made more responsible and accountable for their performance.
- **Leader–members relationships:** This is the most important dimension. The power of a position and task structure largely under the control of an organisation. Therefore, the development of effective relationships completely depends upon the liking an willingness on the part of subordinates for a given leader.

To sum up, a particular situation appear to be most favourable to the leader when he is blessed with an appropriate position to give clear-cut direction about the job and is liked by his followers. On the other hand, the situation becomes unfavourable to the leader when he is disliked faces vague and unstructured jobs and has little power. Fielder's research has proved, that task–oriented leaders would be more effective under "unfavourable" or "favourable" situations. In contrast relationships oriented leaders tend to exhibit better performance under situations that are moderately suitable to leaders.

3.4.4 Path-Goal theory of Leadership

This theory is based upon the findings of various motivational as well as leadership theories already proposed by various authors. Robbert House, who suggested the "Path Goat Theory", believes that the main function of a leader is to:

- Clarify and set goals
- Help subordinates find the best way for achieveing the set goals.
- Remove obstacles.

This theory is not suggesting any particular style. On the other hand, it is only suggesting the applicability of a relevant leadership style under different situations. The success of a leader depends upon how well he can set the goats for his subordinates and helps them in attaining the same with minimum difficulty. The Well-established Path-Goal relationship leads to high rate of success through greaser satisfaction among subordinates. When jobs are unclear and difficult to achieve subordinates become frustrated. They look forward for directions from the leader. The key to this approach is that the leader can influence the paths through behaviour in achievement of goals.

3.4.5 Continuum Theory

This model suggests a range of styles that can be adopted in different situations. According to this theory, leadership effectiveness is the function of the leader, the follower and the situational variables. As per this theory, the following are the most important forces that may influence a leader's style:

- **Force operating in the leader's personality:** The leader's personality is made up of forces such as confidence, judgement, value system, feeling of security and preference to a particular style.
- **Forces operating in subordinates:** The subordinate's personality is made up of forces such as their knowledge, experience, tolerance and willingness to accept responsibility.
- **Forces of a given situation:** The work situation is made up of a number of forces like team spirit, pressure of time, behaviour of workers during emergency situations. The also exert lot of pressures on leaders.
- **Forces of the organisational environment:** Elements like planning, organising, directing and controlling have a definite influence on the organisational environment. They also influence the subordinate's motives, expectations, rewards and relationships.
- **Forces that influence social environment:** Labour Unions, Government Regulations, Consumer Courts and other outside parties may significantly affect the leader's behaviour.

Self Check Exercise

Q.1 What is the importance of leadership?

Q.2 What is Managerial Grid Theory?

4.0 Summary

Leadership is an endless process of influencing people to willingly and enthusiastically strive towards the achievement of the organization's goals. It is an important aspect of managing. This ability varies from individual to individual. There are different styles and theories of leadership. The various styles of leadership include authority based, task based, assumption based entrepreneurship leadership style. Different theories explaining the leadership behaviour are Behavioural theory, Managerial Grid Theory, Contingency Theory, Path Goal Theory and Continuum Theory.

5.0 Glossary

Deliberate: done consciously and intentionally

Strategy: a plan of action designed to achieve a long-term or overall aim

6.0 Answers to Self Check Exercise

Ans.1. Refer to section 3.2

Ans.2. Refer to section 3.4.2

7.0 Self Assessment Questions

Q.1 What do you mean by the term 'leadership'. Explain the qualities of an effective leader.

Q.2 Explain the following theories of leadership

(a) Managerial Grid (b) Path Goal Theory

(c) Contingency Theory

Q.3 Explain the importance of leadership in Strategy implementation.

8.0 Suggested Readings

- Organizational Behaviour by K. Aswathappa, Himalaya publishing House.
- Strategic planning and Management by P.K. Ghosh.
- Business policy : Strategic Management by L.M. Parsad.

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Lesson – 7
Strategic Analysis and Selection

STRUCTURE

1.0 Introduction

The strategy that any organization adopts for achieving its objectives is based on the internal environment and post well implemented strategies. In the presence of various feasible alternative strategies, you need to choose the most beneficial and feasible strategy among the available feasible alternative strategies. The strategy is chosen after analysing its advantages disadvantages, trade offs, costs and various qualitative factors.

2.0 Lesson objectives

- To explain the various matrices that help strategist of analyse and select the best strategy for an organization.
- Describe the strategy formulation model.
- To explain the various factors that should be considered. While selecting the appropriate strategy.

3.1 Strategic Choice

Strategic choice involves selecting from among several alternatives the most appropriate strategy which will best serve the enterprise objectives. The choice takes place within a frame of reference consisting of different elements and the choice (decision) made is the product of interaction of the elements in the frame of reference.

(a) accumulated knowledge base,

(b) decision-making processes (intuitive *versus* rational, individual *versus* group),

(c) assumptions about cause and effect,

(d) human needs,

(e) past experiences,

(f) expectations, and

(g) culture and values.

According to Glueck, strategic choices (decisions) are made in the light of four selection factors, viz.,

(i) Managerial perceptions of external dependence;

(ii) Mangerial attitudes toward risk;

(iii) Managerial awareness of past enterprise strategies; and

(iv) Managerial power relationship and organization structure.

More or less similar factors have been suggested by other writers but classified differently for analytical purposes. Indeed, the factors which may influence the choice of strategy are many, some of which may be 'constructions' limiting the scope of choice.

3.2 Factors Influencing Strategic Choice

1. External Constraints

The survival and prosperity of a firm depend largely on its interaction with the elements or units in the environment – its owners (shareholders), customers, suppliers, competitors, the government and the community. These elements constitute the external constraints, and flexibility in the choice of strategy is often governed by the extent and degree of the firm's dependence on the elements. Well established, large companies in different industries are more powerful vis-à-vis their environment and therefore have greater flexibility in the strategic choice than their counterparts in the respective fields. For instance, a firm which obtains bulk supply of its raw materials or components in a competitive market will have greater flexibility in its strategic choice than another firm which has to depend for its supplies on an oligopolistic market. The strategy of competitors in the product may also restrict the choice of strategy of a firm. If majority shares of a company are owned by an individual, the executives can hardly ignore his preferences in the matter of choice.

2. Intra-organizational forces and managerial power-relations

Within an organization major decisions are often influenced by the power play among different interest groups. Strategic decisions are no exception. If the chief executive is in favour of a strategic option, it may be endorsed by senior managers close to him, but one or the other managerial clique may oppose it. Research findings have thrown considerable light on the impact of managerial power relations on strategic choice.

3. Values and preferences and managerial attitudes towards risk

The role of value systems in decision making by managers is well established. While evaluating the strategic alternatives, different executives may take different positions because of differences in their personal values and the consequent weighing of key factors.

Managerial attitude toward risk is another major factor that inf1uenc the choice of strategy. Individuals differ considerably in their attitude toward risk taking. Some are risk prone, others are risk averse.

Executive who are risk prone and risk takers look for high returns in high growth, less stable markets; they prefer to be pioneers or innovators, seeking early entry into new high-growth markets. Those who tend to be low risk takers prefer to adopt safer options even though the pay off is not high; they prefer to be followers rather than innovators in newer, untried fields.

4. Impact of Past Strategy

The choice of current strategy may be influenced by the earlier strategy for a variety of reasons. Since past strategies are usually the starting point in the formulation of new strategies, some alternatives not be explored as thoroughly as might be otherwise expected, or certain alternatives may not be considered at all. This may be regarded as the nertia of past strategies. Another reason may be the personal involvement of the decision maker with the earlier strategy.

5. Time constraints in choice of strategy

The time dimension of strategic choice is another factor in the strategic decision process that may be of considerable significance. Four elements of time dimension may be worth noting. These are :

(i) tine pressure, (ii) time frame, (iii) time horizon, and (iv) timing of the decision.

The deadlines for making the decision create time pressures under which managers may be forced to make a choice. In the absence of time pressure, the choice might be different. The time constraint is generally imposed by others, so that executives have little discretion in the matter of choice it has to be either 'yes' or 'no'.

6. Information Constraints

A crucial factor in the choice of strategy is the availability of information. It is on the basis of relevant data and information that executives are likely to make the decision. The degree of uncertainty and risk depends upon the amount of information that is available to the decision maker. The lesser the amount of information available, the greater the level of uncertainty and risk; the greater the amount of available information the lesser the risk.

7. Competitors reaction

Consideration of competitors reaction to any strategic option is often required in weighing strategic choices.

3.3 Process of Strategic Choice

The process of strategic choice is essentially a decision-making process. Decision- making consists of setting objectives, generating alternatives, choosing one or more alternatives that will help the organization achieve its objectives in the best possible manner, and finally, implementing the chosen alternative. To make a choice from among the alternatives, a decision-maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. They act as guides to decision-making and considerably simplify the process of selection which would otherwise be a very difficult task.

Strategic choice could be defined as "the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives.

The decision involves focussing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria, and making the actual choice". The four steps in the process of strategic choice are described below.

3.3.1 Focussing on Alternatives

The aim of focussing on a few alternatives is to narrow down the choice to a manageable number of feasible strategies. Theoretically, it is possible to consider all the alternatives. On the other hand, a decision-maker would, a practice, limit the choice to a few alternatives. Such a situation frequently poses a dilemma before the decision maker considering too many alternatives would make the process unwieldy and unproductive but it only a few alternatives are considered, the decision maker may a decision-maker has to focus on a reasonable number of alternatives. It is still difficult to tell what that 'reasonable number could be.

Focussing on alternatives could also be done by visualising a future state and working backwards from it. This is done through gap analysis. A company sets objectives for a future period of time, say three to five years and then works backward to find out where it can reach through the present level of efforts. By analysing the difference between the projected and desired performance, a gap could be found.

Desired performance

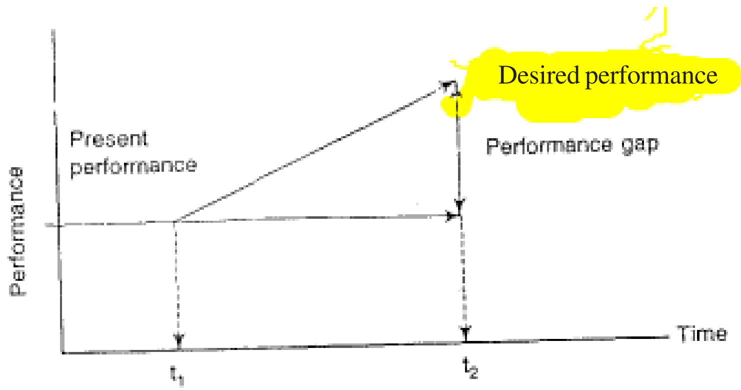

Figure 7.1 Gap analysis for focussing on Strategic Alternatives

Figure 7.1 shows how gap analysis works. How wide or narrow the gap is, its importance and the possibility of its being reduced influence the focus on alternatives. Where the gap is narrow, stability strategies would seem to be a feasible alter native. If the gap is large, due to expected environmental opportunities, expansion strategies are more suitable. If it is large due to past and expected bad performance, retrenchment strategies may he more suitable.

3.3.2 Considering the Selection Factors

Narrowing down the strategic choice to a few feasible alternatives is facilitated by considering the business definition and thorough gap analysis. These alternatives have to be subjected to further analysis. Such an analysis has to rely on certain factors. These factors are termed as selection factors. They determine the criteria on which the evaluation of strategic alternatives can be based.

3.3.3 Evaluation of Strategic Alternatives

Selection factors are the criteria on which a final choice of strategy has to be based. Narrowing the choice leads to a few alternatives each one of which has to be evaluated for its capability to help the organization achieve its objective. Evaluation of strategic alternatives basically involves bringing together the results of the analysis carried out on the basis of the objective and subjective factors. Successive iterative steps for analysing the different alternatives on the basis of selection factors lie at the heart of such an evaluation. There is no set procedure and strategists may use any approach which suits the circumstances. What is important is to observe that neither the objective not the subjective factors can alone help in evaluation. Both the factors have to be considered together. The method of performing the evaluation is of considerable interest management researchers and academicians. These issues are important in any exercise which involves an evaluation of strategic alternatives.

3.3.4 Making the Strategic Choice

An evaluation of strategic should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step, therefore, is to make the strategic choice. One or more strategies have to be chosen for implementation. A blueprint that will describe the strategies and the conditions under which they would operate has to be made. This blueprint is the strategic plan which shall be discussed in the last section of this chapter. Besides the chosen strategies, some contingency strategies would also have to be devised. Contingency strategies are described in Section 85.

The different analytical techniques used for considering the objective factors are the subject matter of the following two sections. We have divided objective factor analysis into two parts: corporate-level strategic analysis and business-level strategic analysis. Corporate-level strategic analysis would focus on techniques for analysing businesses within a corporate umbrella, while business-level strategic analysis would highlight the techniques used to analyse the businesses individually from the view point of the industry to which they belong and the competitive situation that these face.

3.4 Corporate-Level Strategic Analysis

Corporate-level strategic analysis treats a corporate entity as constituting a portfolio of businesses under a corporate umbrella. The analysis focusses on the question of what should a corporate entity do regarding the several businesses that are there in its portfolio. The strategic alternatives here are basically the grand strategies of stability, expansion, retrenchment, and combination strategies.

Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multiproduct and multi-business firms. They may also he used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multiproduct, multibusiness firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential.

There are a number of techniques that could be considered as corporate portfolio analysis techniques.

3.4.1 BCG Matrix

The Boston Consulting Group (BCG) matrix, such as the one shown in Exhibit 7.2 provides a graphic representation for an organisation to examine the different businesses in its portfolio on the basis of their relative market shares and industry growth rates. As shown in the exhibit, businesses could be classified on the BCG matrix as either low or high according to their industry growth rate and relative market share. In order to get the maximum benefit out of the experience curve, the BCG matrix indicates that it is necessary to be the market leader: The result of combining the industry growth rate and relative market share, each along a high and low dimension, is a four-cell matrix. Each cell of this matrix has been given an interesting and appropriate name by the Boston Consulting Group.

The four cells of the BCG matrix have been termed as stars, cash cows, question marks (or problem children), and dogs. Each of these cells represents a particular type of businesses. These different types of business, with some contemporary examples from the Indian corporate world, are described below.

