Strategic Management

MBA 401

Q1. What do you understand by the term Strategic Management?

The Concept of Strategy:

1. Strategy. 'A course of action, including the specification of resources required, to achieve a specific objective.' CIMA: Management Accounting: Official Terminology, (2005 edition).

2. Strategic plan: 'A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of these goals.' CIMA: Management Accounting: Official Terminology (2005 edition)

3. Strategy is the direction and scope of an organization over the long term. Which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations..

4. "The basic characteristic of the match an organization achieves with its environment is called its strategy.'
5. 'Corporate strategy is the pattern of major objectives, purposes and goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be..
6. 'Corporate strategy is concern with an organization's basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates.

Common themes in strategy:

From these different definitions strategy is concerned with:

- The purpose and long-term direction of the business;
- The scope of an organization's activities and actions required to meet its objectives (broad or narrow);
- Meeting the challenges from the firm's business external environment, such as competitors and the changing needs of customers;

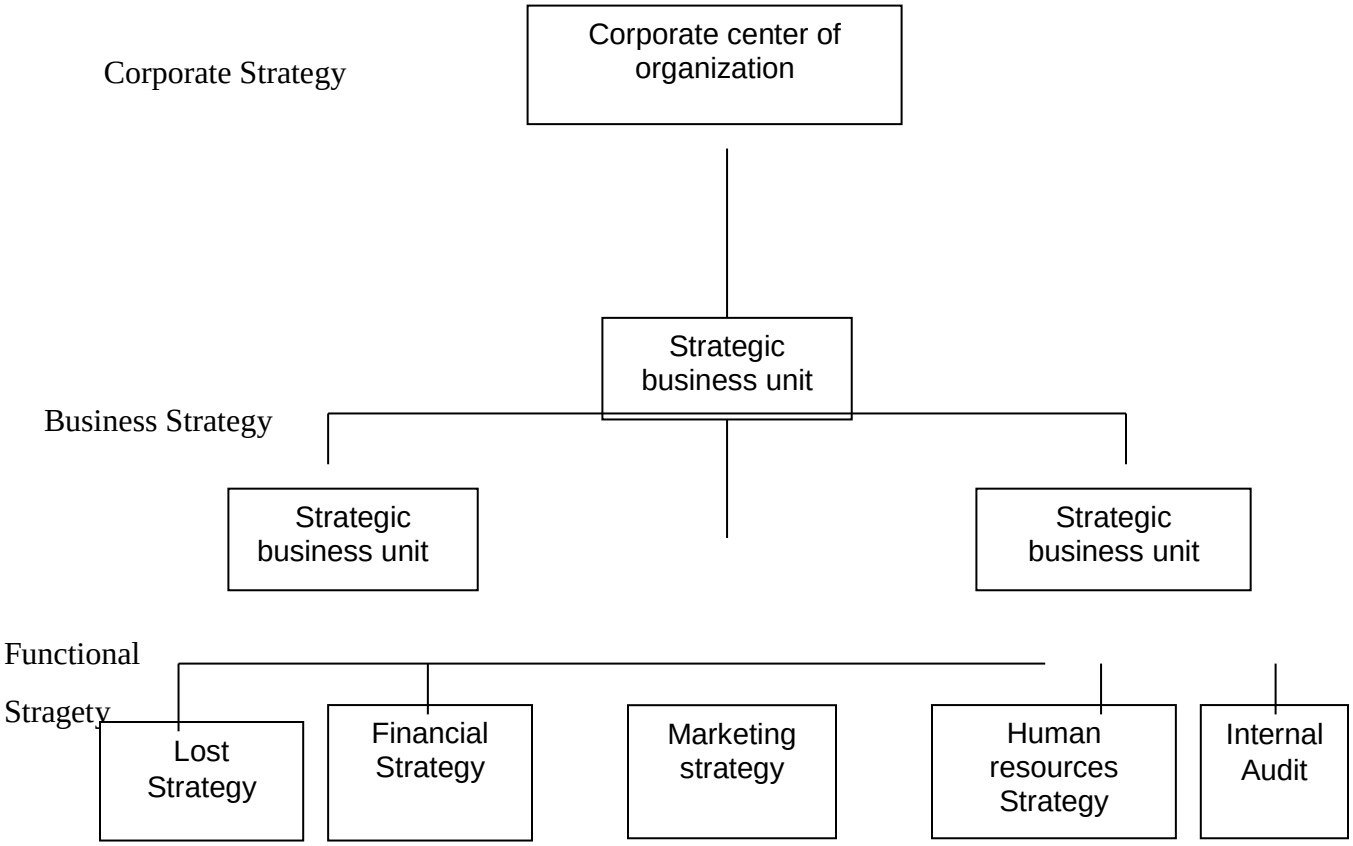
- Meeting the challenges from the firm's business external environment, such as competitors and the changing needs of customers;
- Using the firm's internal resources and competencies effectively and building on its strengths to meet environmental challenges;
- Delivering value to the people who depend on the firm, its stakeholders, such as customers and shareholders, to achieve competitive advantage.

Whatever interpretation is put on strategy, the strategic actions of an organization will have widespread and long-term consequences for the position of the organization in the marketplace, its relationship with different stakeholders, and overall performance.

Q2. Discuss the various levels of Strategic Management.

Levels of strategy:

Corporate strategy: The corporate center is at the apex of the organization. It is the head office of the firm and will contain the corporate board. The planning view of strategy assumes that all strategy was formulated at corporate level and then implemented in a 'top-down' manner by instructions to the business divisions. During the 1980s, high profile corporate planners like IBM, General Motors and Ford ran into difficulties against newer and smaller 'upstart'



Organization chart showing corporate, strategic business unit & functional strategies.

Competitors who seemed to be more flexible and entrepreneurial. One consequence was the devolution of responsibility for competitive strategy to strategic business units (S.B.U.).

Corporate strategy today typically restricts itself to determining the overall purpose and scope of the organization. Common issues at this level include:

- Decisions on acquisitions, mergers and sell-offs or closure of business units;
- Conduct of relations with key external stakeholders such as investors, the government and regulatory bodies;
- Decisions to enter new markets or embrace new technologies (sometimes termed diversification strategies);
- Development of corporate policies on issues such as public image, employment practices or information systems.

A Model of the Rational Strategy process:

The traditional approach to strategic management is often termed the formal or rational approach, and can described as a series of logical steps including:

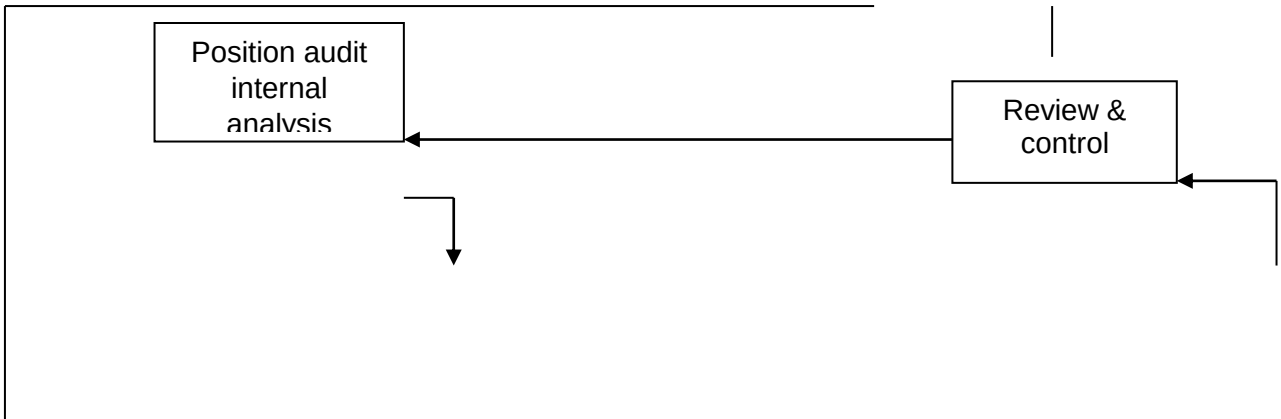
- The determination of an organization's mission;
- The setting of goals and objectives;
- The understanding of the organization's strategic position;
- The formulation of specific strategies;
- The commitment of resources.

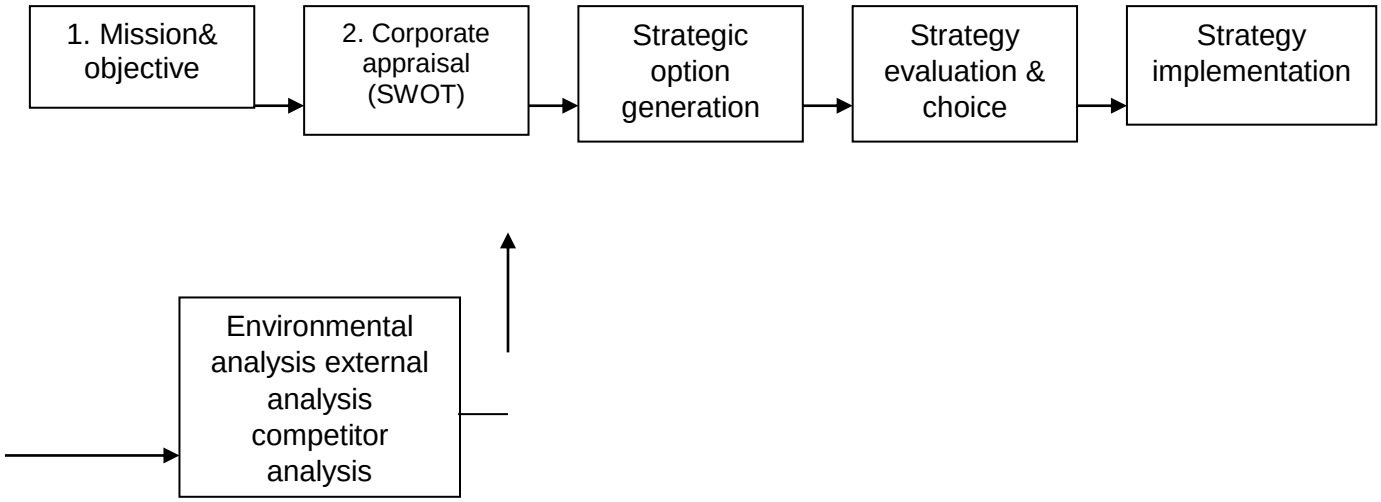
A continuous analysis of the external environment and the organization's internal resources is needed in order to plan for the future development and survival of the business. This is often conceived as consisting of four major steps:

1. Analysis
2. Formulation
3. Implementation
4. Monitor, review and evaluation.

This process seeks to answer questions concerning where the organization is now, where it should go in the future, and how it should get there. The rational model therefore involves a number of interrelated stages. These are illustrated in Figure below, which shows the various stages which management may take to develop a strategy for their organization.

The basic idea from the model is that we start with the existing strategy of the organization and evaluate it using information collected from internal and external analysis. Form this we can determine if the organization should continue with its existing strategy or formulate a new strategy that will enable the organization to compete more effectively. Having made a choice on the strategic direction, the next stage involves implementing the





A model of a rational strategy process

Strategy and then evaluating performance to determine whether or not goals have been achieved.