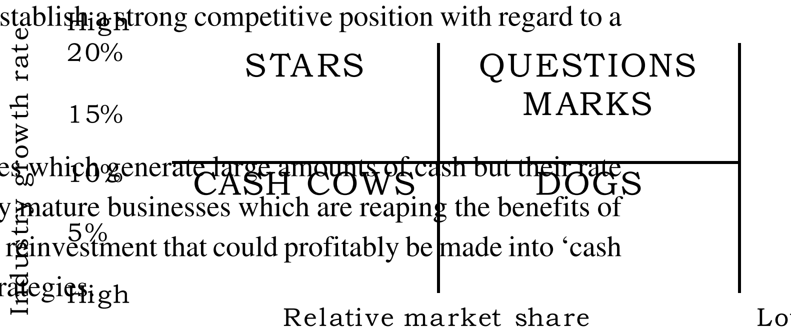

Figure 7.2 A typical BCG Matrix

Stars

Stars are high-growth—high-market share businesses which may or may not be self-sufficient in terms of cash flow. This cell corresponds closely to the growth phase of the product life cycle (PLC). A company generally pursues an expansion strategy to establish a strong competitive position with regard to a 'star' business.

Cash cows

As the term indicates, cash cows are businesses which generate large amounts of cash but their rate of growth is slow. In terms of PLC, these are generally mature businesses which are reaping the benefits of the experience curve. The cash generation exceeds the reinvestment that could profitably be made into 'cash cows'. These businesses can adopt mainly stability strategies.

Question marks

Businesses with high industry growth but low market share for a company are 'question marks' or 'problem children'. They require large amounts of cash to maintain or gain market share. 'Question marks' are usually new products or services which have a good commercial potential. The logic of the experience curve dictates that the company obtaining an early laid can expect cost advantages and market leadership and can successfully create entry barriers. No single set of strategies can be recommended here. If the company fee1 that it can obtain a dominant market share, it may select expansion strategies, otherwise retrenchment may be a more realistic alternative. 'Question marks', therefore, may become 'stars' if enough investment is made, or they may become 'dogs' if ignored.

Dog

Those businesses which are related to slow-growth industries and where a company has a low relative market share are termed as 'dogs'. They neither generate nor require large amounts of cash. In terms of PLC, the 'dogs' are usually products in late maturity or a declining stage. The experience curve for the company shows that it faces cost disadvantages owing to a low market share. The only possibility for the company could be to gain market share at the expense of rival firms, a possibility that is remote owing to the high costs involved.

3.4.2 GE Nine Cell Matrix

It is an analysis technique used to evaluate the relative attractiveness of alternative business units and business opportunities. It is based on the pioneering efforts of the General Electric (GE) Company of the United States and McKinsey & Company. It is also known as GE nine cell planning grid. This technique involves computing the industry Attractive Index and Competitive Business Strength of an organization. The GE nine cell matrix consists of nine cells as stated by its name. these nine cells are structured between low to high level of industry attractiveness and weak to strong level of business strength.

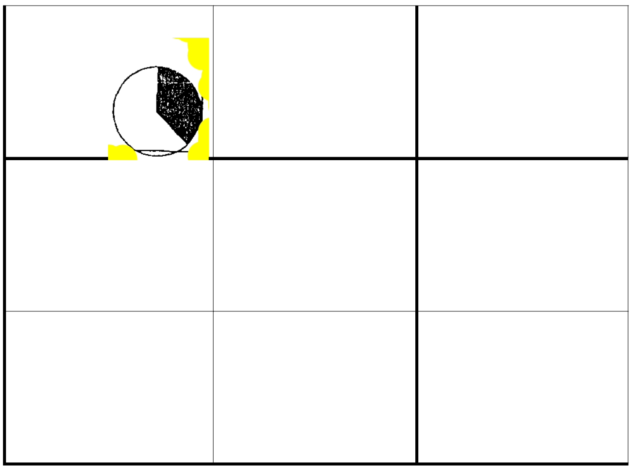

Figure 7.3 shows a representation of GE nine-cell matrix.

Figure 7.3 GE Nine Cell Matrix

In fig vertical axis of GE nine cell matrix represents the Industry Attractiveness. Industry Attractiveness is based on eight different factors, which are as follows :

- Size of the market and growth rate
- Profit margin
- Intensity of competition
- Seasonality
- Cyclicality
- Economics of scale
- Technology
- Social, environment legal and human impacts

In order to compute industry Attractiveness an organization provides a weightage to each of the above mentioned factors based on their importance. Then the concerned organization is rated against these factors on a scale of 1 to 10. Each weightage is multiplied by the rating assigned to the factors in order to derive Industry Attractiveness.

The horizontal axis represents Competitive Business Strength of an organization Competitive Business Strength of an organization depends on seven different factors which are as follows :

- Relative market share
- Profit margins
- Ability to compete on price and quality.
- Knowledge of customers and market
- Competitive strengths and weaknesses
- Technological ability
- Calibre of management

To calculate the Competitive Business Strength of an organization, an organization provides weightage to each of these factors according to their importance. Then, the organization is rated against there factors on a scale of 1 to 10 to calculate the weighted score. Each weightage is multiplied by the rating assigned to the factors in order to derive the Competitive Business Strength of an organization.

The resultant GE matrix contains nine cells. For any business, a circle represents the size of the industry and the shaded pats of the circle represent the market share of the concerned business.

GE nine cell matrix is an adaptation of BCG matrix and is different from it in two respects. GE nine cell matrix has nine cells as compared to the four cells of BCG matrix. It offers an intermediate classification of medium and average ratings. GE nine cell uses various factors to determine industry attractiveness and business strength, instead of single factor (growth and market share) used in BCG matrix.

This technique has one major drawback that the factors considered for evaluating industry attractiveness and business strength are not precisely measured in numerical terms. Therefore, it may not be possible to assign definite weight age to those factors.

3.4.3 Hofer's Product – Market Evolution Matrix

This is an analysis technique, which classifies the businesses on the basis of two parameters, the product or market evolution of the units and their competitive positions. It is a 15-cell matrix in which the stages of the product or market evolution are plotted on the vertical axis and the competitive position of the business is plotted on the horizontal axis.

The vertical axis is divided into five sections, which are as follows :

- Development
- Growth
- Shake out
- Maturity to Saturation
- Decline

Similarly the horizontal axis is divided into three sections, which are as follows :

- Strong
- Average
- Weak

Depending on the stages in the development of the product or market evolution and the competitive strength of the business an organisation follows various strategies. For example, if a business has large market share and is in the growth or development stage, then it should follow the expansion strategies. However, if a business has low market share but is in the growth or development stage, then it should follow the divestment strategies. Resources that are available as a result of divestment strategy can he possibly redistributed among other business units with strong competitive position.

Each circle iii the figure represents the size of the business and the shaded section indicates the market share of the business. Figure 7.4 shows a diagrammatic representation of Hofer's Product–Market Evolution Matrix.

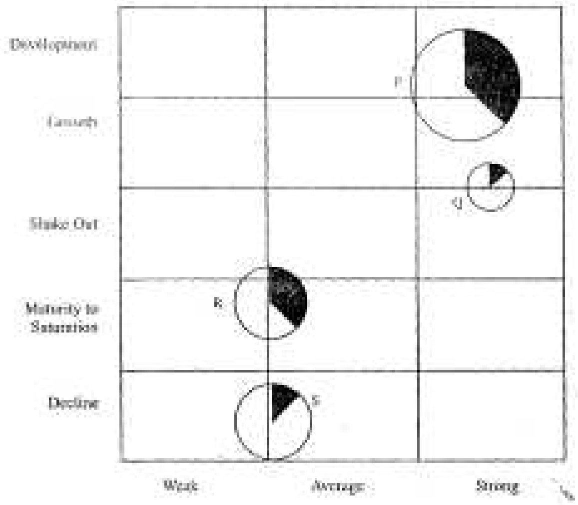

Figure 7.4 Hofer's Product Market Evolution Matrix

Figure 7.4 show that Business 'P' represents a product/market that has a high potential. It is in the development stage. Therefore, business 'P' should follow expansion strategies. It has a potential to he in the 'Star' category in the BCG matrix.

Business Q has a strong position in the market, but has a product that is entering the shake out stage. Therefore, an organisation should follow a cautious expansion strategy.

Business R is in the saturation stage, although it may be generating some cash, yet it is possible that it will soon enter into a decline stage. A solution can be that business R follows divestment strategy and resources available as a result of divestment strategy may be redeployed in other business units with strong competitive position, such as P and Q.

Business S does not have a Strong competitive position and is in the decline stage. It probably belongs to the 'Dog' category of business as in BCG matrix. It should follow strategies, such as liquidation and divestment.

3.4.4 Shell Directional Policy Matrix

This matrix was developed by Royal Dutch Shell. It uses two variables, first the business sector prospects and second, the organization's competitive capabilities, to place each product/market unit (SBU) on a matrix. Various factors, such as market share, market quality and market supply is used for rating the business sector prospects as unattractive, average or attractive. Similarly, organization's competitive strengths or weaknesses are also rated as strong, average or weak based on various factors.

Company's Competitive Abilities

Weak	Divestment	Limitation/ phased withdrawal	Phased withdrawal/ cash generation
Average	Phased withdrawal/ merger	Maintenance of position/market penetration	Expansion/product differentiation
Strong	Diversification/ cash generation	Growth/market segmentation	Market leadership/ innovation

Figure 7.5 Directional Policy Matrix

The shell directional policy matrix consists of nine cells. Depending on the location the SBU in matrix, the appropriate strategy or resource allocation is suggested for that SBU.

Following are the various terms used in the shell directional policy matrix:

- **Cash generation:** SBUs lying in this cell have strong competitive position but their business prospects are unattractive. These SBUs are unable to generate cash and satisfactory profits
- **Phased Withdrawal:** SBUs lying in this cell have average to weak competitive position and their business prospects are also unattractive. These SBUs are unable to generate sufficient cash and profits. So, they should try to invest the money in more profitable business units.
- **Disinvest :** SBUs lying in this cell are the ones that are running in losses with uncertain cash flows. These SBUs should follow divestment strategy that involves selling off business units or product divisions of a business.
- **Growth :** SBUs lying in this cell have average to strong competitive capabilities and average business prospects. They should follow growth or expansion strategy to achieve higher level of objectives in terms of market share or sales revenue.
- **Custodial:** SBUs lying in this cell have weak competitive capabilities and average business prospects. These SBUs should improve their position with the help of other business units.
- **Double or Quit:** SBUs lying in this cell have attractive business prospects but weak competitive capabilities. These SBUs should follow the strategy that allows them to select a product with bright future prospects.
- **Try harder :** SBUs lying in this cell have average competitive capabilities and attractive business prospects. These SBUs should try to use available resources properly so as to move the resources to the position of equality.

- **Leader:** SBUs lying in this cell have strong competitive position and business prospects. These SBUs are the largest producer with lowest unit costs and have a strong technical position.

3.5 Competitive Analysis : Porter's Five Forces Model

Competitive Analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. Intensity of competition is highest in lower—return industries. According to Potter, the nature of competitiveness in a given industry can be viewed as a composite of five forces :

- Competition among organizations
- Possible entry of test competitors
- Possible development of alternative products
- Bargaining power of suppliers
- Bargaining power of consumers

Potential development of substitute products

Figure 7 shows Porter's Five Forces Model of competitive analysis.

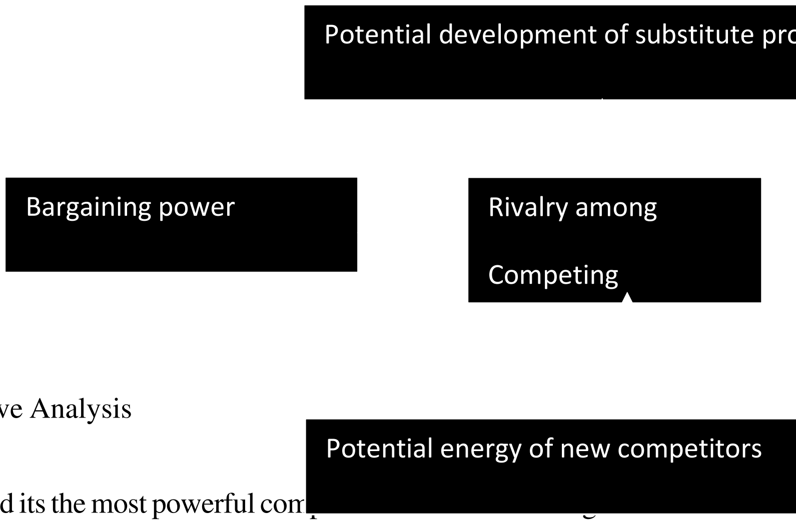

Figure 7.6 Porter's Five Forces Model of Competitive Analysis

Competition among Organizations

Competition among organizations is considered its the most powerful com pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Any organization can lower the prices, enhance quality, add new features, provide good services, extend warranties and increase advertising of the products to increase their products demand in the market. For example, Pepsi recently filed a complaint against Coca-Cola for "illegally trying to force competitors out of the European market." The complaint to the European Union resulted in government raids at Coca-Cola offices in four European countries seizing documents relating to the issue. Coca-Cola denied any wrongdoing.

In the Internet world, competitiveness is fierce. Amazon com watches in dismay as customers use their site's easy-to-use format, in-depth reviews, expert recommendations and then bypass the cash register as they click their way over to deep-discounted sites such as Buy.com to make their purchase. Buy com CEO says. "The Internet is going to shrink retailers' margins to the point where they still not survive.

The intensity of rivalry among competing firms increases as the number of competitors increase; as they become more equal in size and capability; as demand for the industry's products declines; and as price cutting becomes common feature Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when rival firms are diverse in strategies origins and culture; and when mergers and acquisitions are frequent in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive.

Possible entry of new competitors

Whenever nets firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry however, include the need to gain economies of scale quickly, the need to gain technology and specialized knots -hon. the lack of experience, strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access to raw materials, possession of patents, undesirable locations, counterattacks by entrenched firms and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher— quality products, lower prices and substantial marketing resources. The strategist job, therefore, is to identify potential new firms entering the market, to monitor their strategies, to counterattack as needed and to capitalize on existing strengths and opportunities.

Possible development of alternative products

In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass; paperboard and aluminium can producers and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before the consumers will switch to the substitute product.