Each of the different stages in the model above will now be elaborated on, introducing some of the tools and techniques of strategic management.

Mission, Objectives and goals:

Term & Definition

Mission :: The Fundamental objects of entity expressed in general terms (CIMA).Overriding purpose in line with the values and expectations of stakeholders. What business are we in?

Vision or strategic intent :: Desired future state: the aspiration of the organization.

Goal :: General statement of aim or purpose- may be qualitative in Nature.

Objective :: Quantification (if possible) or more precise statement of the Goal.

Strategies :: Long-term direction expressed in broad statement about the direction the organization should be taking and the type of actions required to achieve objectives.

From the above table we can see that a mission is a broad statement of the purposes of the business. It will be open-ended and reflect the core values of the business. A mission will often

define the industry that the firm competes in and make comments about its general way of doing business.

- British Airways seeks to be 'the world's favourite airline;
- Nokia speaks of 'connecting people';
- DHL 'delivers your promises';

Roles of mission statements:

Mission statements help at four places in the rational model of strategy:

1. **Mission & Objectives:** The mission sets the long-term framework and trajectory for the business. It is the job of the strategy to progress the firm towards this mission over the coming few years covered by the strategy.

2. **Corporate appraisal:** Assessing the firm's opportunities and threats, its strengths and its weakness must be related to its ability to compete in its chosen business domain. Factors are relevant only insofar as they affect its ability to follow its mission.

3. **Strategic evaluation:** When deciding between alternative strategic options, management can use the mission as a touchstone or benchmark against which to judge their suitability. The crucial question will be, 'Does the strategy help us along the road to being the kind of business we want to be?

4. **Review and control:** The key targets of the divisions and functions should be related to the mission, otherwise the mission will not be accomplished.

Research conducted among companies by Hooley et al (1992) revealed the following purposes of mission statements:

1. To provide a basis for consistent planning decisions.
2. To assist in translating purposes and direction into objectives suitable for assessment and control.
3. To provide a consistent purpose between different interest groups connected to the organization.
4. To establish organizational goals and ethics.
5. To improve understanding and support from key groups outside the organization.

The link between mission, goals and objectives:

Whilst the mission is an open-ended statement of the firm's purposes and strategies, strategic goals and objectives translate the mission into strategic milestones for the business strategy to reach. In other words, the outcomes that the organizations seeks to achieve.

A strategic objective will possess four characteristics which set it apart from a mission statement:

1. A precise formulation of the attribute sought;
2. An index or measure for progress towards the attribute;
3. A target to be achieved;
4. A time-frame in which it is to be achieved.

Another way of putting this is to say that objectives must be SMART, that is,

- Specific- unambiguous in what is to be achieved.
- Measurable- specified as a quantity;
- Attainable- within reach;
- Relevant- appropriate to the group or individual to whom it is applied;
- Time-bound- with a completion date.

The goal structure: The goal structure is the hierarchy of objectives in the organization. It can be visualized as the diagram in below.

Objectives perform five functions:

1. Planning: Objectives provide the framework for planning. They are the targets which the plan is supposed to reach.

2. Responsibility: Objectives are given to the mangers of divisions, departments and operations. This communicates to them:

   a) The activities, projects or areas they are responsible for;
   b) The sorts of output required;
   c) The level of outputs required.

3. Integration: Objectives are how senior management coordinate the firm. Provided that the objectives handed down are internally consistent, this should ensure goal congruence between managers of the various divisions of the business.

4. Motivation: Management will be motivated to reach their objectives in order to impress their superiors, and perhaps receive bonuses. This means that the objectives set must cover all areas of the mission. For example, if the objectives emphasize purely financial outcomes, then mangers will not pay much heed to issues such as social responsibility or innovation.

5. Evaluation: Senior management control the business by evaluating the performance of the managers responsible for each of its divisions. For example, by setting the manager a target ROI and monitoring it, senior management ensure that the business division makes a suitable return on its assets.

You may be familiar with these five functions (often recalled using the acronym PRIME) from your studies in budgetary control. Budget target are a good example of operational level objectives. In this chapter, however, we are working at a higher level by considering the strategic objectives of the firm.

Having established where the organization is in terms of its mission, goals and objectives, it must then determine where it wants to go in the future. This will be influenced by the nature of the external environment and the organization's internal capability.

Q3. Explain the techniques to analyze Internal & external environment of an organization.

PEST framework:

Political: These are political or legal factors affecting the organization, such as legislation or government policy, stability of the government, government attitudes to competition and so on.

Economic: These are economic factors such as tax rates, inflation, interest rates, exchange rates, consumer disposable income, unemployment levels and so on.

Social: These are social, cultural or demographic factors (i.e. population shifts, age profiles etc.) and refers to attitudes, value and beliefs held by people; also changes in lifestyles, education and health and so on.

Technological: These are changes in technology that an organization might use and impact on the way work is done, such as new system or manufacturing processes.

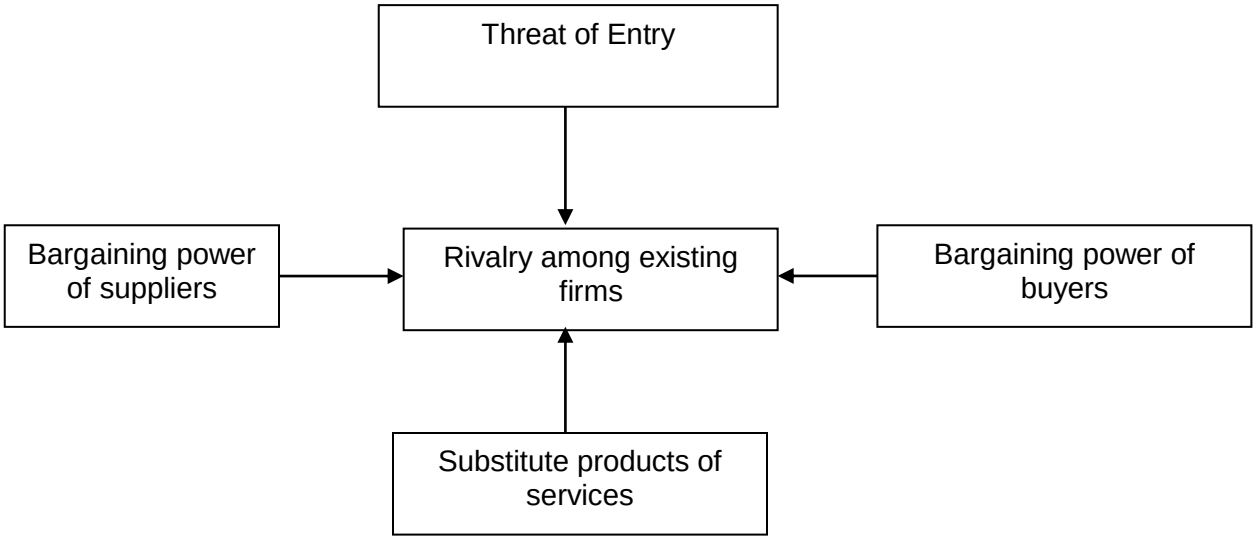
Some authors have expanded the mnemonic PEST into PESTEL- to include explicit reference to ethical or environmental and legal factors.

If you are asked to apply the PEST model to an organization, simply look for things that might affect the organization, and put each of them under the most appropriate heading. A brief explanation as to why you feel each activity creates either an opportunity or threat will suffice.

The competitive environment- five forces model:

As well as the general environmental factors, part of external analysis also requires an understanding of the competitive environment and what are likely to be the major competitive forces in the future. A well established framework for analyzing and understanding the nature of the competitive environment is Porter's five forces model.

1. Rivalry among existing firms;
2. Bargaining power of buyers;
3. Bargaining power of suppliers.
4. Threat of new entrants;
5. Threat of substitute products or services.



The collective strength of these forces determines the profit potential, defined as long run return on invested capital, of the industry. Some industries have inherently high profits due to

the weakness of these forces. Others, where the collective force is strong, will exhibit low returns on investment.

The model can be used in several ways.

1. To help management decide whether to enter a particular industry. Presumably, they would only wish to enter the ones where the forces are weak and potential returns high.

2. To influence whether to invest more in an industry. For a firm already in an industry and thinking of expanding capacity, it is important to know whether the investment costs will be recouped. The present strength of the forces will be evident in present profits, so management will wish to forecast how the forces may change through time. Alternatively, they may decide to sell up and leave the industry now if they perceive the forces are strengthening.

3. To identify what competitive strategy is needed. The model provides a way of establishing the factors driving profitability in the industry. These factors affect all the firms in the industry. For an individual firm to improve its profitability above that of its peers, it will need to deal with these forces better than they. If successful, it will enjoy a stronger share price and may survive in the industry longer. Both increase shareholder wealth.

Each of the five forces is explained below.

Threat of entry

Entrance can affect the profitability of the industry in two ways:

1. Through the impact of actual entry. A new entrant will reduce profits in the industry by:
   (a) Reducing prices either as an entry strategy or as a consequence of increased industry capacity. There is also the danger that a price war may break out as rivals try to recover share or push out the new rival.

   (b) Increasing costs of participation of incumbents through forcing product quality improvements, greater promotion or enhanced distribution.

   (c) Reducing economies of scale available to incumbents by forcing them to produce at lower volumes due to loss of market share.

2. By forcing firms to follow pre-emptive strategies to stop them from entering. In view of the above danger, firms may take action to forestall entry of new rivals by:
   (a) Charging an entry-deterring price which is so low as to make the market unattractive to new, and possible higher cost, rivals.

   (b) Maintenance of high capital barriers through deliberate investment in product or production technologies or in continuous promotion of research and development.

   Porter suggests that the strength of the treat of market entry depends on the availability of barriers to entry against the entrant. These are:

1. Economies of scale. Incumbent firms will enjoy lower unit costs due to spreading their fixed costs across a larger output and through the ability to drive better bargains with their suppliers. This gives them the ability to charge prices below the unit costs of new entrants and hence render them unprofitable.

2. Product differentiation. If established firms have strong brands, unique product features or established good relations with customers, it will be hard for an entrant to rival these by a price reduction, and expensive and time consuming to emulate them.

3. Capital requirements. If large financial resources will be needed by a rival to enter, the effect will be to exclude many potential entrants. Porter argues this will be particularly effective if the investment is needed in dedicated capital assets with no alternative use or in promotion. Few would-be entrants will want to take the risk.

4. Switching costs. These are one-off costs for a customer, to switch to the new rival. If they are high enough, they will eliminate any price advantage the new rival may have. Examples include connection charges, termination costs, special service equipment and operator training costs.

5. Access to distribution channels. If the established firms are vertically integrated, this leaves the entrant needing either to bear the costs of setting up its own distribution or depending on its rivals for its sales. Both will reduce potential profits.

6. Cost advantages independent of Scale. These make the established firm to have lower costs. Examples are unique low-cost technologies, cheap resources, or experience effects (a fall in cost gained from having longer experience in the industry, usually influenced by cumulative production volume).