The competitive strength of substitute products is best measured by the inroads into market share those products obtain, as well as those firms' plans for increased capacity and market penetration. '

Bargaining Power of Suppliers

The bargaining power of suppliers influences the strength of opposition in an industry. It often is in the best interest of both 'suppliers and producers to assist each other with reasonable price, improved quality and development of new services, in-time deliveries and reduced inventory costs, thus enhancing long-term profitability for all concerned.

Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unrealible, too costly or incapable of meeting a firm's needs on a consistent basis. Firms can generally negotiate more favourable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

Bargaining Power of Consumers

When customers are many or buy in volume, their bargaining power becomes a major factor affecting intensity of competition in an industry. Rival firms may offer extended warranties associate services to gain customer loyalty whenever the bargaining power of consumer is substantial. Bargaining power of consumers is also higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage and accessory packages to a creater extent Wal Mart is the offline retailing champ. However, Wal Mart today is scrambling to improve its wal-mart. com website which looks prehistoric compared to many new competitors hungry to seize the retailing market share through online entry into the industry. Even for a huge company such as Wal-Mart, the drastic increase in bargaining power of consumers caused by internet usage is a major external threat.

3.6 Experience Curve Analysis

The concept of the experience curve is akin to a learning curve which explains the efficiency increases gained by workers through repetitive productive work. An experience curve is based on the commonly-observed phenomenon that unit cost decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller companies, thereby gaining a competitive cost advantage. An experience curve results from a variety pf factors, such as, learning effects; economies of scale, product redesign, and technological improvements, in production.

Self Check Exercise

Q.1 What are the external factors which influence strategic choice?

Q.2 What is BCG Matrix?

Q.3 Explain the Porter's five forces model.

4.0 Summary

The essence of strategy formulation is an assessment of whether an organization is doing the right things and how it can be more effective and what it does. Every organization must know that even the best strategies become obsolete sooner or later. So every organization needs to consciously establish and commicate clear objectives of strategies. At the corporate level modern strategy formulation tools. Such as BCG matrix GE Nine cell Matrix and Shell directional policy matrix helps in taking strategic decisions. At business level experience curve analysis, PLC analysis and competitive analysis tools re used.

5.0 Glossary

Constraints: limitations or restrictions

Cash cows: businesses which generate large amount of cash but their rate of growth is slow

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.2

Ans.2 Refer to section 3.4.1

Ans.3 Refer to section 3.5

7.0 Self Assessment Questions

Q.1 Describe the major techniques used for analysing a corporate portfolio.

Q.2 Explain the process of strategic choice for the selection of a strategy.

Q.3 Discuss the different types of factors that affect strategic choice.

Q.4 Explain the various dimensions of GE Nine cell matrix.

8.0 Suggested Readings

- Business policy and strategic management by Ashok Kazmi.
- Business policy and strategic management by Lawrence, Rajiv and Glueck.
- Business policy strategic management by L.M. Parsad.

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Lesson – 8
Implementation of Strategy

Structure:

The selected strategy implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives. The way in which the strategy is implemented can have significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it otherwise, the implementation might not succeed if the strategy is misunderstood or If lower level managers resist its implementation because they do not understand why the particular strategy was selected.

2.0 Lesson objectives

1. To explain the process of strategy implementation.
2. To explain the various techniques of strategy implementation,
3. Assessing plan implementation and evaluation of strategies.

3.0 Presentation of Contents

3.1 Implementation of Strategy

A strategic plan will provide a business with the roadmap it needs to pursue a specific strategic direction and set of performance objectives. However, this is just a plan; it does not guarantee that the desired performance objectives will be readied any more than having a roadmap guarantees the traveler will arrive at the desired destination.

The real strategy in strategic planning rests with turning your tactic into a strategy for your company. Doing this requires effective implementation. Implementation is the process that turns strategies and plans into actions in order to accomplish strategic objectives. Implementation .involves activities that effectively put the plan to work. Whereas the strategic plan addresses the what and why of activities, implementation addresses the who, where, when, and how. Implementation of, the tactic drives the strategy of the company,

While the strategy itself is important, the ability to execute it is the only thing that counts. Strategy is a word that is thrown around liberally in most organizations, Task forces are formed, consultants are hired, and extensive plans are written. Yet, still 90% of organizations are unable to implement what they have spent so much time, effort, the money for planning, According to a cover story in Fortune magazine, nine out of ten organizations foil to do so due to the fact that:

- Only 5% of the workforce understand their company's strategy.
- Only 15% of executive teams spend more than one hour per month discussing strategy.
- Only 25% of managers have incentives linked to strategy.
- Only 40% of organizations link budgets to *strategy.*
- 60% of organizations do not link strategy to budgeting.
- 75% of organizations do not link middle management incentives to strategy.
- 86% of executive teams spend less than one hour per month discussing strategy.
- 95% of a typical workforce does not understand their organizations strategy.
- The source of value have Shifted from tangible to intangible assets, such as human and information capital, that today comprise 85% of the market value of a typical company.

3.2 Process of Implementation

Organizations need a strategic management process' that puts strategy at the centre of what they do. To achieve business goals and objectives, a business needs not only a good strategic plan, but also a well executed implementation of the plan. It is believed that implementation is as important, or even more important, than strategy. The fact is that both are critical to success. Actually, companies can gain competitive advantage through implementation if done effectively. There are three major forces that contribute to the successful implementation of a strategic plan: Owning the Plan, Supporting the Plan and Adapting the Plan.

3.2.1 Owning the Plan

The most common reason a plan fails is lack of ownership. If people do not have an ownership stake and responsibility in the plan, it will be business as usual for all but as frustrated few. Ownership of plan can be enhanced with detailed action plans, a champion and ownership team, compensation based on performance metrics, and top management involvement.

• **Detailed Action Plan**

The development and use of a detailed action plan may be the single most effective practice in determining the success of a strategic plan. A detailed action plan involves each aspect of the strategy, but in greater detail with respect to specific actions that have to occur for the plan to be implemented.

• **Champion and Ownership Team**

Even though assigning individual responsibilities in the detailed action plan .is a way to get people involved in implementation, every successful strategic plan has a champion and/or ownership team. A champion is a person who is devoted to the successful implementation of the strategy and plan. Better yet is the creation of an ownership team, who can leverage the unique talents of multiple people and exert more organizational leverage than a single champion.

The only way your tactics will be implemented is if everyone in the organization understands your plan and is driven to make it happen. You must inform, sell, and rally your plan, internally. Let people know why the plan will make a difference for the company arid for them. Encourage their input on how to most effectively implement the tactics. Let these people tell you how they can make the company better and help facilitate the success of the plan.

• **Management Involvement**

Business owners or managers must stay committed to their involvement with the strategic plan and review its progress. When owners or management lessen the time available to review the plan the performance, they send an implicit signal of lack of interest and support. This signal weakens the motivation of the ownership team and the chance for successful implementation.

3.2.2 Supporting the Plan

The support of a strategic plan are influenced by five key organizational components:

1. People - required competencies and skills of people, strategic leadership
2. Resources allocation - personnel, money, and time
3. Structure - required structural capabilities
4. Systems - communication, information, operating, planning, measurement and rewards
5. Culture

The figure 8.1 illustrates a conceptual framework showing how external analysis and internal analysis provides a link to the strategy. The strategy in turn must successfully match and interact with the five organizational . components and organizational performance. Consideration of organizational components ran .. help a business identity actual and potential implementation problems, as well as determine how its organization would adapt to a new? strategy.

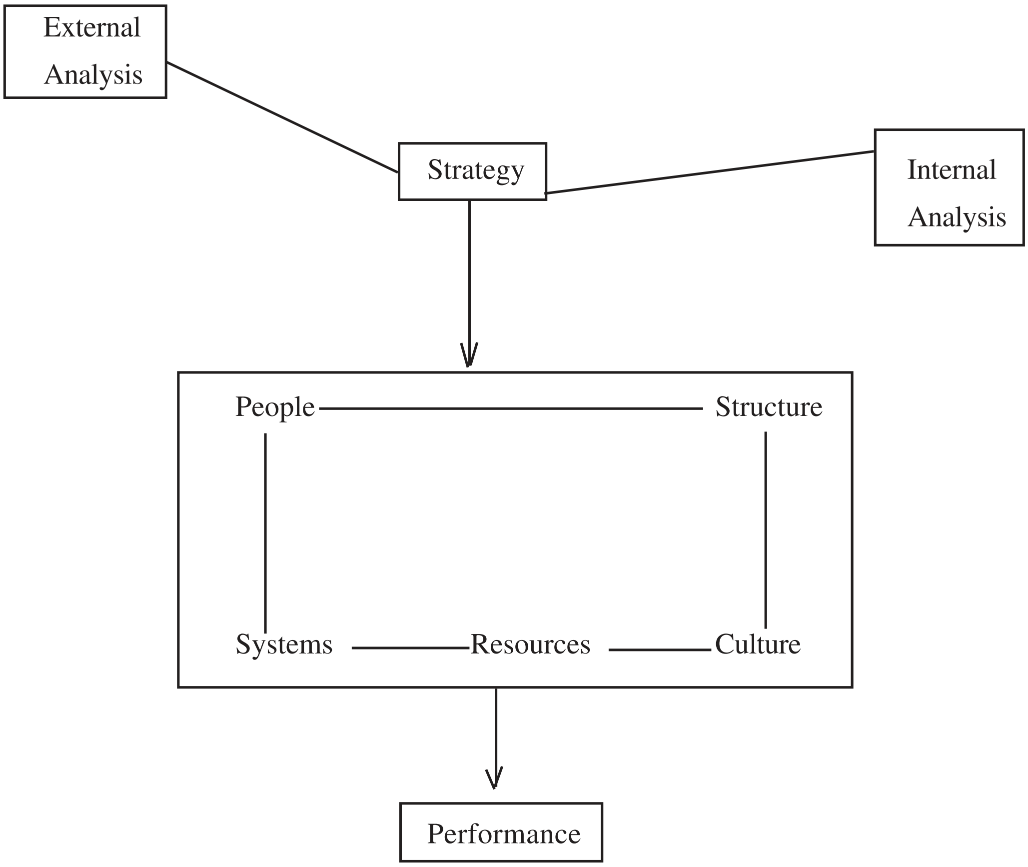

Figure 8.1 : Organizational components and strategy implementation

- **People**

A strategy is generally based on an organictional competency that, in turn, is based on people. *People* profiles and their motivation provide the bases of competencies needed to support sustainable competitive advantage. Strategies require certain types of people. In addition to the *type* and quality of people, the motivation level can affect strategy implementation. Motivation is enhanced if employees are empowered to accomplish their goals and are linked to the corporate culture and objectives.

- **Resource Allocation**

Successful implementation requires that the resources needed are fully committed to support implementation of the strategic plan. Sufficient resources should be allocated with respect to personnel and funding. If the resources needed are not systematically, determined in the planning process, most likely the plan will be under resourced. Thus, you need to focus personnel and money toward effective tactic implementation. In order to effectively implement the plan, the business is dependent on the existing organisation and resource capabilities.

Personnel

How can you focus the individual's performance of tasks on effectively implementing and supporting the tactic, rather than just carrying out his or her duties?

- Assign and delegate responsibilities and have accountability. For each step in your implementation, be sure you have a point of responsibility and accountability. This is so you can go to the source to correct any problems that crop in.
- Don't stretch your resources too thin. For each new responsibility you assign to someone's plate, check to see that they do not feel overloaded.

Money

What financial resources do you need to complete actions in support of the strategy?

Time

The time to succeed, along with market metrics that signal *progress, are* important aspects of commitment to the marketing plan and successful implementation. Time to succeed will depend on the marketing strategy and the nature of the market opportunity. A share penetration strategy in an existing market should take less time to succeed than a strategy to enter a new market that is undeveloped. With meaningful market metrics, a business can track why or why not the plan is working.

Structure

Organizational structure defines lines of authority and communication and specifies the mechanism by which organizational tasks and programs are accomplished. Structure can vary in the degree of centralization and formality of communication channels. The various types of business structures include centralization, decentralization, divisional matrix, network etc.

- Centralized functional organization - consists of specialized groups in marketing, sales, production, engineering, R & D, personnel and administration. Centralization will maximize the scale and synergies across the organization.
- Decentralized organization - consists of autonomous business units based on product or market groups with the ability to develop strategies in response to the need of the markets they serve. Decentralization places the business strategies close to the market and allows innovation with a minimum of bureaucracy. However, the economies of scale and synergies across. the organization are often difficult to achieve and inefficiencies and duplications are created.

Borderless Organization

Borderless organizations find ways to bread down boundaries within the firm. Cross- functional management organizes around missions that involve a variety of functions to communicate across organizational units such as divisions or country operating units. Various- approaches include task forces, best practices conference, and to set up coordination committees.

Alliance Networks

Markets and competitors can change significantly and it is import to be able to respond quickly. There may not be time to develop needed assets and competencies, and responses that require large commitments to new technologies and distribution channels. One solution is to form a network of alliances and joint ventures with suppliers, customers, distributors, and competitors. With such a network, needed assets can be made available instantly.

- **Systems**

Management systems can alt influences strategy implementation.

Communication System

The strategic intent of the plan must be aggressively communicated internally within the company. Although business owners, management, and champion teams fully understand the logic and tactics of the plan, others in sales, customer support, manufacturing, and finance, may not understand the strategic objectives and strategy being implemented. As a result, these employees, who may play key roles in successful implementation, will continue in a business- as-usual mode of operation. It is important to facilitate communication and understanding of strategic objective, goals, and strategy.

Information System

The information system and the technology, databases, and models on which it is based can affect strategy. For example, manufacturers and retailers are affected by information technology. New systems control inventory, ordering, pricing, and promotions. The ability to control information generated by retail scanners can be key to their strategies.

Planning System

According to Eisenhower plans are nothing, planning is everything.

A scheduled strategic planned time for is key. Workshops and retreats are often crucial elements in dedicating quality time to planning. Creative, out-of-the box think, aided by formal creative-thinking exercises is a vital part of any planning system. Planning should not be separated from the values, culture and energy of the organization.

• **Culture**

It is important to create and nurture a strategy supportive work environment and corporate culture. The reality is that people make a difference. Management has to create an environment that connects employees to the organization's mission, and motivates their creativity, commitment and passion. The most successful companies have almost cult like culture built around strong, market-oriented missions. At companies such as Walmart, Microsoft, Walt Disney, employees share a strong vision.

Organizational culture provides the key to strategy implementation because it is such a powerful force for providing focus, motivation and norms. Because organizational culture is difficult to change, the fit between culture and Strategy *is* important.

3.2.3 Adapting the Flan

The strategic plan needs to be adaptive to survive changing or unanticipated conditions. Factors that contribute to the adaptive nature of the plan are adaptive roll-out, persistence, feedback metrics and continuous improvement.

• **Adaptive Roll-Out**

It is best to roll-out the marketing plan in a controlled manner to work out the kinks, both internally and externally to ensure success. There are many benefits to a regional roll-out as opposed to a nationwide launch:

- Fewer resources are required in a small- scale regional launch than in -a nationwide launch.
- Problems with distributors, marketing communications and product positioning can more readily be addressed and corrected on a small scale.
- If the plan is more effective than planned, additions can be made to production capacity without the potential of stock out and the loss of opportunities to capture customers.

• **Persistence**

Successful implementation requires a high degree of owner/management persistence, particularly when aspects of the strategic plan need to be modified. It is interesting to note that adaptive persistence has been attributed to the success of many Japanese strategies. One of Japanese management's greatest assets is their inherent ability to adapt and persist throughout the implementation of the plan.. They remain committed to the strategic objectives and persist by adapting their plans. It is their determination to make them work that underlies the secret of their market success.

• **Feedback Metrics**

An essential element of any adaptive system is feedback. Key process metrics that provide leading signals as to the success of the strategic market and implementation include:

- Customer awareness, interest, intentions to buy, trial, and repeat purchase.
- Intermediary market coverage, interest, support, and motivation.
- Business responsiveness to customer inquiries and problems.

• **Continuous Improvement**

A business must be flexible in modifying its strategic plan to adapt to the changing market conditions. While the strategic plan sets the direction and provides the initial roadmap, once it is in place, the flexibility to adapt is an important aspect of continuous improvement. Continuous improvement involves evaluating the results of strategist and plans and taking corrective action to ensure that objectives are attained. Graphically continuous improvement looks like the following:

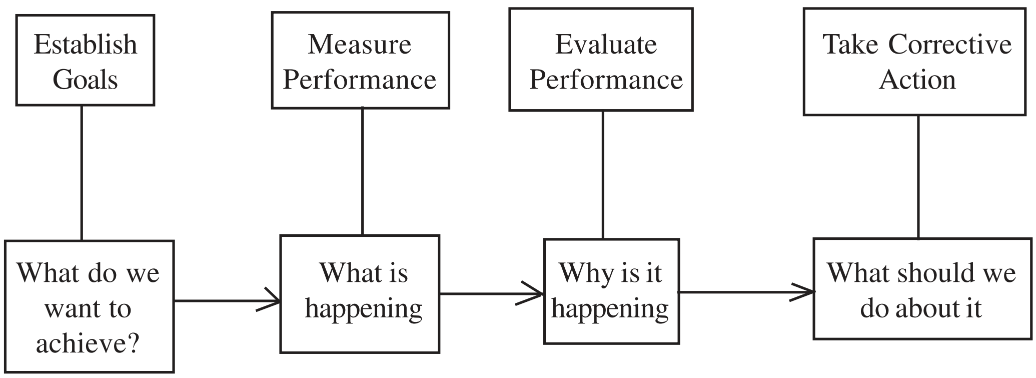

Figure 3.2: Improvement in strategy implementation

3.3 Assessing Plan implementation

A good strategic plan, market strategy, and improved level of implantation effort will enable your business to achieve a market success well beyond planned performance, and in a much shorter time than expected. No one factor presented will make or break the successful implementation of the strategic plan. However, when the sum of these factors is adequately addressed, the chances for successful implementation are greatly improved.

1. It is important to understand why some organizations have failed in attempts to develop sustainable implementation contexts. Three primary reasons are :
2. Strategies supporting a product or service focus (product, price, promotion, place) are no longer the differentiators they used to be. They have become generic and are easily \ copied.
3. Brilliant strategies often succumb to not so brilliant implementation processes. There is an inability to move strategy out of the boardroom and into the playing-field. Great intentions outlined in an eloquently written strategic plan is supported by a poor, fragmented *or* sometimes non-existent implementation plan.

There is often a failure to recognize the contributions that employees can have on strategy implementation.

Owning the plan			
Detailed section Plan	None	______	Extensive
Ownership	None	______	Champion/Ownership Team
Management Involvement	None	______	High
…………		______	
Required Competencies to skill of people	Poor	______	Exceptional
Strategic Leadership	Poor	______	Exceptional
Resource Allocates Personnel, Money, Time	Insufficient	______	Sufficient
Structure	Poor	______	Exceptional
Communication/ information Operating Systems	None	______	Thorough
Planning Systems	None	______	Thorough
Measurement and Reward Systems	None	______	Performance based Rewards/Incentives
Corporate Cultures	Inconsistent	______	Consistent
Adopting the Plan		______	
Roll-out	Pull Launch	______	Roll-Out
Persistence	None	______	…….
Feedback Matrixes	None	______	Extensive
Continuous Improvement	None	______	Ongoing

Figure 3.3 : Assessment of Strategic plan implementation

3.4 Implementation Techniques

The following are some helpful implementation techniques :

3.4.1 Post it Planning Process

The post it planning process is a simple way to organize a complicated project into a comprehensive strategy which anyone can follow. All you need are some small post- it notes and news print or & white board.

1. Identify a goal *or* objective to be accomplished.
2. Brainstorm important milestones to be achieved in order to fulfill the goal. Write each one down on *a* post-it note in the past tense.
3. Arrange milestones in a logical sequence on a poster board, adding other milestones as you. find gaps and/or missing tasks. Draw lines to show the relationships. Some tasks can be accomplished simultaneously. Other tasks are sequential.
4. One task must be accomplished before beginning the next activity. Many are interdependent. Sometimes 2-3 tasks must be finished before accomplishing the smother key milestone.
5. Rearrange milestones in a time sequence, maintaining the logical relationships Complete reality checks: Logical sequence? Realistic schedule? Adequate personnel? Sufficient resources? Gaps identified?

3.4.2 Summaries the Flan of Action

Summarize the plan of action intend to, take in a few sentences by answer the following questions:

- What do you intend to accomplish through this plan?
- What are specific steps you will need to take?
- What assumptions or events about which you do not have certain information may affect your plan as it unfolds?
- What resources do you have or will you need to carry out your plan?
- What limitations or barriers tip you face in carrying out your plan? Which of these barriers can be weakened or eliminated?
- What steps need to be taken according to what schedule to put your plan in action?

3.4.3 Field Test and Evaluate

One of the reasons for failure to reach goals is starting too big. Begin by developing a trial run to test the validity of goals and action plans without exhausting resources. Reasons to run a pilot project:

- It allows the leader to test his/her own ability in handling the project.
- Small wins will build confidence in ability to accomplish greater things.
- Small wins can be used to generate, support for larger vision.
- A pilot project can reveal where a. plan needs adjusting in order to prevent failure.
- A pilot project allows an idea to fail without total devastation to all involved.
- Establish standards to measure effectiveness: what to measure, how to measure, when to measure.

3.4.4 Evaluation after implementation

After every structured event, discuss what people learned. Simply ask three questions and expect to get different responses.

- What just happened?

- Why do you think it happened?
- What can we learn from this?

Team Evaluations

Implementing a successful plan is a process which includes developing and maintaining good relationships and individual growth toward personal goals. Provide coaching and support for leaders. Continue decision making and problem solving as you implement. Evaluate periodically and make adjustments. Some helpful keys to effective evaluations are the following:

- Schedule evaluation times into your strategic plan; otherwise, people may not slow down enough to reflect upon their effectiveness.
- Everyone involved in the project needs to be included in the evaluation in some way. A thorough evaluation will include evaluating the people involved as well as evaluating the processes of the project.
- Nothing replace® face to face communication whether that is in group or one-on-one. Times of evaluation can be very intense.
- Find ways to give people a break in the intensity as needed.

Reflection questions for evaluation are the following :

- What measurable progress has been made toward achieving your goals?
- Have resources been adequately assessed? Is the project within budget?
- How are members of the team being cared for and being motivated? Is an adequate effort being made in each area?
- How has each team member contributed toward the effort? Is each person in their most effective position?
- How do the achievement reflect the vision and mission of the organization?
- What Obstacles have teen encountered? Are adjustments needed in the process?
- How are people's lives being changed for the better?
- Are there others who need to buy in to the plan?

3.4.5 Obtaining Information About Organizational Components People

- What are the skills, knowledge and experience of the firm's employees?
- What is their depth and quality?
- What are the employees' expectations?
- What are their attitudes toward the firm and their jobs?

Structure

- What is the organization's structure? How decentralized is it?
- What are the lines of authority and communication?
- What are the roles of task forces, committees, or similar mechanisms?

Systems

- How are budgets set?
- What is the nature of the planning system?
- What are the key measures used to evaluate performance?
- How does the accounting system work?
- How do product and information flow?

Culture

- Are their shared values that are visible and accepted?
- What are these shared values and how are they communicated?
- What are the norms of behavior?
- What are the significant symbols and symbolic activities?
- What is the dominant management style?

Strategy

- Where would the new strategy fit into the organization?
- Would the new strategy fit into the strategic plan and be adequately funded?
- Would the systems arid culture support the new strategy?
- What organizational changes would be required for the new strategy to succeed?

Self Check Exercise

Q.1 How is strategy implemented?

Q.2 What are the techniques of strategy implementation?

4.0 Summary

Implementation of strategy is the process through which a chosen strategy, is put into actions. The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures processes and resources; in reaching organization purposes.

The process of implementation having three Steps i.e. owning the plan, supporting the plan, and adapting the plan. With the help of various techniques plan implementation could be assess.

5.0 Glossary

Allocation: amount of a resource assigned to a particular recipient

Strategy: a plan of action designed to achieve a long-term or overall aim

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.1

Ans.2 Refer to section 3.4

7.0 Terminal Questions

Q.1 What do you mean by strategy implementation. Explain the process of implementation?

Q.2 Explain various techniques of strategy implementation?

Q.3 How would you like to assess plan implementation? Discuss.

Q.4 Differentiate between strategy formulation ‘ and strategy implementation.

8.0 Suggested Readings

1. Sharplin, A. 1985 “Strategic . Management” McGrew Hill Book Company, New York.
2. Azhar Kazmi, “Business Policy mid . Strategic Management,” Tata McGrew Hill.
3. Ghosh, P.K., “Strategic Planning and Management” Sultan Chand and Sons, New Delhi.
4. David, F,R., “Strategic Management” Prentice Hall, New Jersey.
5. Prasad, L.M., “Business Policy : Strategic Management”.

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Lesson – 9
Structural and Behavioural Implementation of Strategy

STRUCTURE

1.0 Introduction

Structural implementation of strategy involves designing of organization structure and interlinking various units and sub units of the organization created as a result of the organization structure. Organization structure is the pattern in which the various parts of the organization are interrelated or inter connected. Thus it involves such issues as to how the work of the organization will be divided and assigned among various positions, groups, departments, divisions etc. and the co-ordination necessary to accomplish organizational objectives. On the other hand, behavioural implementation deals with those aspects of strategy implementation that have impact on the behaviour of people in the organization. Since an organization is basically a deliberate creation of human beings for certain specified objectives, the activities and behaviour of its members needs to be directed in certain way. Any departure from this leads to inefficiency in the Organization and consequent failure of strategy.

2.0 Lesson Objectives

1. To understand strategy structure relationship and behaviour of organizational members relevant for strategy implementation.
2. To identify the various alternative structural forms for strategy implementation.
3. To develop organizational systems for interaction among organizational units.
4. To inculcate the relevant behavior and torelate the organization structure with its strategy.

3.0 Presentation of Contents

3.1 STRATEGY AND STRUCTURE RELATIONSHIP

There is close relationship be an organization's strategy and its structure. The understanding of this relationship is important so that in implementing the strategy, the organization structure is designed according to the needs of strategy. The relationship between strategy and structure can be thought in terms of utilizing structure for strategy implementation because structure is a means to an end the not an end in itself. The most appropriate end is the objectives for which the organization exists in the first place, as revealed by its strategy. Without coordination between strategy and structure, the most likely

Outcomes are confusion misdirection, and splintered efforts within the organization. Research evidence also suggests that structure follows strategy. Changes in organization's strategy bring about hew administrative problems which, in turn, require a new refashioned structure if the new Strategy is to be successfully implemented. Structure tends to follow the growth strategy of the organization but not until inefficiency and internal operating problems provoke a structural adjustment. Thus organizational actions proceed in a particular sequence new Strategy creation, emergence of new, administrative problems, a decline in profitability and performance, a shift to a more appropriate organization structure, then recovery to improved strategy execution and more profit and performance. However, this sequence can be broken if suitable Organization structure is conceived at the strategy point of strategy implementation.

The relationship between strategy and structure, however, should not be viewed merely as one-way traffic, rather it should be viewed as two-way traffic. On the one hand, the structure should be according to the need of the strategy, so that if is implemented effectively. On the other hand, structure of the organization may play a critical sole in influencing its choice of strategy.

The experience of McKinsey supports the view that neither strategy nor structure can be determined independently of the other. If structure cannot stand alone without strategy it is equally true that strategy can rarely succeed without an appropriate structure. In almost every Wd of large scale enterprise, examples can be found where well-conceived strategic plans were thwarted by an organization structure that delayed the execution of the plans or gave priority to wrong set of considerations ... good structure is inseparably linked to strategy.

3.2 Stages of Organizational Development

Organizations to follow a life cycle' consisting of the introduction, growth maturity, and decline, phases. The life cycle of organizations could be divided into, your stages that are not distinct and may overlap.

Stage I *organizations* are small scale enterprises usually managed by a single person who is the entrepreneur owner manager. These organizations are characterized by the simplicity of objective, operations, and management. The form of the organization is also simple and could be termed as entrepreneurial. The strategies adopted are generally of the expansion *type.*

Stage II *Organizations* are bigger than Stage I organizations in terms of size and have a wider scope of operations. They are characterized by functional specialization or process orientation. The organizational form is simple functional (typically' divided into the finance, marketing, operations and personnel departments) or process-oriented (divided into, process-based departments arranged in a particular sequence according to the technology employed). The strategies adopted may- range from stability to expansion.