7. Government policy. Some national governments jealously guard their domestic industries by forbidding imports or using legal and bureaucratic techniques to stall import competition. Also, some governments prefer to allow existing firms to grow large to give them the economies of scale that they will need to compete in a global market. Therefore, they try to restrict industry competition.

Pressure from substitute products:

Substitute products are ones that satisfy the same need despite being technically dissimilar. Examples include aeroplanes and trains, e-mail and postal services, and soft drinks and ice cream.

Substitutes affect industry profitability in several ways:

1. They put an upper limit on the prices the industry can charge without experiencing large-scale loss of sales to the substitute.

2. They can force expensive product or service improvements on the industry.

3. Ultimately, they can render the industry technologically obsolete.

The power of substitutes depends on:

1. Relative price/Performance: A coach journey is cheaper than a rail journey which is in turn cheaper than a flight. However, coach is slower than a train. The trade-off is far less clear between e-mail and postal services for simple messages, since e-mail is both quicker and cheaper!

2. The extent of switching costs.

Bargaining power of buyers:

Buyers use their power to trade around the industry participants to gain lower prices and/or improvements to product or service quality. This will impact on profitability. Their power will be greater if:

1. Buyer power is concentrated in a few hands. This denies the industry any alternative markets to sell to if the prices offered by buyers are low.

2. Products are undifferentiated. This enables the buyer to focus on price as the important buying criterion.
3. The buyer earns low profits. In this situation, they will try to extract low prices for their inputs. This effect is enhanced if the industry's supplies constitute a large proportion of the buyer's costs.
4. Buyers are aware of alternative producer prices. This enables them to trade around the market. Improvements in information technology have significantly increased this, by enabling a reduction in 'search costs.'
5. Low switching costs. In this case, the switching costs might include the need to change the final product specification to accept a different input or the adoption of a new ordering and payments system.

Bargaining power of Suppliers:

The main power of suppliers is to raise their prices to the industry and hence take over some of its profits for themselves. Power will be increased by:

1. Supply industry dominated by a few firms: Provided that the buying industry does not have similar monopolistic firms, the supplier will be able to raise prices. For example, the 'Wintel' domination in personal computers developed because IBM did not insist on exclusive access to Microsoft's operating systems or Intel's processors.

2. The suppliers have proprietary product differences. These unique features of images make it impossible for the industry to buy elsewhere. For example, branded food suppliers rely on this to offset the buyer power of the large grocery chains.

Rivalry among existing competitors:

Some industries feature cut-throat competition, while others are more relaxed. The latter have the higher profitability. Porter suggests that the factors determining competition are:

1. Numerous rivals, such that any individual firm may suddenly reduce price and trigger a price war. If there are fewer firms of similar size, they will tend to, formally or informally, recognize that it is not in their interest to cut prices.

2. Low industry growth rate. Where growth is slow, the participants will be forced to compete against one another to increase their sales volumes.

3. High fixed or storage costs. The former, sometimes called operating gearing, put pressure on firms to increase volumes to take up capacity. Because variable costs are low, this is usually accomplished by cutting prices. This is common in transportation and telecommunications. Similarly, high storage costs are often the cause of a sudden dumping of stocks on to the market.

4. Low differentiation or switching costs mean that price competition will gain customers and so be commonplace.

5. High strategic stakes. This is where a lot depends on being successful in the market. Often this is because the firms are using the market as a springboard into other lines of business. For example, banks may fight for a share of the current (chequing) account or mortgage markets in order to provide a customer base for their insurance and investment products.

6. High exit barriers. These are economic or strategic factors making exit from unprofitable industries expensive. They can include the costs of redundancies and cancelled leases and contracts, the existence of dedicated assets with no other value or the stigma of failure.

Internal Analysis:

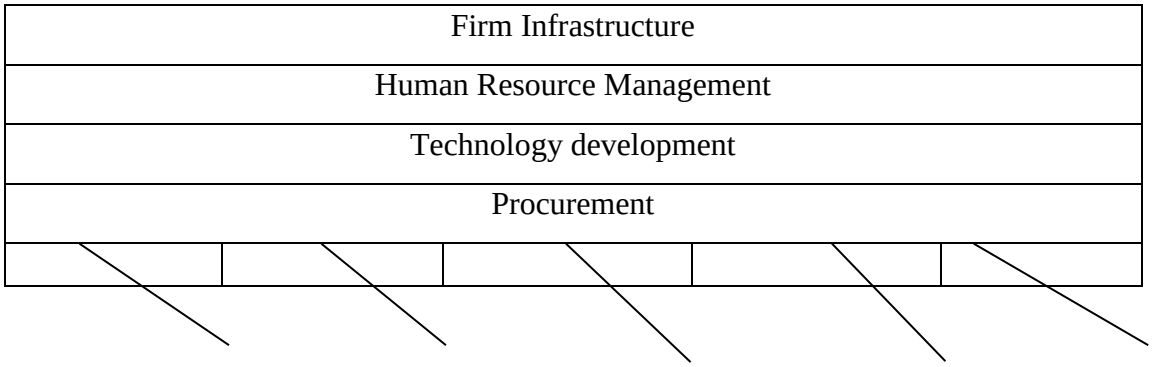
Internal analysis is needed in order to determine the possible future strategic options by appraising the organization's internal resources and capabilities. This involves the identification of those things which the organization is particularly good at in comparison to its competitors.

The analysis will involve undertaking a resource audit to evaluate the resources the organization has available and how it utilizes those resources- for example, financial resources, human skills, physical assets, technologies and so on. It will help the organization to assess its strategic capability. That is the adequacy and suitability of the resources and competences of an organization for it to survive and prosper. Johnson, schools and Whittington (2005) explain that this depends up having:

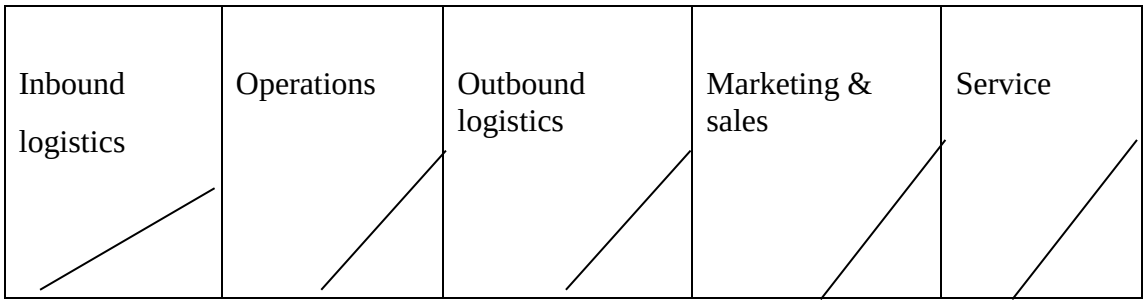
- Threshold resources – The resources needed to meet the customers' minimum requirements and therefore to continue to exist;
- Threshold competences- The activities and processes needed meet customers' minimum requirements and therefore continue to exist;
- Unique resources –The resources that underpin competitive advantage and are difficult for competitors to imitate or obtain;
- Core competences – are activities that underpin competitive advantage and are difficult for competitors to imitate or obtain.

There is often confusion surrounding the terms 'resources' and 'competences' –essentially resources are what the organization has, whereas competences are the activities and processes through which the organization deploys its resources effectively. This concept will be returned to later in this chapter when examining the resource- based view of strategy.

Michael Porter suggested that the internal position of an organization can be analyzed by looking at how the various activities performed by the organization added (or did not add) value, in the view of the customer. Porter proposed a model, the value chain (Figure 1.5),



support
activities



The value chain. Based on the work of Michael porter

For carrying out such an analysis. To be included in the value Chain, an activity has to be performed by the organization better, differently or more cheaply than by its rivals.

The value chain of any organization can be divided into primary activities and support activities, each of these activities can be considered as adding value to an organization's products or services.

The primary activities of the value chain are as follows:

- Inbound logistics. The systems and procedures that the organization uses to get inputs into the organization, for example the inspection and storage of raw materials.
- Operations. The processes of converting inputs to outputs, for example production processes.
- Outbound logistics. The systems and procedures that the organization uses to get outputs to the customer, for example storage and distribution of finished goods.
- Marketing and Sales. Those marketing and sales activities that are aimed at persuading customers to buy, or to buy more, for example TV or point- of –Sale advertising.
- Service. Those marketing and sales activities that are clearly aimed before or after the point of sale, for example warranty provision, or advice on choosing or using the product.

The secondary (or support) activities of the Value Chain are as follows:

- Procurement. The acquisition of any input or resource, for example buying raw materials of capital equipment.
- Technology development. The use of advances in technology, for example new IT developments.
- Human resource Management. The use of the human resources of the organization, for example by providing better training.
- Firm infrastructure. Those general assets, resources or activities of the organization that are difficult to allocate to one of the other activity headings, for example a reputation for quality, or a charismatic Chief Executive.

If you are asked to apply the Value chain to an organization, simply look for things that the organization does well, and put each of them under the most appropriate heading. A brief explanation as to why you feel each activity has strength will suffice.

Corporate Appraisal:

Having undertaken an analysis of the trends and possible external and internal environmental developments that may be of significance to the organization, the next step is to bring together the outcomes from the analysis.
This is often referred to as corporate appraisal or SWOT analysis, standing for strengths, weaknesses, opportunities and threats.

During this stage, management will assess the ability of the business, following its present strategy, to reach the objectives they have set. They will draw on two sets of information:

a) Information on the current performance and resource position of the business. This will have been gathered in a separate internal position audit exercise.
b) Information on the present business environment and how this is likely to change over the period of the strategy. This will have been collected by a process of external environmental analysis and competitor analysis.

The four categories of SWOT can be explained in more detail as follows:

1. Strengths. These are the particular skills or distinctive competences which the organization processes and which gives it an advantage over the competitors.

2. Weaknesses. These are the things that are going badly (or work badly) in the organization and can hinder the organization in achieving its strategic aims, such as a lack of resources, expertise or skills.

3. Opportunities. These relate to events or changes outside the organization, that is in its external business environment, which are favourable to the organization. The events or changes can be exploited to the advantage of the organization and will therefore provide some strategic focus to the decision-making of the managers within the organization.

4. Threats. Threats relate to events or changes outside the organization in its business environment which are unfavourable and that must be defended against. The organization will need to introduce some strategies to overcome these threats in some way or it may start to lose market share to its competitors.

The strengths and weaknesses normally result from the organization's internal factors, and the opportunities and threats relate to the external environment. So, the strengths and weaknesses come from internal position analysis tools such as the Value Chain, and the opportunities and threats from environment analysis tools such as PEST and the five forces model.

Q4. What are the factors that organisations consider while making a choice of strategy?

Strategic options and choice (or Plan):

Strategic choice is the process of choosing the alternative strategic options generated by the SWOT analysis. Management need to seek to identify and evaluate alternative courses of action to ensure that the business reaches the objectives they have set. This will be largely a creative process of generating alternatives, building on the strengths of the business and allowing it to tackle new products or markets to improve its competitive position.
The strategic choice process involves making decisions on:

- What basis should the organization compete and on what basis can it achieve competitive advantage?