Stage III *organizations* are large and widely scattered organizations generally having units or plants at different places. Each division is semi-autonomous and linked to the headquarters but functionally independent. The divisions may have a simple functional form depending on their particular needs. The strategies adopted may be; either stability or expansion.

Stage IV *organizations* are the most complex. They are generally large Multi-plant, multiproduct organizations that result from the adoption of related and unrelated diversification strategies. The organizational form is divisional. The corporate head quarters assume the responsibility of providing strategic direction' and policy guide lines through the formulation of corporate-level strategies. The divisions (which may be companies, profit centers or SBUs) formulate their business-level, strategies and may adopt Stage I, II or III type of structures.

3.3 Structures for Strategies

There are several types, of structures that are found in organizations. Some major types of structures are described, with a special emphasis on their appropriateness for the different types of strategies.

3.3.1 Entrepreneurial Structure

The entrepreneurial structure, shown in figure 9.1 is the most elementary form of structure and is appropriate for an organization that is owned and managed by one person. A small-scale industrial unit, a small proprietary concern, or a mini-service outlet may figure the characteristics of organisations which are based on an entrepreneurial structure. Typically, these organizations axe single-business; - product, or service firms that serve local markets. The owner-manager looks after ail decisions, whether they are day-to-day operational matters or strategic in nature.

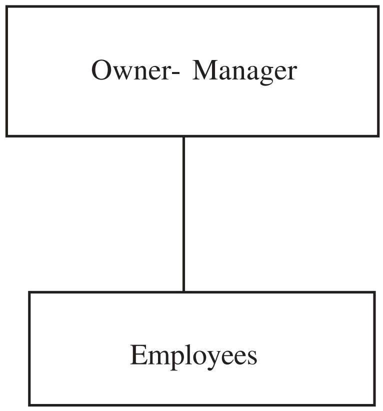


Figure 9.1 Entrepreneurial 'Structure

The advantages of the entrepreneurial structure are: Quick decision-making, as power is centralized and Timely, response to environmental changes

The disadvantages of the entrepreneurial structure are :

Excessive reliance on the owner- manager and so proves to be demanding for the owner manager. May divert the attention of owner-manager to day-to-day operational matters and ignore strategic decision.

3.3.2 Functional Structure

As the volume of business expands, the entrepreneurial structure outlives its usefulness. The need arises for specialized skills and delegation of authority to managers who can look after different functional areas. A typical functional structure is shown in figure 9.2. The functional structure seeks to distribute decision-making and operational authority along functional lines.

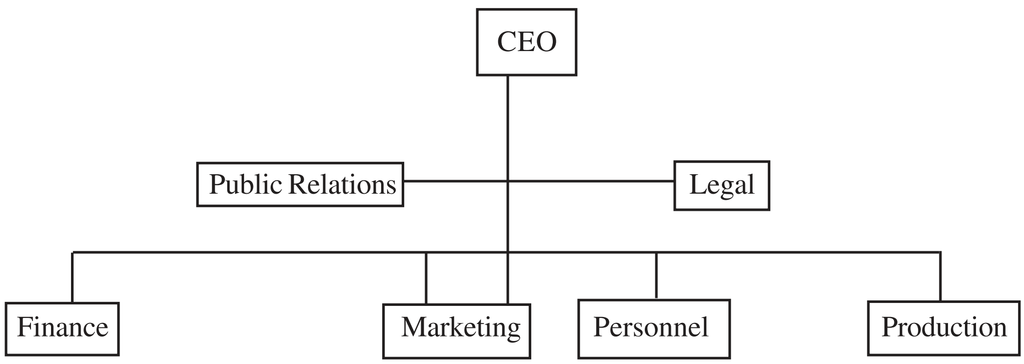


Figure 9.2 Functional Structure

Efficient distribution of work through specialization and the delegation of day-to-day operational functions are the advantages of functional structure.

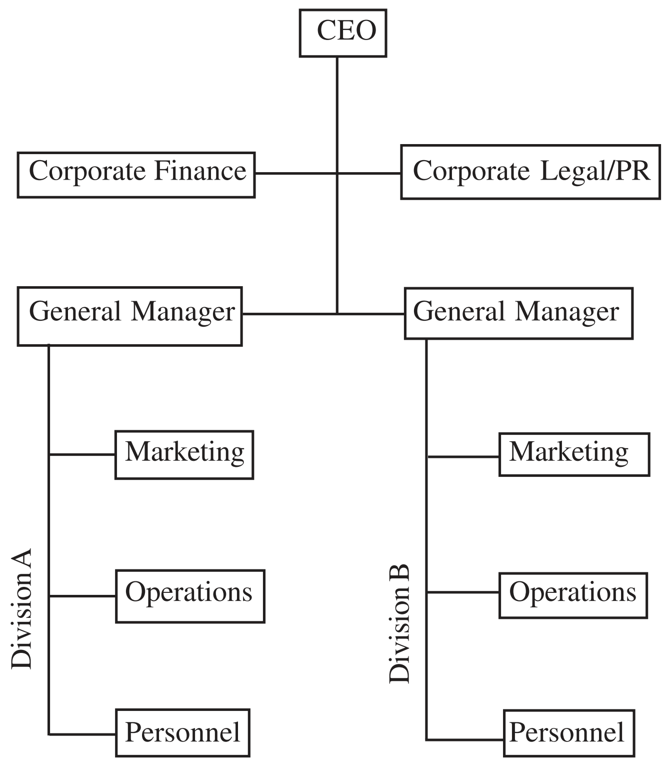
The disadvantages of a functional structure include it creates difficulty in coordination among different functional areas and also leads to functional, and line and staff conflicts.

Despite the disadvantages, the functional structure is quite common and exists in its original or a. modified form as the organization evolves froth the initial to the mature stages of development.

3.3.3 Divisional Structure

In this type of structure work is divided on the basis of product lines, type of customers served, or geographic area covered, and then separate divisions or groups are created and placed under the divisional-level management. Within divisions, the functional structure may still operate.

The structural needs of expansion and .growth are satisfied by the functional .structure but only up to a limit. There comes a time in the life of organizations when growth and increasing complexity in terms of geographic expansion, market segmentation, and diversification make the functional structure inadequate. Some form of divisional structure is necessary to deal with such situation. A divisional structure is shown in figure 9.3.



A divisional structure enables grouping of functions required for the performance of activities related to a division and also enables the top management to focus on strategic matters The divisional Structure creates problems in the allocation of resources and corporate overhead costs; particularly if the business and corporate objectives are ill-defined.

3.3.4 Strategic Business Unit

When organizations face difficulty in managing divisional operations due to an increasing diversity, size, arid number of divisions, it becomes difficult for the top management to exercise strategic control. Here, the concept of an SBU is helpful in creating an SBU organizational structure.

Conceptually, an SBU is “a discrete element off the business serving specific products markets with readily identifiable competitors and for which strategic planning can be conducted. Essentially, SBUs-can be created by adding another level of management in .a divisional structure after the divisions have been grouped under a divisional top management authority on the basis of common strategic interests. Figure 9.4 provides a diagram of an SBU organizational structure.

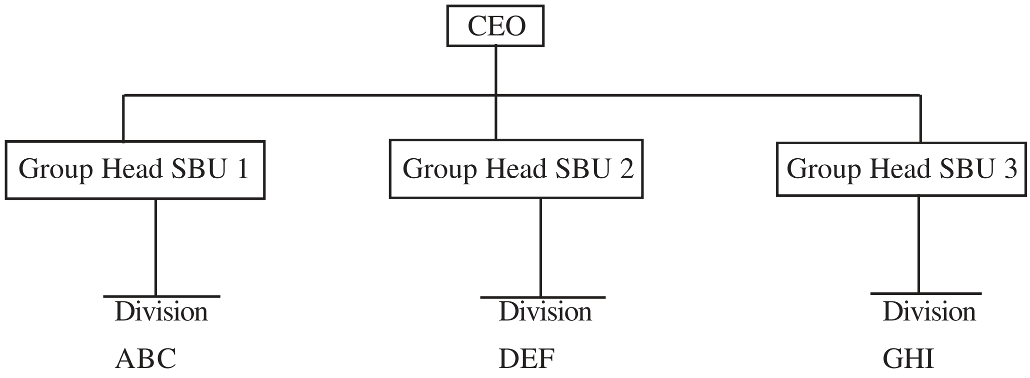


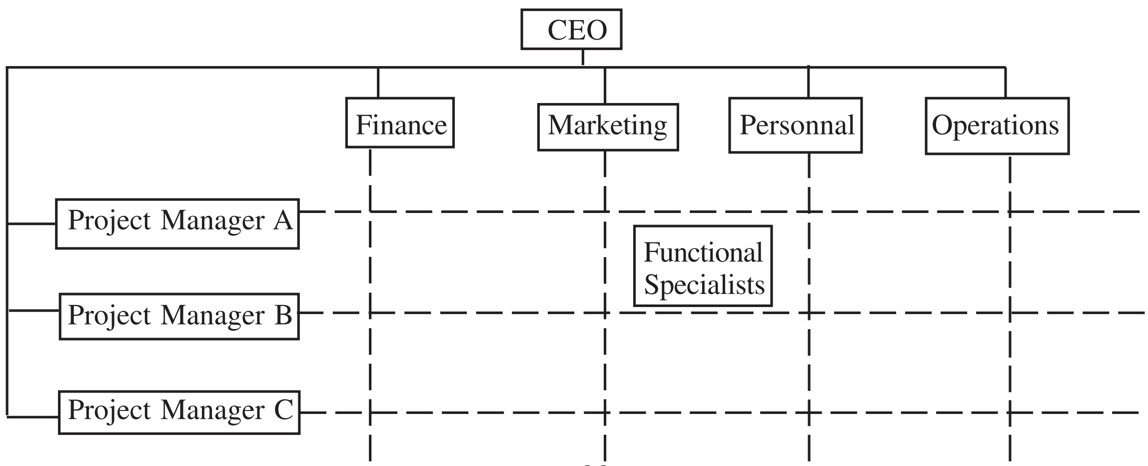
Figure 9.4 SBU-Organizational Structure

The SBU-organizational structure establishes coordination between divisions having common strategic interests and fixes accountability at the level of distinct business units.

The disadvantages of the SBU- organizational structure are that there are too many different SBUs to handle effectively in a large, diverse organization and difficulty in assigning responsibility and defining autonomy for SBU heads.

3.3.5 Matrix Structure

In large organizations, there is often a need to work on major products or projects, each of which is strategically significant. The result is the requirement of a matrix type of organization structure. Figure 9.5 illustrates a matrix structure. Essentially, such a type of structure is created by assigning functional specialists to work on a special project or a new product or service. For the duration of the project, the specialists from different areas form a group or team and report to a team leader. Simultaneously, they may also work in their respective parent departments. Once the project is completed, the team members revert to their parent departments.



3.3.6 Network Structure

The increasing volatility of the environment, coupled with the emergence of knowledge-based industries, has led to the creation of a network structure. Also known as the spider's web structure' or the Virtual organization', the network structure is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical cobweb like networks. Figure 9.6 illustrates a network structure. This structure is highly decentralized and organized around customer around customer group or geographical regions. Rather than being located in one place, the business functions are scattered far and wide. The core organization is only a shell with small headquarters acting as a 'broker' connected to the suppliers and the specialized functions performed hr autonomous teams and workforce.

The network structure is most suited to organizations that face a continually changing environment requiring quick response, high level of adaptability, and strong innovations skills. Tins structure makes extensive use of the outsourcing of support services required to produce and market products or services. There are few internal resources and a network structure firm relies heavily on outsiders who are specialized in their respective areas.

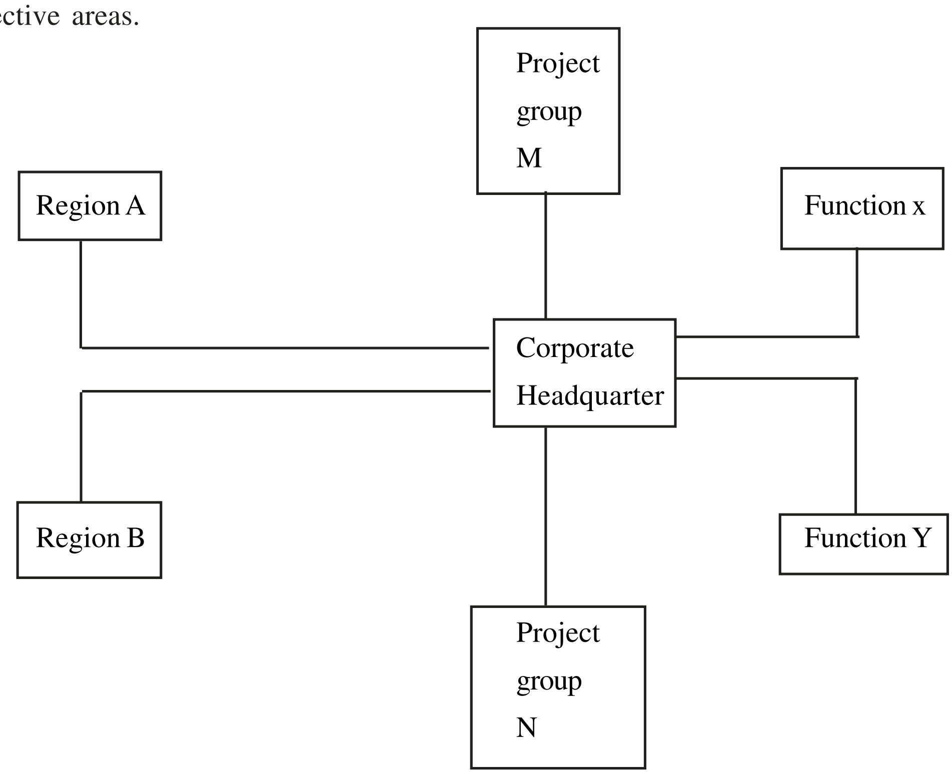


Figure 9.6 Networks Organizational Structure

In network structure there may be loss of control and lack of coordination as there are several partners and risks of overspecialization as most tasks are performed by others.

3.3.7 Other Types of Structures

Besides the six major structures described above, there are several other types of structures that are used in organizations.

***Product baked* structures:** The grouping of activities on the basis of the product or product lines is followed by organizations where there is a need to delegate to a division all functions related to that particular product or product line. Such a need arises when the strategy adopted requires exclusive attention to a product or a group of products. Expansion and diversification strategies may require a product-based structure as it facilities the addition or deletion of product divisions. Besides, a product-based structure offer the advantage of an optimum use of specialized skills and equipments, increased coordination, and the fixation of responsibility for profit making and usage of resource. However, a product-based structure can only be justified where the volume of sales of the product line is large enough to create an optimum use of resources and skills.

Customer-based structure*:* In some organization, divisions may be created on the basis of the customer groups served. The rationale for e customer-based structure is that the grouping of activities on the basis of customers would enable the organization to provide exclusive attention to separate, and distinct customer group. Thus, an organization may have individual sales divisions and institutional sales divisions to serve consumers and institutions, respectively, the advantages that a customer based structure offers are; employing marketing orientation to serve customers better; use of specialized skills, especially in marketing; and timely response to changing customer needs. However, a customer- based structure is useful only when the sales volume of individual customer groups justifies the creation of separate divisions.

***Geographic* structure:** Multi-plant or multiunit organizations which have several factories and offices dispersed geographically are usually organised on the basis of geographic (or territorial) structure. This type of structure evolves in the process of expansion, and diversification. When an organization acquires another firm or wishes to set up additional factories at different sites, geographic structure is a natural choice. Such a structure offers the advantages of decentralization to a local level, the use of locally available resources and raw materials, and nearness to markets. But geographic structure can be put to good use only if there is a high level of coordination at the top level, and communication between different units and with the central corporate departments.

Entrepreneurial structure: *The* evolution of organizational structure often starts- with the entrepreneurial structure and usually become slow-moving, bureaucratic and resistant to change. It is at this point that an entrepreneurial structure could prove to be useful and appropriate. The entrepreneurial structure offers the advantages of revitalizing organizations by creating opportunities for innovative and talented individuals within organizations to act as entrepreneurs in order to apply exclusive attention to the development of new ideas, products, or services. Organizational resources may be allocated to such development efforts, and if they prove to.

3.4 Leadership implementation

The role of appropriate leadership in strategic success is highly significant. It has repeatedly been observed that leadership plays .a critical role in the success and failure, of an the most important elements affecting organisational performance. For the manager, leadership is the focus of activity through which the goals and objectives of the organization are accomplished. While dealing with the role of strategies, play learnt about the roles that different strategist play in strategic management.

Leadership has been studied and researched for a number of years, resulting in numerous theories and models. No universally accepted theoretical framework has as yet been developed. However, enough is already known to be able to understand the various factors that affect the content and process of leadership. Apart S. king presents an overview of leadership theory through the different evolutionary eras and the emphasis placed on it in each era. It should, however, be noted that the eras are not chronological but have been set in terms of the similarity of approach adopted by several theorists. Thus, an era represents a group of leadership theories all of which adopt a similar approach King points out that the future development of leadership theory may be based on an integrated approach.

Theory and practice of Leadership

Albert S King traces the historical development of leadership theories and identifies nine evolutionary eras, each era focusing on a specific theme of leadership.

Era	Focus on
1. Personality	Traite and qualities and great personalities
2. Influence	Relationship between individuals
3. Behaviour	Action of leaders
4. Situation	Situation in which the leader operates
5. Contingency	Dependence on behavior, personality influence exerted by the leader on subordinates, and situation
6. Transactional	Role differentiation and social interaction between the leader and subordinates
7. Anti leadership	Absence of a real concept of leadership
8. Culture	Culture of the entire organization
9. Transformational	Use of influence to create intrinsic motivation

The tenth era, which King terms as the integrative era, may probably focus on an integration of the different approaches.

The evolutionary eras, as classified by King, bring into clear focus the changing emphasis of different theories of leadership. A greater understanding of the phenomenon of leadership may come through the integration of the different approaches in future.

3.4.1 Strategies Style, and Strategy

Style describes how top managers behave in leading and motivating, their organizations to achieve their desired ends. The style adopted by a strategist relates to the basic leadership functions of leading and motivating. Several of the leadership theories have been developed on the basis of two or more contrasting styles. For instance, behavioural theories like the Ohio State University Studies initiating structure and consideration styles) and the University of Michigan Studies (job-centered and. employee- centered styles) are based on two. contrasting styles of leadership. In this sense, the theoretical approach is based on a static formulation of style, and, proposals are made to suggest an appropriate style of leadership.

Business Today, in an interesting study of the global Indian CEOs like Rajat Gupta of McKinsey and Company, Rakesh Gangwar of US Airways, and Jim Wadis of Arthur Anderson, identifies the following aspects of the leadership style of successfull CEOs:

1. The, CEO leverages' his propensity for managing by consensus by using a combination of the participative and democratic styles of dealing with people.
2. The CEO leads by delegation when dealing with knowledge-workers and by participation when managing the larger workforce.

3. The CEO balances the concern for employees, with whom he has a strong sense of identification, with a concern for organizational objectives.
4. The CEO leads by energizing his followers by imbuing them with his own excitement, and supports them by empathizing with them.

There are basically seven management styles: entrepreneurial, neo-scientific, quasi-scientific, mudding through, conservative, democratic and middle of the road. Each of these styles could be described on the basis of five dimensions as under

1. Risk-taking	Willingness to take risky decisions.
2. Technocracy	Use of planning, qualified personnel, and techniques
3. Organity	Extent of organizational structural flexibility
4. Participation	Involvement of managers
5. Coercion	Domination by top management

For instance, an entrepreneurial style could be characterised by high risk-taking moderate to low technocracy, moderate to low organicity, moderate to low participation, and variable coercion. On the other hand, a democratic style could be described as having moderate to low risk-taking, moderate to low technocracy, moderate to high orgenicity, high participation, and variable erosion.

Besides basing the characteristics of management styles on the five dimensions, the environment can be rated on the degree of factors, such ja8,turbulence or volatility, hostility, heterogeneity, restrictiveness, and technological sophistication.

3.4.2 Development of Strategists

It is the responsibility- of the top 'management-to oversee the development of strategists. In this way, one aspect of leadership implementation relates to the development of strategists.

The ways in which strategists arc developed within companies vary from organization to organization. Three issues, however, are important for the top management in developing strategists their choice of future strategists, their career planning and development, and succession planning.

The ***choice of future strategists*** has to be made by the top management with great care. Business organizations in India in multinational, family-owned, and professionally' managed private companies may differ in their policies with regard to the development of' strategists. But generally, talented individuals are spotted- early in their career to be groomed for top positions.

The ***career planning and development*** of future strategists may be done through the means of a formal or an informal approach. The prevalence of the system of hiring executive assistants and its increasing use in all types of companies-including public sector—provides opportunities for the top management to select, train, and appraise future strategist. There are several companies like TISCG, ITC, ONGC, Air India, and many others which adopt this approach. The Tata group of companies mainly relies on the Tata Administrative Services for the Supply of future strategists. The executives who have had the benefit of formal professional management education are aware of the intricacies of strategic management due to their exposure' to integrative courses such as Business Policy arid' strategic Management.

Those executive who have not had such a benefit may undergo specialized training, usually at an external institution.

By following an informal approach, the top management may develop strategists through careful screening, assigning important tasks, keeping track of achievements, and evaluating and rewarding significant accomplishments. Generally, the top management in a family business may resort to the informal approach. It is also possible to adopts a combination of the formal and informal approaches where the potential executives may be exposed to training and development programmes, followed by individual guidance and counseling by senior executives in the organization.

3.5 Corporate Culture

Corporate culture is the set of important assumptions that the members of an organization share in common. There are two major assumptions in common beliefs and values. Beliefs are assumptions about reality and are derived and reinforced by experience. Values are assumptions about ideals that are desirable and worth striving for. When beliefs and values are shared in an organization, they create a corporate culture.

The manifestation of corporate culture in an organization is evident in:

- shared things (e.g. the way people dress)
- shared sayings (e.g. 'let's get down - to work")
- shared actions (e.g. a service- oriented approach)
- shared feelings {e.g. hard work is not rewarded here)

These shared assumptions can help to decipher the composition of the corporate culture of any organization.

3.5.1 Impact of Culture on Corporate Life:

The fact that organizations may have a strong or weak culture affects their ability to perform strategic management 'Culture affects not only the way managers behave within an organization but also the decision they make about the organization's relationship with its environment and its strategy. Culture is a strength that can also be a weakness. As a strength, culture car, facilitate communication, decision-making and control, and create cooperation and commitment. As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change.

An organization's culture could be characterised as weak when many subcultures exist, few values and behavioural norms are shared, and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty, and a sense of identity. Rather than being members of the organization these are wage-earners. There are several traits figured by organizations that have a weak or unhealthy culture. Some of these are: politicized organizational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organization for best practices.

An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees, arid which values are shared widely across the organisation.

There are three factors that seem to contribute to the building up of a strong culture. These are: (a) a founder or an influential leader who established desirable values, (b) a sincere and dedicated commitment to operate the business of the organization according to these desirable values, and (c) a genuine concern for the well-being of the organization's, stakeholders.

3.5.2 Strategy-culture Relationship

Since each strategy creates its own unique set of managerial tasks, strategy implementation has to consider the behavioural aspects and ensure that these tasks are performed in an efficient and effective manner. Managerial behaviour arising out of corporate culture, can either facilitate or obstruct the smooth implementation of strategy. The basic question before strategists, therefore, is how to create a strategy-supportive corporate culture. In other words a major role of the leadership within an organization is to create an appropriate strategy - culture fit.

The strategists have four approaches to create a strategy-supportive culture:

1. ***To ignore corporate culture:*** The first approach may be followed when it is nearly impossible to change culture. This is advisable because it is really difficult to change a nebulous phenomenon such as corporate culture. Besides, cultural changes, when enforced in a short duration, may be traumatic for members of an organization.
2. ***To adapt strategy implementation to suit corporate culture***. It is easier to change implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems, and processes. These variables could be manipulated to sub serve the interests of corporate culture. However, each situation in the organization would call for an innovative solution and would test the capabilities of managers as strategists.
3. ***To change the corporate culture to suit strategic requirements*****.** As said earlier, it is extremely difficult to change corporate culture! But in some cases it may be imperative. For instance, the post-liberalization spate of takeover and acquisitions in the Indian industry led to a situation where many erstwhile multinational subsidiaries were taken over by family business groups. This led to a process - often prolonged and painful-of cultural transition. But such a transition may be brought about by a careful understanding of existing culture, making strategic tasks explicit, assessing risks of cultural change, enhancing managerial capability to imbibe changes, and, most importantly, figuring' strong, assertive leadership.
4. **To *change the strategy to fit the corporate culture.*** Rather than changing culture to suit strategy, it is better and more economical to consider the cultural dimension while,' formulating strategy in the first place. One of the important factors is commitment to past strategic actions which should take care that strategic changes are not drastic but, incremental, allowing the cultural effects to settle down to create a inure conducive environment for strategy implementation. However, if an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of the above three approaches.

The next important issue of behavioural implementation relates to corporate politics and use of power.

3.6 Corporate Politics and Use of Power

All corporate cultures include a political component and, therefore, all organizations axe political in nature. Organizational members bring with them their likes and dislikes, views and opinions, prejudices and inclinations when they enter organizations. Managerial behaviour cannot be purely rational and, therefore, an understanding is to be acquired of how politics works and the use of power id to be made. Power is defined as "the ability to influence others" and corporate politics is "the carrying out of activities not prescribed by policies for the purpose of influencing the distribution of advantages within the organization". Politics is related to the use of power but it is not similar to it. Usually, we tend to view politics anti power negatively as means for domination, manipulation, and subjugation. But these can be viewed in a positive way also. In this sense politics and power may be thought of as a means for the achievement of organizational objectives.

Politics and power affect the way a strategy is formulated and implemented. A manager cannot effectively, formulate and ' implement strategy without being perceptive about company politics.

Generally there is' even more politics in implementing strategy than in formulating it. In implementation, politics and power affect a number of elements. The nature of strategy implementation requires consensus-building, managing coalitions, and creating commitments. It also requires conflict resolution and balancing of interests. To take a few examples: resource allocation is ultimately a rational-political decision which results in the sharing of scarce resources among different organizational units, structure results in the distribution of authority and responsibility and decides how power will be, exercised, and corporate culture is itself the outcome of the use of politics and power.

A strategic use of politics and power becomes even more critical where strategy changes are to be made. In reality, "most strategic decisions and most strategic thrusts in large enterprises emerge as part of an evolving continuous political consensus -building with no precise beginning or end".

Therefore, it is imperative to make, strategy changes with a judicious use. of politics and power.

The typical approaches to a strategic use of politics and power may involve one or more of these actions:

- First of all, to accept the inevitability of politics being there in the organization
- To understand how an organization's power structure works, who wields real power and influence, and who are the individuals and groups whose opinions carry weight and cannot be disregarded
- To be sensitive and alert to political signals emanating from different parts of die organization
- To lead strategy and not to dictate it being patient till a consensus emerges.
- To let most negative decisions merge as a group consensus rather than as a directive from the top
- To gather support for acceptable proposals and to let the unacceptable ideas die a natural death,
- To reward organizational commitment and penalize negative or indifferent attitudes

3.7 Value, Ethics and strategy

Values refer to a conception of what an individual or groups regards as desirable. A table is a view of life and' a judgment of what, is desirable which is very much a part of a person's personality and a group's morale. Thus, a benign attitude to labour welfare is a value which may prompt an industrialist to do much more for workers than the labour laws stipulate. Service- mindedness is a value, which when cherished in an organisation, manifests in better customer satisfaction. Personal values are imbibed from parents, teachers, and elders, and as an individual grows, values are adapted and refined in the light of new knowledge and experiences. Within organizations, values are impacted by the founder-entrepreneur or a dominant chief executive, and these remain in some form a long time after that person is not there.

A major risk of leadership is to inculcate personal values arid impart a sense of business ethics to the organizational members. At one end, values and ethics shape the corporate culture and dictate the way how politics and power will be used and at the other end clarify the soda responsibility of the organization.