- What are the alternative directions available and which products/markets should the organization enter or leave?
- What alternative methods are available to achieve the chosen direction?

Achieving competitive Advantage:

When developing a corporate strategy, the organization must decide upon which basis it is going to compete in its markets. This involves decisions on whether to compete across the whole market place or only in certain segments this is referred to as competitive scope). A further consideration is the way in which the organization can gain competitive advantage, that is anything that gives on organization an edge over its rivals and which can be sustained over time. To be sustainable, organizations must seek to identify the activities that competitors cannot easily copy and imitate (we will return to this later in this chapter when the resource-based view to strategy is introduced).

Organizations must assess why customers chose to use one organization over another. The answer to this question can be broadly categories into two reasons:

1. The price of the product/ service is lower.
2. The product/ service is perceived to provide better 'added value'.

Decisions on the above questions will determine the generic strategy options for achieving competitive advantage- Known as generic because they are widely applicable to firms of all sizes and in all industries. The two types of generic competitive strategies that enable organizations to achieve competitive advantage are referred to as low-cost strategies or differentiation strategies. For example, organizations can compete on price-based strategies serving prices to sensitive segments of the market place or they can choose to purpose a differentiation strategy which seeks to be unique on dimensions valued by buyers, such as product design, branding, product performance and service levels.

Strategic Direction

The organization also has to decide how it might develop in the future to exploit strengths and opportunities or minimize threats and weaknesses. There are various options that could be followed, including:

- Market Penetration. This is where the organization seeks to maintain or increase its share of existing markets with existing products.
- Product development. Strategies are based on launching new products or making product enhancement which are offered to its existing markets.
- Market development. Strategies are based on finding new markets for existing products. This could involve identifying new markets geographically or new market segments.
- Diversification. Strategies are based on launching new products into new markets and is the most risky strategic option.

Strategic Methods

Not only must the organization consider on what basis to compete and the direction of strategic development, it must also decide what methods it could use. The options are:

- Internal development. Where the organization uses it own internal resources to pursue its chosen strategy. This may involve the building up a business from scratch.
- Take over/acquisitions or mergers. An alternative would be to acquire resources by taking over or margining with another organization, in order to acquire knowledge of a particular

product/market area. This might be to obtain a new product range or market presence or as a means of eliminating competition.

- Strategic alliances. This route often has the aim of increasing exposure to potential customers or gaining access to technology. There are a variety of arrangements for strategic alliances, some of which are very formalized & some, which are much looser arrangements.

The evaluation stage considers each strategic option in detail for its feasibility and fit with the mission and circumstances of the business. By the end of this process, management will have decided on a shortlist of options that will be carried forward to the strategy implementation stage. The various options must be evaluated against each other with respect to their ability to achieve the overall goals. Management will have a number of ideas to improve the competitive position of the business.

Strategy implementation

The strategy sets the broad direction and methods for the business to reach its objectives. However, none of it will happen without more detailed implementation. The strategy implementation stage involves drawing up the detailed plans, policies and programmes necessary to make the strategy happen. It will also involve obtaining the necessary resources and committing them to the strategy. These are commonly called tactical and operational decisions:

- Tactical programmes and decisions are medium-term policies designed to implement some of the key elements of the strategy such as developing new products, recruitment or downsizing of staff or investing in new production capacity. Product appraisal and project management techniques are valuable at this level.
- Operational programmes and decisions cover routine day-to-day matters such as meeting particular production, cost and revenue targets. Conventional budgetary control is an important factor in controlling these matters.

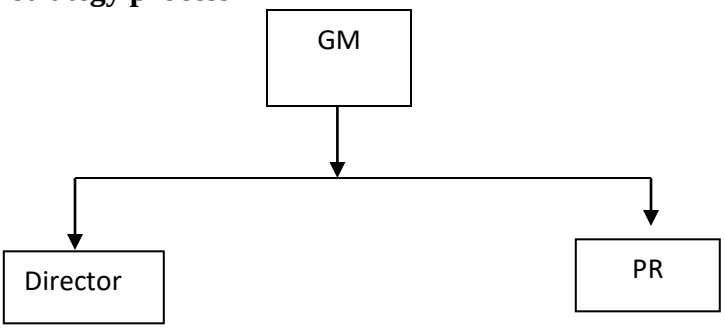
Q5. How do organisations go for strategic evaluation ? Why strategic control is important?

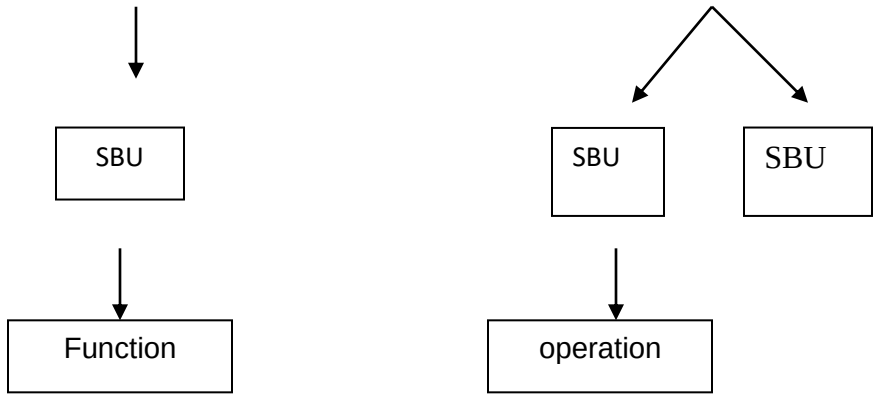
Review and control

This is a continuous process of reviewing both the implementation and the overall continuing suitability of the strategy. It will consider two aspects:

1. Does performance of the strategy still put the business on course for reaching its strategic objectives?
2. Are the forecasts of the environment on which the strategy was based still accurate, or have unforeseen threats or opportunities arisen subsequently that might necessitate a reconsideration of the strategy?

A formal top-down strategy process





Large organizations will often formalize process of strategy formulation. The following are typical features of the process:

1. A designated team responsible for strategy development: there are several groups of actors in this process:
   a) A permanent strategic planning unit reporting to top management and consisting of expert staff collecting business intelligence, advising divisions on formulating strategy and monitoring results.

   b) Groups of managers, often the management teams of the SBUs meeting periodically to monitor the success of the present strategies and to develop new ones. These are sometimes referred to as strategy away days because they often take place away from the office to avoid the interruptions day-to-day functioning.

   c) Business consultants acting as advisers and facilitators to the process by suggesting models and techniques to assist managers in understanding their business environments and the strategic possibilities open to them. You will be reading about many of these models and technique later.

2. Formal collection of information for strategy purposes. The management team will call upon data from within and outside the firm to understand the challenges they face and the resources at their disposal. This information can include:

   a) Environmental scanning reports complied by the business intelligence functions within the firm, including such matters as competitor behaviour, market trends and potential changes to laws.

   b) Specially commissioned reports on particular markets, products or competitors.

   c) Management accounting information on operating costs and performance, together with financial forecasts.
   d) Research reports from external consultancies on market opportunities and threats.

3. Collective decision-taking by the senior management team. This involves the senior management team working together to develop and agree business strategies. Techniques

such as brainstorming ideas on flip charts and using visual graphical models to summaries complex ideas will assist this process. Also, arriving at a decision will involve considerable conflict as particular managers are reluctant to see their favoured proposal rejected and a different strategy adopted.

4. A process of communicating and implementing the business strategy. This can be accomplished using a combination of the following methods:

   (a) Writing a formal document summarizing the main elements of the plan. This will be distributed on a confidential basis to other mangers and key investors, and also perhaps to other key stakeholders such as labour representatives, regulatory bodies, major customers and key suppliers.

   (b) Briefing meetings and presentations to the stakeholders mentioned above. Frequently, reporters from the business press will be invited to ensure that the information reaches a broader public. Naturally, the fine detail will remain confidential.

   (c) The development of detailed policies, programmes and budgets based on achieving the goals laid out in the business strategy.

   (d) The development of performance targets for managers and staff. These ensure that everyone plays their part in the strategy (and perhaps receiving financial rewards for doing so).

5. Regular review and control of the strategy. Management will monitor the success of the strategy by receiving regular reports on performance and on environmental changes. Today, the sophisticated competitive strategies of many firms have necessitated the development of more complex performance measurement systems to supplement traditional budgetary control information. These are variously termed enterprise resource management systems and balanced scorecards. There has also been an increased emphasis on competitor and other environmental information to assist managers in steering their businesses.

Economic Profit

Both sets of strategy writers take an economic view of competitive advantages, seeing it as something enabling the firm to generate a superior return on shareholders' investment through time.

Economic Profit is essentially the excess of the firm's earnings over the opportunity costs of the capital it employs. In other words, for an economic profit to be recorded, the returns to the shareholder must exceed the rate of return the shareholder could have obtained by investing the same funds in the next best alternative.

For example, consider this simple investment situation:

Marsh Hall plc has net assets of Rs. 520 lakhs. Its profits last year were Rs. 62. lakhs. Its direct rival Jevons plc has net assets of Rs. 780 lakhs and earnings of Rs. 70.2 lakhs. Advise the investors in Marsh Hall plc and jevons plc on the economic performance of the firms. We need to calculate the economic profit earned by the two firms:

- Marsh Hall plc is making a return on net assets of 12% (Rs. 62.4/ Rs. 520).