The intentions of individuals, that is their 'purity of mind' as decision makers within an organization matter, a lot in strategy management. There has to be a right connection between values, ethics, and strategy. Iris imperative that strategists take strategic decisions not only on the basis of purely economic reasons but also consider values and ethics.

Business ethics has traditionally been considered to integrate core values, such as, honesty, trust, respect, arid fairness into strategic management, policy-making, practicing management, and decision-making. It has been perceived as a set of legally driven codes, in the form of list of do's and don'ts for the company executives that have to be complied with. A significant change is occurring in considering business ethics as central to managing organizations. Companies are formulating value-based, globally-consistent codes for ethical understanding and appropriate decision-making at all levels even as they face immense external challenges.

3.8 Social Responsibility

Social responsibility should he discharged in such a manner that corporate competence acts as a limitation, and the scope of social responsibility is limited to those areas where the business organisation can achieve its self-enlightened interests. In other words, the economic goals and social responsibility objectives need not him contradictory to each other and should toe achieved simultaneously.

3.8.1 Scope of Social Responsibility

The scope of social responsibility is wide and could be considered in terms of different factors. Some people consider social responsibility in terms Of claimants or stakeholders the insiders and outsiders. The insiders are the employees and share holders, while the outsiders include customers, suppliers, creditors, the governments unions, competitors and the general public. Another way in which the scope of social responsibility could be defined is in terms of social concern. Thus, the business- organisation, depending on its nature, size, and breadth of activity, could extend social responsiveness to the problems of the whole world, nation, local community, industry and to itself. Business organisations could also classify social responsibility in terms of relatedness to its own activities. In this way, social responsibility discharged to secure advantages for itself, for instance, the promotion of market related activities (a tractor manufacturer educating farmers on agricultural mechanization), or product-related activities (an electronics company sponsoring a technical institute for the supply of technology or trained personnel) could be termed as business-related Social /responsibility. Some business organizations, however, take up philanthropic activities in the areas of community welfare, rural development, the arts or sports, which are in no way related to their own activities.

3.8.2 Social Responsiveness and Strategic Management

It is important to note that social responsibility is not given serious attention and there is not much evidence of a formal policy being followed by Indian companies in discharging social responsibility. There is an obvious need, to have greater social responsibilities for, good social responsibility like ethics, also means good business.

We may consider social responsiveness as the level, of interest figured by an organisation in discharging social responsibility. It is generally the top management which takes the major decisions regarding the choice of social concerns, definition of the scope of activities, and resource allocation to social responsibility functions. These decisions are based on the views, opinions, personal values, and considerations of the business ethics of the top management. Having decided, in principle, to discharge social responsibility, the top management should seek to align its social responsiveness with strategic management. By such an alignment is meant the reflection of social responsiveness in all the phases of strategic management Thus, the role of strategists in strategic intent and hierarchy of objectives, strategy formulation and implementation, and evaluation will be affected by social responsiveness.

When it comes to strategy implementation, social responsiveness would seek to alter the pattern of resource allocation. This is a crucial test for the top management to' stick to its convictions. Without adequate allocation of funds, not much headway can be made. Business organisations that are believers in social activism will have to assign duties and responsibilities to personnel, or may even have to create specific positions and systems so that social responsiveness does not suffer. Policies and procedures will have to be set for an effective discharge of social responsibility functions.

Till here, we have seen how social responsiveness can be aligned with strategy formulation and implementation. But social responsibility functions, just like other business functions, need to be evaluated with regard to their effectiveness. Social audit is "a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact". "Organisations like TTSCO and ITC have been pacesetters so far as the introduction of social audit as a means for measuring their social performance is concerned. The seriousness of intent can be gauged on the basis of efforts that companies put in evaluating their social responsibility activities.

All in all, it pan be said that social responsiveness can be operationalized and activated by aligning it with the strategic management process. The quality of social responsiveness can also be considerably by doing so.

4.0 Summary

Structure in the context of strategic management is the way in which the tasks and sub tasks required to implement a strategy are arranged. The working of the structural mechanisms can be done through the example of a new organization that has decided to implement a strategy to achieve its objectives. There are several alternatives of structural designs that could be used to create an organizational structure. Leadership is seminal to the formulation as well as implementation of strategy. The chosen strategy has a significant impact on leadership style and strategists have to adapt their style to suit the requirements of a particular strategy.

5.0 Glossary

Values: principles or standards of behaviour

Ethics: moral principles that govern a person's behaviour or the conducting of an activity

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.3

Ans.2 Refer to section 3.5

Ans.3 Refer to section 3.5.2

7.0 Terminal Questions:

Q1. What do you understand by structural implementation of strategy? Explain the relationship between strategy and structure.

Q2. What are the different forms of organization structure? Discuss the situations under which each of them can be adopted.

Q3. What are the problems in relating organization structure to strategy?

Q4. What do you mean by behavioural implementation of strategy? Describe the role of leadership in strategy implementation.

Q5. What do you mean by leadership style? Identify appropriate leadership styles for strategy implementation.

Q6. How do values and ethics affect an organization. How can the organization move towards ethical practices?

8.0 Suggested Readings

1. Sharplin, A. 1985 "Strategic Management" McGrew Hill Book Company, New York.
2. Azhar *Kazmi,* "Business *Policy* and Strategic Management," McGrewHili.
3. Ghosh, P.K., 'Strategic Planning and Management Sultan Chand and Sons, New Delhi.
4. David, F.R., "Strategic Management" Prentice Hall, New Jersey.
5. Prasad, L M., "Business Policy : Strategic Management'.

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Lesson – 10
Evaluation and Control

STRUCTURE

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4.0 Summary
5.0 Glossary
6.0 Answers to Self Check Exercise
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1.0 Introduction

Strategic Management is the process of strategy formulation by considering several factors such as environmental and organization. Strategy control helps evaluate the changing conditions of strategic management that need to be implemented. Strategic control can be assumed as an early warming system for problem in the implemented plans. Operational control checks and allocation and utilization of organizational resources through performance evaluation of different organizational units and assess the units contribution towards the achievement of organizational objectives.

2.0 Lesson Objectives

1. Explaining the Importance of Strategic evaluation and control.
2. Describing various techniques to evaluate the strategy implementation.
3. Describing operational control and strategic control.

3.0 Presentation of Contents

3.1 Concept of Evaluation and Control

The basic objective of evaluation and control is to identify whether strategy is contributing towards the achievement of organizational objectives. If not, what actions are necessary to make the strategy effective. Therefore, evaluation and control may be defined as the process of determining the effectiveness of and strategy in achieving organizational objectives and taking corrective actions wherever required.

There are aspects of this phase, evaluation and control. Though both are interrelated, emphasis on a particular action may differ in each of these aspects. Strategy evaluation may be defined as the process through which strategists know the extent to which a strategy is able to achieve its objectives. Glueck and Jauch have defined strategy evaluation as follows :

"Evaluation of strategy is that phase of the strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise".

Control is defined as the process of determining what is being accomplished and, if necessary, applying corrective measures so that the performance takes place according to plan. Thus, in control process, evaluation of performance is also undertaken.

3.2 Importance of Strategy Evaluation and Control

Strategy evaluation and control, though very important phase of strategic management, is often overlooked by strategists on the premise that once a strategy is formulated and implemented, their role in strategic management is over. They often emphasise only operational control neglecting strategic control. This approach may be alright when there is not very high stake involved in a strategy but fatal when the stake is high. Therefore, both strategic control and operational control must be undertaken. Without strategy evaluation and control, the strategists have no means to ensure whether the chosen strategy is working properly or not. Through this process, the strategists may find out the answers of the following two sets questions relevant to judge the efficiency and efficacy of a strategy.

1. Are the premises made during the strategy formulation process proving to be correct? Is the strategy leading the organization to achieve its objectives? Is there any need for a change in the strategy, if yes, what type of change?

2. How is the organization performing? Are the time schedules for strategy implementation being adhered to? Are the organizational resources begin utilized properly? What actions are required to ensure the proper utilization of resources in order to meet organizational objectives?

The first set of questions is more generalized and forms the part of strategic control and the second set of questions is related to specific performance measurement and forms the part of operational control. Answers of both these sets of questions and remedial actions based on these answers are important the organizational effectiveness.

Strategy evaluation and control not only ensures the correct implementation of the strategies, but it also provides inputs for relating rewards and performance and formulation of further strategies. Managerial rewards (or rewards for any organizational member) based on actual performance work as a motivating factor. Strategy evaluation and control pinpoints on who have done what? Thus it helps in designing a more suitable motivational system. Strategy evaluation and control also provides inputs, in the form of feedback about the suitability of an problems in a strategy, which can be utilized in the formulation of further strategies. Evaluation and control pinpoints the factors which are producing hindrance in strategy formulation, consequently working against the achievement of organizational objectives. Such inputs may be in the form of environmental information and evaluation of organizational strength and weaknesses. These inputs can, then, be utilized in modifying the present strategy and to formulate new strategies. We have seen in Chapter 9 (Choice of Strategy) that future strategies of the organization are guided by its past strategies to a very great extent. If the present strategy is suitable as revealed by strategy evaluation and control, future strategies are likely to follows this.

Barriers in Strategy Evaluation and Control

Strategy evaluation and control, being an appraisal process for the organization as a whole and people who are involved in strategic management process either at the stage of strategy formulation or strategy implementation or both, is not free from certain barriers and problems. These barriers and problems centre around two factors: motivational and operational. Let us see what these problems are and how these problems may be overcome.

Motivational Problems

The first problem in strategy evaluation is the motivation of managers (strategists) to evaluate whether they have chosen correct strategy after its results are available. Often two problems are involved in motivation to evaluate the strategy: psychological problem and lack of direct relationship between performance and rewards.

1. Psychological Barriers : Managers are seldom motivated to evaluate their strategies because of the psychological barriers of accepting their mistakes. The strategy is formulated by top management which is very conscious about its sense of achievement. It hardly appreciates any mistake it may commit at the level of strategy formulation. Even if something goes wrong at the level of strategy formulation, it may put the blame on the operating management and tries to find out the faults at the level of strategy implementation. This over-conscious approach of top management may prevent the objective review of whether correct strategy has been chosen and implemented. This may result into delay in taking correct alternative action and bringing the organization back at satisfactory level. This happens more in the case of retrenchment strategy, particularly divestment strategy where a particular business has failed because of strategic mistake and in order to save the organization from further damage, the business has to be sold.

2. Lack of Direct Relationship between Performance and Rewards : Another problem in motivation to review strategy is the lack of direct relationship between performance achievement and incentives. It is true that performance achievement itself is a source of motivation but this cannot always happen. Thus what is required for motivating managers to evaluate their performance and strategy is the right type of motivational climate in the organization. This climate can be set by linking performance and rewards as closely as possible. This linking is required not only for the top level but for the lower down in the organization.

Operational Problems

Even if managers agree to evaluate the strategy, the problem of strategy evaluation is not over, though a beginning has been made. This is so because strategy evaluation is a nebulous process; many factors are not as clear as the managers would like these to be. These factors are in the areas of determination of evaluate criteria, performance measurement, and taking suitable corrective actions. All these are involved in strategy evaluation and control. However, nebulousness nature is not unique of strategy evaluation and control only but it is unique to the entire strategic management process. We shall make an attempt later in this chapter as to how these operational problems may be overcome.

3.3 Strategic Control

Strategic control is the process of taking into account the changing assumptions, both external and internal to the organization, on which the strategy is based, continually evaluating the strategy as it is being implemented, and taking corrective actions to adjust the strategy to the new requirements. This process is necessitated because strategy formulation is based on certain assumption. Since there is these assumptions may not hold good, either fully or partially. To that extent, the strategy may not work as effectively as the strategiest might have thought. It may be of four types.

3.3.1 Premise Control

Premises are the assumptions on which strategy is developed. As discussed above, every strategy is based on certain assumptions about environmental and organizational factors, and there is a time lag between the strategy formulation and its implementation. Any change in environmental and organizational factors (environmental factors more pronounced), may affect the strategy to a large extent. Therefore, premise control is necessary to identify the key assumptions the keep track of any change in them so as assess their impact on the strategy and its implementation. For example, liberalization in Indian economy has changed many assumptions which were held by Indian business organizations. There are several sectors which have been affected heavily like automobiles. Those companies which were working on the assumptions of protective markets having near monopoly situation, have either been wiped out or working as laggards, like Premier Automobiles and Hindustan Motors. Even Maruti Udyog has to incorporate lot of changes in strategies to fight the competition. Premise control may be exercised by continually gathering information about the change in premises on a formal basis, particularly through corporate planning staff.

3.3.2 Implementation Control

Implementation control aims at monitoring the progress of various activities undertaken to implement a strategy. These activities may be in the form of projects, programmes, plans etc. Resources are allocated to these activities and a timeframe is provided. In order to be effective, each of these activities must be completed within the stipulated time and cost. If there is any deviation either in terms of time or cost or both, corrective actions become necessary at the earliest opportunity. An important method for effecting implementation control is *milestone approach* in which all activities, necessary for implementation of the strategy, are grouped into identifiable segments. When accomplishment of a given segment occurs, cost or other result can be determined. This is similar to identification – albeit at a smaller scale – of events and activities in PERT/CPM networks.

Another method for implementation control is the determination of strategic thrusts in which the strategy is implemented after its validity has been ascertained like introducing a new product after the product has been successful in test marketing. During the test marketing, the product may be modified according to the needs of customers; or the product may be dropped if it is not feasible.

3.3.3 Strategic Surveillance

As compared to premise and implementation controls which are specific, strategic surveillance is a generalized one. It aims at a more generalized and over searching control designed to monitor a broad range of events outside or inside the organization which are likely to threaten its course of action. While in premise control, surveillance of events is specific to a particular strategy, in strategic surveillance, it is done through a broadbased, general monitoring of selected information sources to uncover events that are likely to affect the strategies of the organization.

3.3.4 Special Alert Control

Special alert control is aimed at pre-emptive actions based on the basis of triggers. Strategies are prepared to overcome any unforeseen, situation affecting the organization adversely, and for each contingency alternative, a trigger (events of unexpected nature) is provided. Such triggers may be in the form of sudden change in political factors, unfortunate industrial diaster, sudden entry of a new and powerful competitor, and so on. Special alert control is more or less like a crisis management for which the organization was not prepared earlier. Such situations may be handled by a crisis management team.