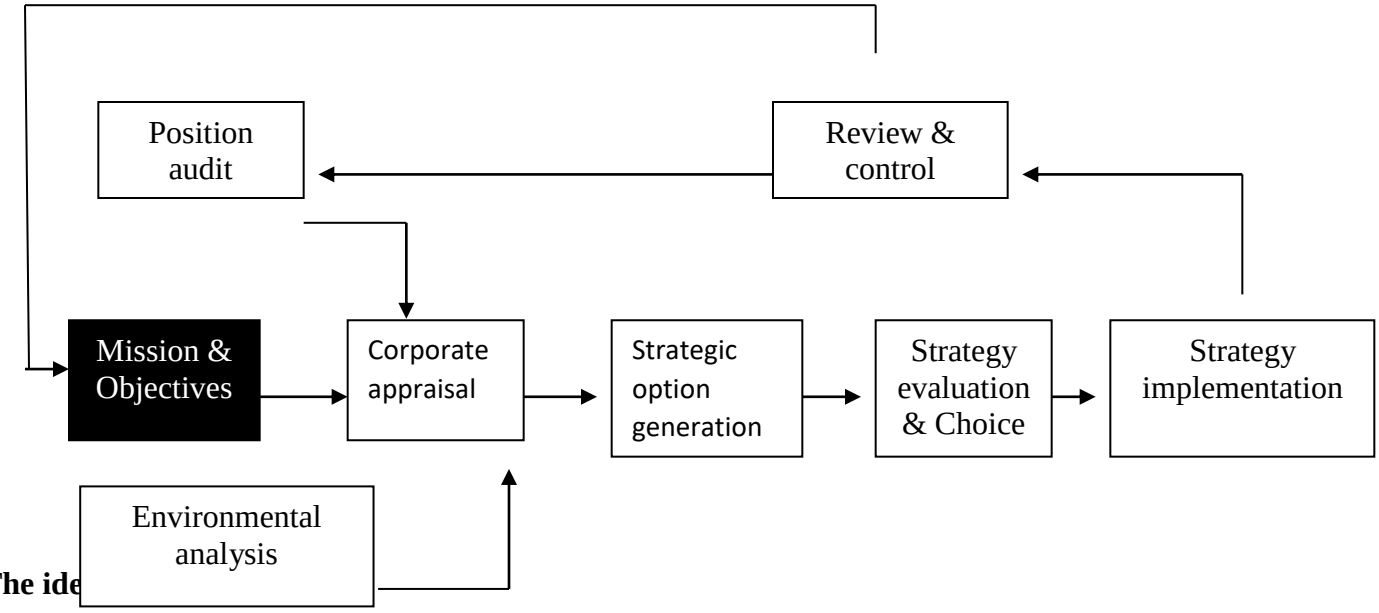
- Jevons plc is making a return on net assets of 9% (Rs. 702/ Rs. 780).
- Investors in Marsh Hall plc are therefore enjoying a positive economic profit of Rs. 15.6 lakhs, calculated as (12%- 9%) ×520 lakhs. In other words, they are Rs. 15.6 lakhs better off by investing in Marsh Hall plc than if they had invested in the next-best alternative, Jevons plc.
- Investors in Jevons plc are suffering a negative economic profit of Rs. 23.4 lakhs (i.e. 3% of Rs. 780 lakhs) because they chose not to invest in Marsh Hall plc.

Investors should switch their investments from Jevons plc to Marsh Hall plc to gain a better return. The effect of this would be to reduce the share price of Jevons plc and raise the share price of Marsh Hall plc. The market value of Jevons plc would fall and the market value of Marsh Hall plc will rise. In a simple way this illustrates the link between economic profit and shareholder value.

Management Accounting Business Strategy

Setting the Goals of the Organization

According to the rational model the first stage of strategy formulation is the setting of mission and objectives.



The ide

Stakeholders are defined by CIMA as 'Those persons and organizations that have an interest in the strategy of the organization. Stakeholders normally include shareholders, customers, staff and the local community.

As such we can consider them to be people and organizations who have a say in:

- What you are to do,
- What resources you have,
- What you should achieve.

They are affected by, and feel they have a right to benefit or be pleased by what you do. For a commercial organization they include, amongst others:

Internal stakeholders	Owners/founders
	Management Staff
Mixed internal and external stakeholders	Trade unions
	Communities where organization is based
External Stakeholders	Bankers, Other investors
	Governments & regulatory bodies

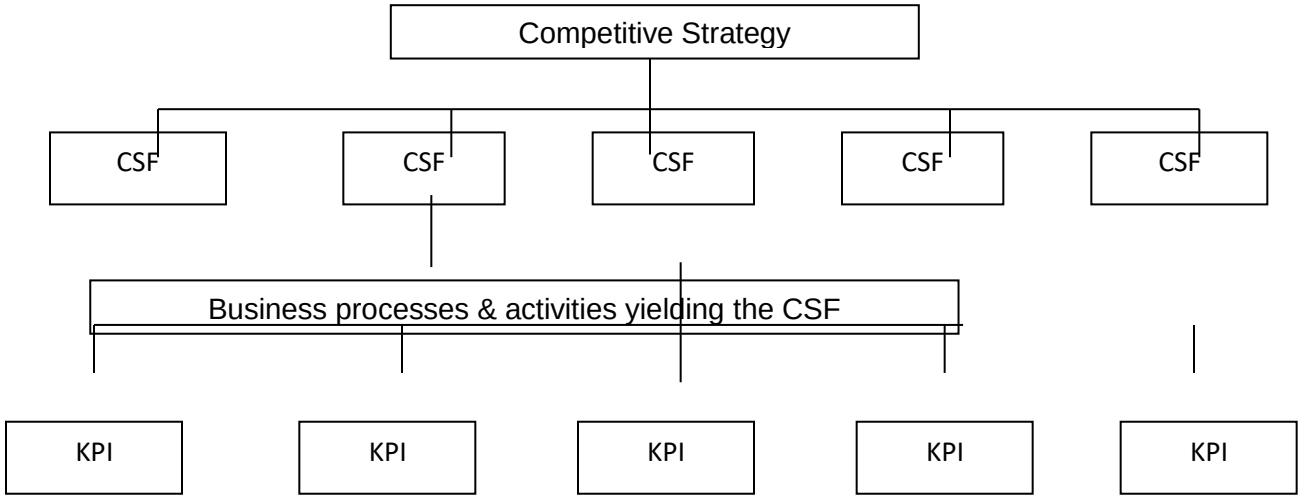
Q6. Discuss the concept of Critical success factors in strategic management.

1. Defining critical success factors

This approach first emerged as an approach for linking information systems strategy to broader commercial goals by first identifying the crucial elements of the firm's business strategy. More recently it has been appropriated by strategies in general as an alternative to the goal structure approach described above.

According to its originators, critical success factors (CSFs) are: 'the limited number of areas in which results, if they are satisfactory, will enable successful competitive performance' (Rockart& Hoffman, 1992). More recently Johnson and Scholes (1997) have defined CSFs as: .those components of strategy where the organization must excel to outperform competition. These are underpinned by competences which ensure this success. A critical factor analysis can be used as a basis for preparing resource plans.

CIMA defines critical success factors as 'An element of the organizational activity which is central to its future success. Critical success factors may change over time, and may include items such as product quality, employee attitudes, manufacturing flexibility and brand awareness.'



Critical Success factors and Key performance indicators

The attraction of the approach lies in the fact that it provides a methodology for identifying strategic goals (or CSFs) by basing them on the strengths, or core competences, of the firm. These are implemented through the development of key performance indicators (KPIs) for milestones in the processes delivering the CSFs.

2. Methodology of CSF analysis

According to Johnson and Scholes, this is a six-step process. We have illustrated them here using the example of a chain of fashion clothing stores.

1. Identify the critical success factors for the specific strategy. The recommend keeping the list of CSF to six or less. The store chain might decide that these are:

    - Right store locations;
    - Good brand image;
    - Correct and fashionable lines of stock;
    - Friendly fashionable store atmosphere.
2. Identify the underpinning competences essential to gaining competitive advantage in each of the CSFs. This will involve a thorough investigation of the activities, skills and processes that deliver superior performance of each.
   Taking just one of the store's CSFs the issue of correct stock, as an example:

    - Recruit and retain buyers with acute fashion sense;
    - Just-in-time purchasing arrangements with clothing manufacturers;
    - Proprietary designs of fabrics and clothes;
    - Close monitoring of shop sales by item to detect trends in which items are successful and which are not;
    - Swift replenishment delivery service to minimize amount of stock in the system.
3. Ensure that the list of competences is sufficient to give competitive advantage.
   The store needs to consider whether improvement to the systems and processes underlying its CSF will be sufficient to secure its place in the high street or whether more needs to be done. For example, have they considered whether they need to develop a direct ordering facility to raise profile and gain loyalty?
4. Identify performance standards which need to be achieved to outperform rivals. These are sometimes termed key performance indicators and will form the basis of a performance measurement and control system to implement and revive the strategy.

KPIs that the clothing store chain might consider to match its key processes (listed above) include:

- Staff turnover among buyers and designers;
- Lead times on orders from suppliers;
- Percentage of successful stock lines designed in-house;
- Installation of a real-time store sales information system by the end of the year;
- Establishment of 1-day order turnaround for store replenishment.

5. Ensure that competitors will not be able to imitate or better the firm's performance of each activity, otherwise it will not be the basis of a secure competitive strategy.
Our store would compare its competences against Gap, Miss self ridge, Next, River Island, etc. It would need to consider whether its present advantages are sustainable.

6. Monitor competitors and predict the likely impact of their moves in terms of their impact of these CSFs.

This process is carried out principally by discussions between management, although there is a clear additional role for the special expertise of the chartered management accountant in mapping the key process, developing KPIs and monitoring them.

It is worth remembering that critical success factors are specific to an organization at which you are looking. They should not be confused with the survival factors and success factors which relate to the industry in general .

Q7. "Scanning of external environment plays a vitalrole in formulation of a strategy.", Explain.

A model of the organization in its environment

The five forces Model (Porter, 1980):

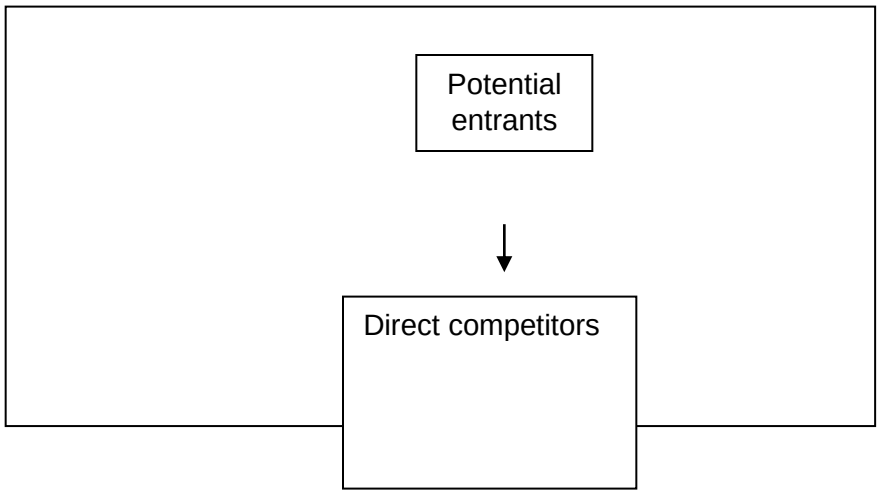
- Rivalry among existing firms,
- Bargaining power of buyers,
- Bargaining power of suppliers,
- Threat of new entrants,
- Threat of new entrants,
- Threat of substitute products or services.

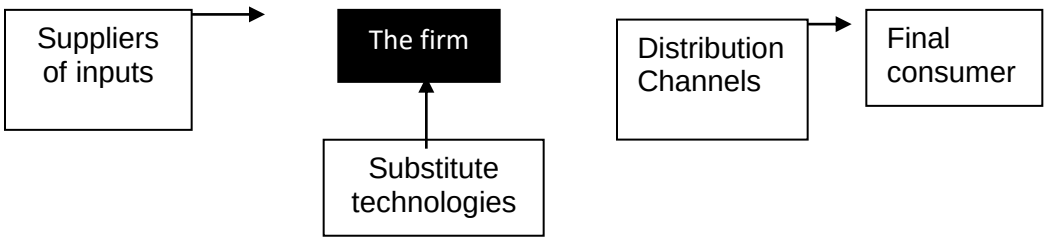
Refresh your memory by looking at CIMA: Management Accounting : official Terminology 2005.

(b) PEST analysis:

- Political/legal influences,
- Economic Environment and influences,
- Social and demographic pattern and values,
- Technological forces.

Political/ Legal environment **Economic environment**





Social environment **Technological environment**

Model of the Business environment

Although PEST analysis is the 'industry standard' for macro-environmental analysis some writers prefer the greater detail provided by a PESTEL analysis. This separates legal from political and specifies ecological separately, for example.

Political:

- Taxation policy,
- Foreign trade regulations,
- Government stability.

Economic factors:

- Business cycles; GNP trends, interest rates;
- Inflation; unemployment disposable income.

Socio-cultural factors:

- Demographics,
- Income distribution,
- Lifestyle changes, Attitudes to work and leisure;
- Consumerism.

Technological factors:

- Government spending on research,
- New discoveries/development,
- Rates of obsolescence.

Ecological factors:

- Protection laws,
- Energy consumption issues,
- Waste disposal

Legal factors:

- Monopolies legislation,
- Employment law, product safety, etc.

Q8. Explain techniques of scanning of external environment.

The SWOT analysis

SWOT and a corporate appraisal are the same thing:

Corporate appraisal. A critical assessment of the strengths and weaknesses, opportunities and threats (SWOT analysis) in relation to the internal and environmental factors affecting an entity in order to establish its condition prior to the preparation of the long-term plan.

Purpose of a SWOT analysis:

1. Strengths and weaknesses are usually internal and specific to the firm. Strength is something the firm is good at doing or a resource it can call upon to reach its goals. They are sometimes termed distinctive competences. A weakness is generally a resource shortage which renders the firm vulnerable to competitors.

2. Opportunities and threats are generally external to the firm. Opportunities and threats are strategic challenges to the firm. Because these are so often things like competitors, changing technology or imminent economic recession, most managers assume them to be solely external. However some things inside the firm can also be threats or opportunities, for example, unrest among the labour force or the discovery of a new product innovation respectively (although these are often linked to external factors such as better job offers elsewhere or a market need which the innovation can satisfy, for instance).

From SWOT to strategy:

If the organization's approach to strategy is to make itself 'fit' the environment this might be achieved by:

1. Matching. The firm should build on those strengths that enable it to take advantage of the opportunities in the market place. For example, the local brewer in figure consider:

   - Marketing its beer as a bottled real ale through supermarkets and independent off licenses;
   - Converting some of its pubs to restaurants;
   - Arranging distribution deals with importers of bottled lagers;
   - Creating children's 'fun areas' in suitable pubs.
2. Converting. This is a more complex process in which management question their interpretation of a factor as a threat or weakness and consider whether it can be reinterpreted or turned to its advantage (sometimes called flip siding the negative). The local brewer decide to:

   - Emphasize its traditional brewing methods as the reason for its relatively higher costs and prices;
   - Distribute maps of the city in which most of its pubs were based and introduce a promotion based on having a 'passport' stamped by each pub the drinker visited- this emphasized how easy it was to walk to the pubs;
   - Introduce a 'designated driver' scheme where the driver was given free soft drinks and coupons for alcoholic drinks, which could be redeemed at a later date.
3. Remedying. Removing weaknesses that leave the firm exposed to threats or unable to grasp opportunities is a priority for strategic action. The regional brewer in figure decide to:

   - Set up a franchised brewing arrangement for larger with known brand to reduce its reliance on sales of the major national brands brewed by its rivals;

- Rationalize its public houses by introducing a scheme where landlords could buy their pubs from the brewery;
- Adopt selective investment in developing restaurant areas inside suitably located pubs;
- Institute provision of training to publicans in providing cooked food;
- Increase the quality and variety of wins, spirits and mineral waters on sale.

The TOWS approach

Another approach to generating strategic options from a SWOT analysis was identified by Weihrich (1982).
This uses the extended matrix shown in Figure below

Method

Management insert the elements of SWOT into the outsides of the matrix in the same way as discussed in section

Strategic options are identified in the four internal quadrants

- SO Strategies- ways in which the business could use its strengths to take advantage of opportunities.
- ST strategies- Considering how to use company's strengths to avoid threats. It can be hoped that rivals with be less able to do this and hence they will suffer deteriorating relative competitive performance.
- WO Strategies- Attempting to take advantage of opportunities by addressing weaknesses.
- WT strategies – Primarily defensive and seek to minimize weaknesses and avoid threats.

Internal Factors → / External ↓	Strengths (S)	Weaknesses (W)
Opportunities (O)	SO Strategies	WO Strategies
Threats (T)	ST strategies	WT Strategies

TOWS Matrix

When should SWOT take place?

In the model shown in Figure the SWOT takes place after the setting of mission and objectives and the conduct of the environmental analysis and position audit. Not all strategists are agreed that objectives should be set before the position of the firm is understood. There are arguments for putting SWOT elsewhere in the strategy formulation process.

Evaluation of value chain analysis:

The impact of value chain analysis on management thinking has been profound and the model continues to be applied more than 15 years after its first formulation. Presumably it has been found useful by many. Principally these uses have been to provide:

1. A way of analyzing the firm in terms of the processes it uses to serve its customer. By looking cross-functionally it can spot places where departmental processes, friction and self-interest reduce the quality of the service to the customer or increase costs.

2. A way to analyse rivals. Recognizing that a rival in your industry (or incumbents of an industry you wish to enter) have a particular value chain ensures that you can take their best ideas but also improve on activities where they are incurring excessive costs.

3. A common set of terminology for management to use in discussing operations.

4. A basis for other management techniques. These are specialist techniques designed to improve the firm's operations. They include:
   - Benchmarking;
   - Business process re-engineering;
   - Activity-based management;
   - Information system strategy;
   - Analysis of transactions costs and outsourcing decisions.

   These techniques are discussed elsewhere in this text or in other subjects at Strategic Level.

5. A way of identifying ways of generating superior competitive performance. The value chain is Porter's solution to the task of finding ways to achieve cost leadership or differentiation. Even if management do not want to go to these extremes, the value chain is a useful place to look for ideas on how to reduce costs and/or improve customer satisfaction. We can illustrate this by some examples of how Dell seeks to gain competitive advantages;

   - Inbound logistics. JIT deliveries by component suppliers, decision not to take delivery of bulky items like monitors and speakers but have them delivered direct to customers via standard courier, provision of sales forecasts to non-JIT suppliers.
   - Operations. JIT manufacturing process, testing, loading software.
   - Outbound logistics. Direct delivery by courier to final customer, suppliers of sub-assemblies supply direct to customer.
   - Marketing and sales.Telesales and website operations, provision of customer advice on specification and price, more up-to-date product specification due to no stocks everything made to order: development of relationship with end-customer.

- Service. No specific mention- which is interesting because it is the area in which they are currently heavily criticized.
- Procurement. Encouragement of suppliers to site locally in return for guaranteed orders, creation of supplier hubs (i.e. supplier-managed distribution points) near Dell plants, payment for components only on demand, limited supplier base.
- Technology development. Development of website and e-service system, investment in developing server technology.

6. A basis for developing performance measures. Earlier we discussed the requirement that key performance indicators (KPIs) should monitor the critical success factors of the business strategy. If management choose to use the value chain to develop this strategy, they will also provide an understanding of the processes that deliver the strategy. It follows that KPIs should be based on the activities in the firm's value chain.

Supply chain management

Supply chain management is often explained with reference to Porter's value chain and value systems. According to a leading authority (Christopher, 1998): " The supply chain is the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer.

Benchmarking

Definition: CIMA defines benchmarking as: "The establishment, through data gathering, of targets and comparators, through whose use relative levels of performance (and particularly areas of underperformance) can be identified. By the adoption of identified best practices it is hoped that performance will improve".

Purposes of benchmarking:

- A sales variance may indicate to what extent a fall in revenue is due to a fall in sales volume and how much to a fall in price. It does not indicate why people are less inclined to buy our product or are now only prepared to buy it at a lower price.
- variable overhead variance may show us that factory overheads are rising. It does not tell us why we need to hold a greater stock of inventory than before.

- An analysis of our sales returns may show that products are being returned more than before. It does not tell us what is wrong with them or why people are buying a competitor's product.

The purpose of benchmarking is to help management understand how well the firm is carrying out its key activities and how its performance compares with competitor and with other organizations who carry out similar operations

In its Management Accounting: Four types of benchmarking

1. Internal benchmarking: A method of comparing one operating unit or function with another within the same industry [assume it means 'firm' rather than industry].
2. Functional Benchmarking: Internal functions are compared with those of the best external practitioners of those functions, regardless of the industry they are in.
3. Competitive benchmarking: Information is gathered about direct competitors, through techniques such as reverse engineering [decomposition & analysis of competitors' products].
4. Strategic benchmarking: A type of competitive benchmarking aimed at strategic action and organizational change.

Stages in setting up a benchmarking programme:

1. Gain senior management commitment to the benchmarking project. To ensure that the programme enjoys the co-operation and commitment of managers it is essential that the senior management publicly and unequivocally endorse the benchmarking programme.

   Senior managers should be informed of:

   - The objectives and benefits of benchmarking;
   - The likely costs of the programme;
   - The possibility that sensitive data may be revealed to outside organization;
   - The long-term nature of a benchmarking programme and the likelihood that business improvements will take time to achieve.
2. Decide the process and activities to be benchmarked. To work properly this should commence by identifying the outcomes which drive the profits, sales and costs of the business. Factors which might be considered are:

   - Activities which generate the greatest costs;
   - Processes which have been the subject of customer complaints;
   - Processes essential to delivering the firm's competitive advantage.

   Practitioners recommend that benchmarking considers entire processes rather than individual departments.

   Rank Xerox identified a number of processes which could be measured and improved to ensure that clients enjoyed 'best in class' reliability from their machines. One of these was the quality and reliability of the service engineers.
3. Understand the processes and develop appropriate measures. Mapping the processes involves three sorts of activity:

(a) Discussion with key stakeholders in the process. Obviously this will include the process managers but also should include the operative staff, customers and suppliers.

(b) Observation of the process. The benchmarking team should be prepared to walk through the process, observing and documenting the activities and any problems they see.

(c) Experimental approaches involve making adjustments to the process or trying to force it to make mistakes in order to understand how it works better.

Rank Xerox discovered that a major source of customer frustration was the length of time that machines were out of action. Discussions with engineers revealed that a major problem was the sheer diversity of machines and parts and the difficulties in getting these parts in good time.

In the short term attention was focused on the processes of:

- Conducting routine preventative maintenance;
- Allocating engineers to breakdown calls;
- Inventory management of spare parts;
- Delivery of spare parts to engineers on site;
- Quality of technical back-up to engineers on site.

The actual KPIs used by Rank Xerox remain confidential, but the following might be suggested as helpful:

- Incidence of call-outs which could have been avoided by better preventative maintenance;
- Length of time between receipt of service request and arrival of the engineer on site;
- Length of time taken to fix the machine;
- Length of time needed for parts to arrive with the engineer;
- Inventory levels in the service depots (and particularly stock-outs);
- Number of call-outs delayed due to need for engineer to gain assistance from colleagues.