3.4 Operational Control

Operational control is concerned with action or performance and is aimed at evaluating the performance of the organization as whole, different SBUs divisions, managers and other personnel. Operational control is used by almost every organization in some form or the other. There are two types of operational control: post-action and steering to evaluate the outcome of a strategy. In post-action control which measures results after an action is completed, for example, measurement of organizational performance in terms of return on investment. Second is the steering control which is designed to detect deviations from standard and to permit corrective actions before an operation is fully completed, for example, quality control. Both these are used in the organization for different purposes and at different levels. For example, post-action control is mostly used by the top management so as to identify the total results of a strategy, while second type of control is exercised by functional and lower level managers to affect periodic control so that the results are achieved.

Difference between Strategic and Operational Control

Strategic control and operational control both differ from each other in terms of their aim, main concern, focus, time horizon and techniques used. Differences between he two are presented below:

Attribute	Strategic control	Operational control
Basic question	Are we moving in right direction?	How are we performing?
Aim	Proactive continuous questioning of the basic direction of strategy	Allocation and use of organizational resources
Main concern	Steering the future direction of the organization	Action control
Focus	Long-term	Short-term
Time horizon Exercise control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle management on the direction of top management
Main techniques	Environmental scanning information gathering, questioning and review	Budgets, schedules and MBO

3.5 Process of Control

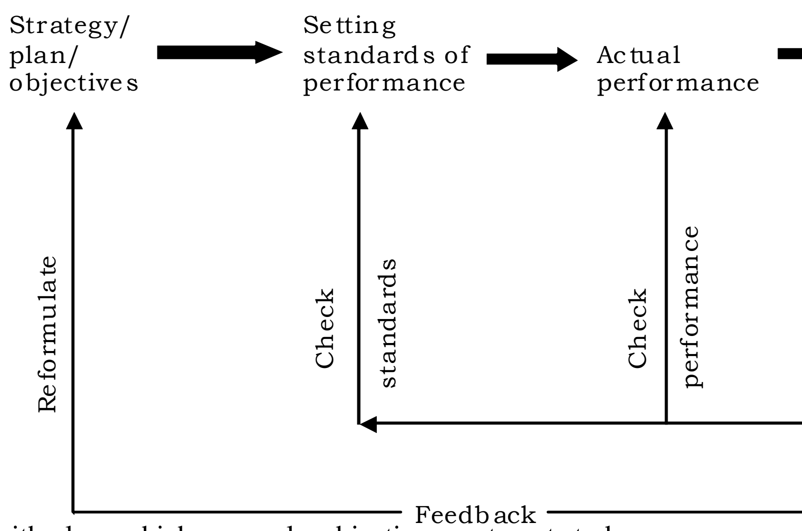
The process of control basically deals with four steps:

1. Setting standards of performance
2. Measurement of performance
3. Analysing variances
4. Taking corrective action

These four elements of the evaluation process, and the way they relate to each other, are depicted in Exhibit. The strategy, plans and objectives result in a set of performance standards which form the basis for evaluation through the measurement of performance. The comparison of actual and standard performance leads to the analysis of variances. Feedback from this analysis results in either a check on performance, revaluation of standards, or the reformulation of strategy, plans or objectives. Due to the inherent nature of operational control, corrective action is aimed mainly at performance and adjustment of standards rather than the reformulation of strategy. The reformulation task is usually performed on the basis of strategic control, specially implementation control.

Figure 10.1

The Evaluation Process for Operational Control



3.5.1 Setting Performance Standards

Every function in the organizations begins with plans which are goals, objectives, or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measures. For setting standards for control purposes, it is important to identify clearly and precisely the results which are desired. Precision in the statement of these standards is important. In many areas, great precision is possible. However, in some areas, standards are less precise. Standards may be precise if they are set in quantities – physical, such as volume of products, man-hour or monetary, such as costs, revenues, investment. They may also be in qualitative terms which measure performance.

3.5.2 Measuring Actual Performance

The second major step in control process is the measurement of performance. The step involves measuring the performance in respect of a work in terms of control standards. The presence of standard implies a corresponding ability to observe and comprehend the nature of existing conditions and to ascertain the degree of control being achieved.

The measurement of performance against standards should be on a future basis, so that deviations may be detected in advance of their actual occurrence and avoided by appropriate actions.

3.5.3 Analysing Variance

The third major step in control process is the comparison of actual and standard performance. It involves two steps : (i) finding out the extent of deviations, and (ii) identifying the causes of such deviations. When adequate standards are developed and actual performance is measured accurately any variation will be clearly revealed. Management may have information relating to work performance, data, charts, graphs and written reports, besides personal observation to keep itself informed about performance in different segment of the organization. Such performance is compared with the standard to find out whether the various segments and individuals of the organization are progressing in the right direction.

3.5.4 Taking Corrective Actions

This is the last step in the control process which requires that actions should be taken to maintain the desired degree of control in the system or operation. An organization is not a self-regulating system such as the mostat which operates in a state of equilibrium put there by engineering design. In a business organization, this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment.

3.6 Techniques of Strategic Evaluation and Control

It is necessary for strategies to have an idea about the techniques of strategic evaluation and control in order to make a choice from among the many available and to use those. Several of the techniques of evaluation are traditional and have been in usage for long, while there are some other techniques which are of recent origin.

3.6.1 Responsibility Control Centres

From the core of management control systems and are of four types: revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs. The study and application of responsibility centres is done under the discipline of management control systems.

3.6.2 Generic Strategies

The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant. A strategic group is a group of firms that adopts similar strategies with similar resources. Firms within a strategic group, often within the same industry, and sometimes in other industries too, tend to adopt similar strategies.

3.6.3 Strategic Issue Management

Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organization. A strategic issue is "a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the enterprise to meet its objectives". By managing on the basis of strategic issues, the strategies can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever required.

3.6.4 Strategic Field Analysis

Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organization. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can evaluate the firms ability to generate synergies where they do exist.

3.6.5 Value Chain Analysis

Value chain analysis focusses on a set of inter-related activities performed in a sequence for producing and marketing a product or service. The utility of value-chain analysis for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities which can then be evaluated for effectiveness.

3.5.6 Quantitative analysis

Quantitative analysis takes up the financial parameters and the non-financial quantitative parameters, such as physical units or time, in order to assess performance. The obvious benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most-used methods for evaluation for operational control.

3.5.7 Qualitative analysis

Qualitative analysis supplements the quantitative analysis by including those aspects which it is not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

3.6.8 Benchmarking

Benchmarking is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner benchmarking offers firms a tangible method to evaluate performance.

3.6.9 Management by Objectives

Management by Objectives (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self control. Thus, the scope of MBO to be used as an operational control is quite extensive.

3.6.10 Return on Investment

The efficiency of an organization is judged by the amount of profit it earns in relation to the size of its investment, popularly know as ‘return on investment’ (ROI). This approach has been an important part of the control system of Du Pont Company, U.S.A., since 1919, thought it was actually devised by Donaldson Brown in 1914. Since its successful operation in Du Pont, a large number of companies have adopted it as their key measure of overall performance.

This technique does not emphasise absolute profit for judging the efficiency of an organization as a whole or a division thereof, rather the amount of profit is related with the amount of facilities or capital invested in the organization or the division.

The goal of a business, accordingly, is not to optimize profit, but to optimise returns on capital invested for business purposes. This standard recognizes the fundamental fact that capital is a critical factor in almost any business and its scarcity puts limit on progress.

The system of control through return on investment can be seen from figure as operating in Du Pont Company.

Figure 10.2

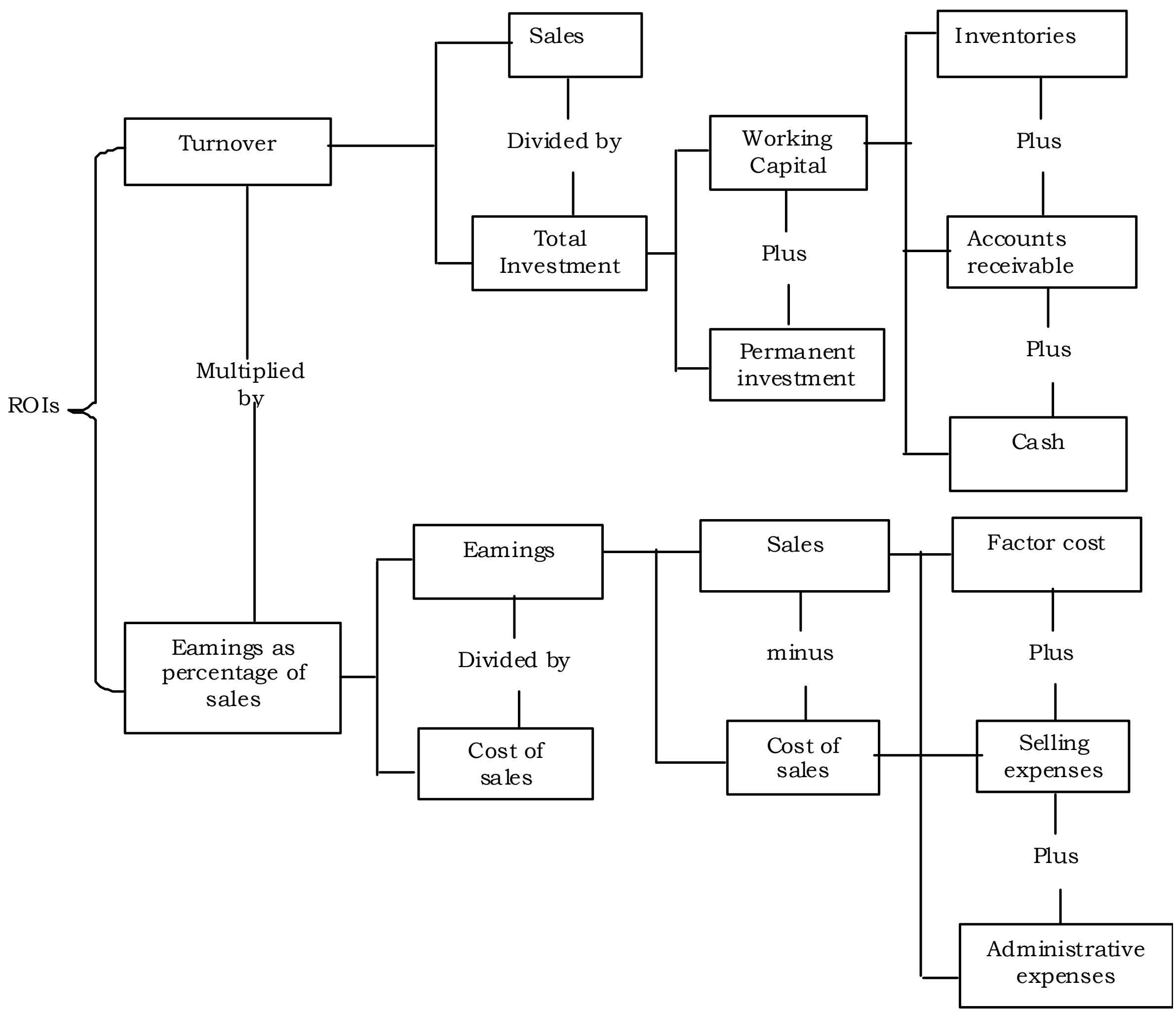


Figure 10.2 : Relationship of factors affecting return on investment

The rate of return is calculated by dividing the profit by total investment. It can be computed in respect of historical data so as to reveal the rate of return realized or it may be applied to budgeted data to give a projected rate of return. In the Du Pont system, the investment includes total fixed and current assets without reducing liabilities or reserves. The basis is that such a reduction would result in fluctuations in operating investments as liabilities or reserves fluctuate, which would distort the rate of investment and render it meaningless.

On the other hand, many business organizations adopt a different view of investment. Accordingly, the amount of the investment should be taken by deducting depreciation from the assets. The argument is simple. Depreciation reserves represent a write-off of initial investment and that funds made available through such charges are reinvested in other fixed assets or used as working capital. The argument seems to be realistic as it puts heavier burden on return on new assets, as compared to old and obsolete assets. Moreover, the amount of investment thus calculated is further reduced by the amount of current liabilities.

Self Check Exercise

Q.1 Define strategic evaluation and control.

Q.2 What is strategic surveillance?

Q.3 What are the techniques of strategic evaluation and control?

4.0 Summary:

Strategic control and operational control are controlling tools for an organization. Strategic control continuously evaluates the strategies with respect to the changing conditions like environmental and organizational conditions in an organization. Whereas, operational control checks the utilization of available resources and its further allocation. Strategic control involves frequent evaluation of the strategy being implemented and taking necessary steps to adjust it to the new requirements. Strategic control techniques are vital for the smooth performance of strategic management in an organization. Various techniques can be used for strategy evaluation and control.

5.0 Glossary

Management by objectives (MBO): regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate

Benchmarking: is a comparative method where a firm finds the best practises and then attempts to bring its own performance in line with the best practises

6.0 Answers to Self Check Exercise

Ans.1 Refer to section 3.1

Ans.2 Refer to section 3.3.3

Ans.3 Refer to section 3.6

7.0 Self Assessment Questions:

Q.1 Explain the nature and importance of strategic evaluation.

Q.2 What type of barriers are commonly faced in evaluation? How can these be avoided?

Q.3 What are the various techniques used for strategic evaluation?

Q.4 Explain the differences between strategic control and operational control.

Q.5 Explain the various steps in the process of strategic evaluation and control.

Assignments

Note: Attempt any four assignments: Assignments are compulsory.

1. Explain the following types of strategies:
   (a) Cost leadership
   (b) Differentiation
   (c) Focus
2. Explain the concept of corporate restructuring.
3. What do you understand by organisational appraisal? What are the factors affecting organisational appraisal?
4. What do you understand by strategic budgeting? Explain the process of strategic budgeting.
5. Explain the following theories of leadership: (a) Managerial Grid (b) Path Goal Theory (c) Contingency Theory.
6. Discuss the different types of factors that affect strategic choice.
7. What is meant by strategic implementation? Explain the process of strategic implementation.
8. What do you mean by leadership style? Identify appropriate leadership styles for strategy implementation.

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