4. Monitor the process measurement system. The measures will need time to bed down. There are two aspects to this:

a) The need for data capture systems to become reliable. For example, for operatives to learn to fill out the forms correctly.

b) The need to establish the reliability of the measures themselves. In new control systems it is quite common to find that some key performance indicators do not relate to the strategic outcomes very well. This is usually because management misunderstand the drivers of their business success.

Consultants recommend that the system be operated for at least a year before its measures are taken as reliable. As the above Motorola example shows, benchmarking is not limited to

numerical performance. Recognition of differences in organizational structures and staffing procedures in often a valuable outcome of the exercise.

5. Choose appropriate organizations to benchmark against. There are four sources of comparative data:

   a) Internal benchmarking: These are other branches within the same organization. The basis of this approach is to identify which branch conducts each measured activity the best to enable best practice to be identified and transferred to other branches.

   b) Competitive benchmarking: This involves comparing performance with rival companies. This presents problems with data access and hence is usually carried out through a benchmarking center. This will be a central authority such as an industry association or professional body. It will collect data from each participant, then supply an analysis to each firm showing its relative performance against the 'best in class' under each activity as well as its overall relative position in the industry.

   c) Activity (or process) benchmarking: The firm may share operations in common with noncompetitive external organizations. For example, Rank Xerox in the USA is known to have compared several aspects of its inventory management with Texas instruments because the letter was best in class.

   d) Generic benchmarking: This is benchmarking against a conceptually similar process. It is unlikely that this will result in comparison of detailed measures but rather the observation of methods and structures. Motor manufacturers are known to have studied the pit-crews of Formula one racing teams to help them reduce the changeover times on their factory production lines. Rank Xerox studied the US mail order house LL Bean to see how they handled bulky items like canoes, in order to improve their own handling of photocopiers.

6. Obtain &analyse data. For example, John Welch, Quality Mangers of Rank Xerox writes:

   'We compared our distribution against 3M in Dusseldorf, Ford in cologne, Sainsbury's regional depot in Herefordshire, Volvo's parts distribution warehouse in Gothenburg and IBM's international warehouse and French warehouse.'

7. Discuss results with process management and staff: Benchmarking is not supposed to be a process which pinpoints people to blame for poor organizational improvement. Rather it is an opportunity for improvement. For this reason, any instance of below-par performance should trigger detailed consideration of ways forward with this management and staff involved. Factors to watch out for here are:

   a) Differences in the operating environment. For example, call-out time is bound to be higher in sparsely populated areas due to the need to travel greater distances.

   b) Differences in factor endowments. Frequently the very high labour productivity of one plant is compared with the poor performance of another without considering that the former has the benefit of much greater mechanization of processes.

c) Differences in product or customer mix.

Management should have every opportunity to explain possible reasons for deviations in performance. It helps no one to set targets which are intrinsically unattainable.

8. Develop and implement improvement programmes. Benchmarking simply monitors relative process performance. It cannot improve it. Once the management accept that there are serious deficits in certain processes, it must look for ways to improve things. This can include: Benchmarking simply monitors relative process performance. It cannot improve it. Once the management accept that there are serious deficits in certain processes, it must look for ways to improve things. This can include:

   a) Visiting the best-in-class to see how they do things;
   b) Work study and process improvement programmes;
   c) Capital investment in R & D and better production and information processes;
   d) Product redesign;
   e) Management and staff training;
   f) Outsourcing;
   g) Organizational restructuring

Evaluation of benchmarking:

The main benefits of benchmarking are:

1. (a) Increased customer satisfaction;

   (b) Reduced waste and costs of poor quality;

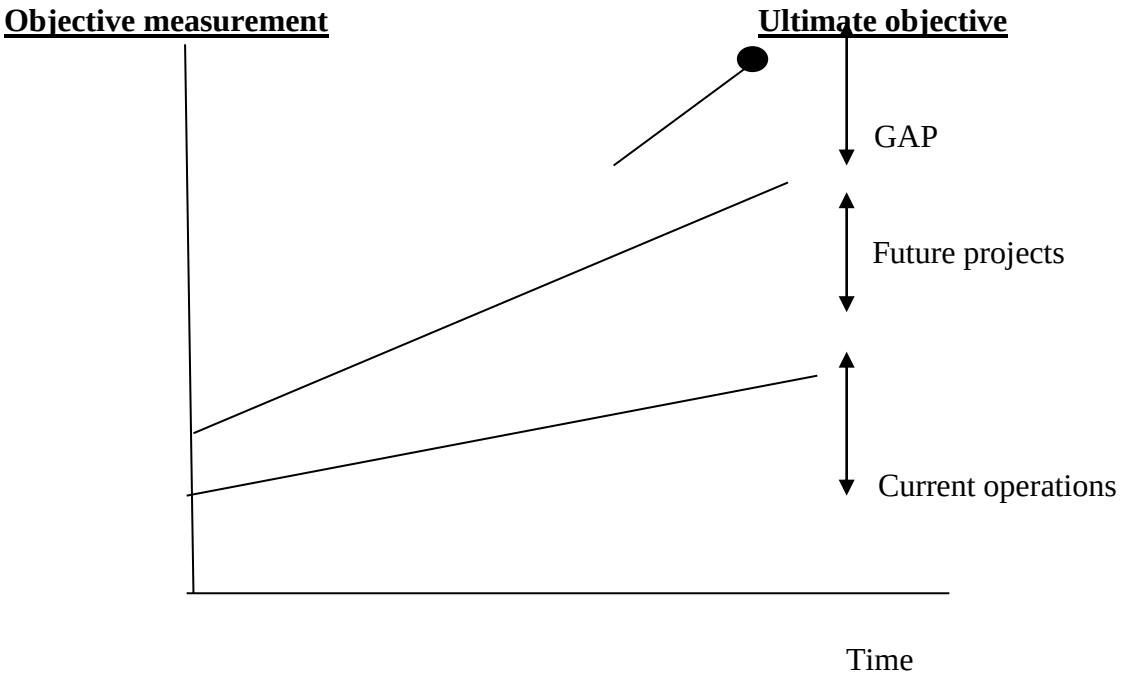
   (c) Reduced overhead through business simplification;

   (d) Transmission of best practice between divisions;
2. It can assist in overcoming complacency and drive organizational change.
3. It provides a way to monitor the conduct of competitive strategy.
4. It provides advance warning of deteriorating competitive position.
5. It improves management understanding of the value-adding processes of the business.

Gap analysis

Definition: A comparison between an entity's ultimate objective (most commonly expressed in terms of demand, but may be reported in terms of profit, ROCE etc.) and the expected performance of projects both planned and under way. Differences are classified in a way which aids the understanding of performance, and which facilitates improvement.

Example of a gap analysis diagram



Gap analysis

Product life cycles:

The product life cycle model:

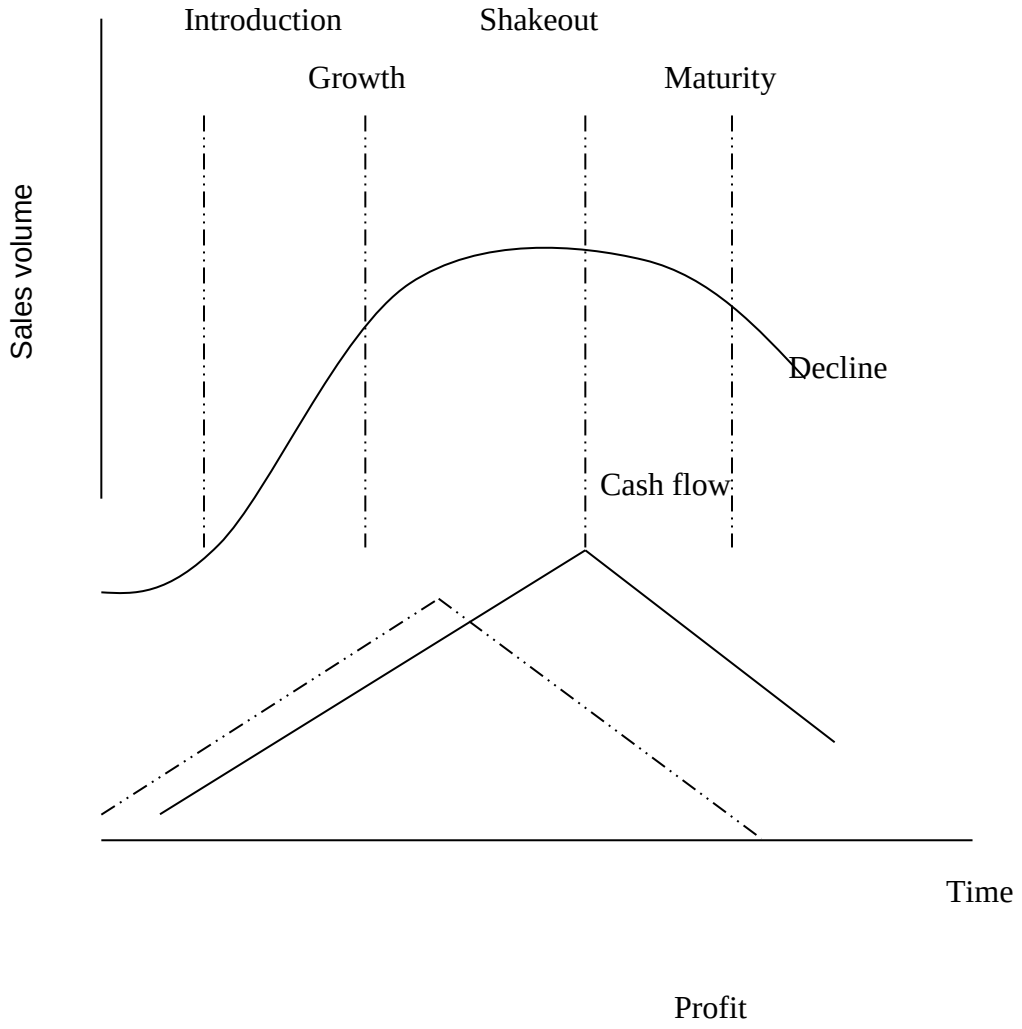
We considered the concept of the industry life cycle. The same concept can be used at the level of product offering and even then can be used at a number of levels. For instance, we could consider the product life cycle of the automobile, or the product lifecycle of diesel power cars, or of leaded petrol cars or convertibles.
The model presents a generalized account of the stages through which a product passes from its initial launch until its final withdrawal from the market due to obsolescence.

The main characteristic of each stage are:

1. Introduction stage. This is a new product and hence will be unfamiliar to the market. The firm will need to invest considerable resources in developing and launching the product (including promotion, stock-building, staff training, etc.) without any guarantees that the product will succeed. Therefore:

    - Strongly negative cash flows;
    - High risk due to product novelty;
    - Single or limited product range to avoid confusing the customer;
    - Few if any competitors willing to take similar risks;
    - High need to introduce recognition and trial of the product;
    - Very high costs per customer.

2. Growth stage. Rapidly increasing sales due to acceptance of the product and a 'bandwagon effect' developing as buyers copy one another. The substantial investment needed to keep up with demand depresses cash flows. The most significant feature of



The Product Life cycle

This stage is increasing complexity as rivals enter the market and the range of products widens as producers seek to attract customers from each other with novel features:

- Negative cash flows;
- Reducing risk due to product having achieved acceptance;
- Market entry by 'copycat' or 'me-too' producers;
- Growth sustained by attracting additional types of customers, sometimes through reductions in price or product features;
- Marketing focus switches to seeking to differentiate the firm's product and brand in the minds of customers.

3. Shakeout stage. The sales growth rate turns down (i.e. becomes ex-growth) due to the market having become saturated. Initially there will be an imbalance between supply and demand because participants will not have forecast the downturn. This is usually resolved by a wave of product or business failure or amalgamation of businesses through takeover or merger. Briefly:

   - Overcapacity creates stimulus for pricing-cutting;
   - Number of producers reduces due to failures or industry concentration;
   - Peak levels of profitability.

4. Maturity stage. This is where purchases settle down into a pattern of repeat or replacement purchasing. For fast-moving consumer goods (FMCGs) like canned foods, soft drinks and confectionery these may be habitual purchases. For durables such as televisions, computers, cars and furniture the frequency of repurchase will be influenced by changing technical features, fashions and wearing-out of old product. The main features will be:

   - Reduction in investment in additional capacity leads to improved current cash flows;
   - Gradual price decline as firms compete against one another for a larger share of a fixed-size market- during this stage buyer and supplier power (porter) increase because of the larger number of industry members to choose between;
   - Firms seek to capitalize on product loyalty by launching spin-off products under the same brand name;
   - Gradual fragmentation of the market as firms seek out buyer groups to monopolies with special value-added features on products (e.g. premium quality foods in addition to regular and budget lines);
   - Peak profitability and least risk.
     The later phases of the mature stage are often characterized by a second wave of consolidations as some firms pursue industry rationalization to restore profitability. This has been noticeable in recent years in industries such as oil and banking.

5. Decline stage. The product declines into obsolescence as technically better substitutes replace it. The existence of such substitutes will cause sharp profit reductions among producers of the product. Many firms will have already found alternative industries, while those remaining will be looking for an orderly way to exist the industry:

   - Falling profitability and marginal cash flows;
   - Firms seek to leave industry.

Using the product life cycle model:

The product life cycle can be used in a number of ways:

1. To determine appropriate strategies for the firm. As the discussion above shows, each stage brings with it a number of strategic prescriptions.

   One great strength of the product life cycle is that it encourages mangers to look beyond present returns when deciding on product investment strategy.

2. To evaluate investment in products. Investment in products should be taken on the basis of the product life cycle gives an indication of whether these revenues may be expected to grow or not and also the likely level of further investment needed.

3. To develop performance measure for the product. Traditional financial control measures are of greatest use in the mature and decline stages where the most appropriate management style is one of critical use of resources and maximization of cash flows. During the introduction and growth stages, the factors which should be controlled are ones related to the product's market success because these will determine its future financial value.

The BCG portfolio Matrix

Levels of portfolio analysis: A portfolio means a 'collection'. In the present context it means a collection of products or businesses.

In business, portfolio analysis management seek to visualize their operations as a collection of income-yielding assets. This approach is based on an approach used in financial strategy and is intended to give guidance on where to invest additional funds.

1. A product portfolio. A business unit may provide a range of products to its customers. For example, a life assurance firm may offer a number of products such as pensions, endowments, whole life, critical illness and guaranteed income polices.

2. A business (or corporate) portfolio. This is the businesses as seen from head office. Here the strategic business units (SBUs) are being seen as a collective whole.

The growth-Share matrix

The most well-known example of product or corporate portfolio analysis is provided by the Boston Consulting Group (BCG). There is a definition of the model in CIMA: Management Accounting: official Terminology, 2005. The BCG model requires management to plot the position of their business units (or products) against two axes:

The BCG Matrix

Market growth rate. This is the annual percentage change in sales volume in the industry as a whole.

This allows the business units to be plotted on a two-dimensional space, as shown in above figure.

An additional factor is the inclusion of sales turnover in the model. The proportion of total group sales turnover accounted for each division is converted to the radius of a circle, with its center a the coordinates of the division.

The importance of relative market share:

High relative market share is of central importance as the key to competitive success argues the BCG. This is principally based on its earlier discovery of experience curves.

An experience curve is in many ways similar to a learning curve effect: the organization becomes more efficient in producing and marketing a given product as it produces more of it. This leads to the statement that unit cost declines and cumulative volume increases. BCG claim this typically amounts to a 15% fall in unit costs for every doubling of cumulative volume.

BCG argue that all firms in the industry face essentially the same experience curve effects. Consequently as the industry progresses the unit costs of each participant will fall. Inevitably this will lead to falling prices. The firm that survives this process will be the firm with the lowest costs which, by extension, will be the one with the highest cumulative volume.

The conclusion is that domination of the market is essential for low costs and hence competitive success. Hence high relative market share is sought within the BCG matrix.

High relative share therefore brings several benefits:

- The enjoyment of lower unit costs and therefore higher current margins than competitors at the same price levels;
- The ability to be a price leader- if the firm decides to cut price, others must follow to maintain their sales, but in so doing may find themselves selling at below unit costs;
- The dominance of the market means that the product will become the benchmark product- 'the real thing' against which others may be seen as pale imitations.

Strategies for each quadrant:

1. Question marks (Problem children). These products are in a high growth market which means that it is early in the product life cycle and therefore has the potential to repay present investment over its life cycle. Indeed the high market growth rate means that the firm will already be investing considerable sums in it.

   The low relative market share, however, means that this business unit is unlikely to survive in the long run because it will have a lower cost competitor.

   Management must decide between investing considerably more in the product to build its market share or shutting it down now before it absorbs any further investment which it will never repay. Investing to build can include:

   - Price reductions;
   - Additional promotion & securing of distribution channels;
   - Acquisition of rivals;
   - Product modification.
2. Stars. Very competitively strong due to high relative market share, although their current results will be poor due to the need to invest considerable funds into keeping up with the market growth rate.

   The strategy here is to hold market share by investing sufficient to match the commitment of rivals and the requirements of the marketplace.

3. Cash cows. These are mature products (low growth rate) which retain a high relative market share. The mature stage means that their prospects are limited to falling prices and

volumes. Therefore investment will be kept under strict review and instead the priority is to maximize the value of free cash flows through a policy of harvesting the product.

Harvest means to minimize additional investment in the product to maximize the case the division is spinning off. This cash can be used to support the question mark products as well as satisfy demands for dividends and interest.

Holding may also be used for early-mature stage products where the market may repay the extra investment.

4. Dogs. Dogs come into being from two directions:

- Former cash cows that have lost market share due to management's refusal to invest in them;
- Former question marks which still had a low relative share when the market reached maturity.

In either case the BCG recommends divestment of the product or division. This can mean selling it to a rival, or shutting it down to liquidate its assets for investment in more promising business units.

In deciding whether or not to divest a dog, the following considerations should be taken into account:

(a) Whether the dog still provides a positive contribution or not.
(b) What is the opportunity cost of the assets it uses? For example, the contribution from products that could be made using its factory or the interest on the net proceeds from liquidation of the SBU.
(c) The impact on the rest of the portfolio that would result from divesting the SBU. Is it essential to attract customers for example?

In later versions the BCG introduced the notion of a cash dog to accommodate another strategy of creating a niche position for a dog product based on its nostalgia value (e.g. Mini cars) or because a group of loyalist customers remain who will continue to pay high prices for the product (e.g. hand-made cigars).

Evaluation of the BCG matrix:

The principal benefits of the BCG matrix are that it:

1. Provides a convenient way for management to visualize a diverse range of businesses or products.

2. Ensures that management perceive of the portfolio of businesses holistically, rather than assessing each unit independently. Specifically management will:

- Pay attention to cash-flow balances within the product portfolio;
- Recognize the need for question mark and star products to be developed to ultimately replace present cash cows.

3. Can be used to analyse the portfolios of rival firms:

- To Identify which products they may decide to devote resources to;
- To spot potential areas for attack such as knocking out a crucial cash cow with an identical product.

Q9. Differentiate between Strategy Formulation vs Strategy Implementation.

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

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is **placing the Forces before the action**.	In short, Strategy Implementation is **managing forces during the action**.
Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making.	Strategic Implementation is mainly an **Administrative Task** based on strategic and operational decisions.
Strategy Formulation emphasizes on **effectiveness**.	Strategy Implementation emphasizes on **efficiency**.
Strategy Formulation is a **rational process**.	Strategy Implementation is basically an **operational process**.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of **initiative and logical skills**.	Strategy Implementation requires specific **motivational and leadership traits**.
Strategic Formulation precedes Strategy Implementation.	STrategy Implementation follows Strategy Formulation.

10. What is Strategy?

Strategy means consciously choosing to be clear about company's direction in relation to what's happening in the dynamic environment. With this knowledge, a manager is in a much better position to respond proactively to the changing environment.

The fine points of strategy are as follows:

- Establishes unique value proposition compared to your competitors
- Executed through operations that provide different and tailored value to customers.

- Identifies clear tradeoffs and clarifies what not to do.
- Focuses on activities that fit together and reinforce each other.
- Drives continual improvement within the organization and moves it toward its vision.

11. What is a Strategic plan?

Simply put, a strategic plan is the formalized roadmap that describes how the company executes the chosen strategy. A plan spells out where an organization is going over the next year or more and how it's going to get there. Typically, the plan is organization-wide or focused on a major function such as a division or a department. A strategic plan is a management tool that serves the purpose of helping an organization do a better job, because a plan focuses the energy, resources, and time of everyone in the organization in the same direction.

A strategic plan:

- Is for established business and business owners who are serious about growth.
- Helps to build competitive advantage
- Communicates the strategy to staff.
- Prioritizes the financial needs.
- Provides focus and direction to move from plan to action.

12. What is the Strategic planning process?

In order to create a strategic plan, strategic planning process is to build first. The planning process typically includes several major activities or steps. People often have different names for these major activities. They may even conduct them in a different order. Strategic planning often includes use of several key terms as well.

13. What are the big planning pitfalls?

Strategic planning can yield less than desirable results if it ends up in one of the possible pitfalls. To prevent that from happening, here's a list of the most common traps to avoid:

- **Relying on bad information or no information:** A plan is only as good as the information on which it's based. Too often, teams rely on untested assumptions or hunches, erecting their plans on an unsteady foundation.
- **Ignoring what your planning process reveals:** Planning isn't magic: The planning process includes research and investigation. The investigation may yield results that tell the managers not to go in a certain direction. Do not ignore that information!
- **Being unrealistic about your ability to plan:** Put planning in its place and time. It takes time and effort to plan well. Some companies want the results but are not willing or able to make the investment. Be realistic resources, which include your time, energy, and money. .
- **Planning for planning sake:** Planning can become a substitute for action. Do not plan so much that it ignore the execution. Well-laid plans take time to implement. And results take time to yield an outcome.
- **Get your house in order first:** Planning can reveal that organization isn't in order. When an organization pauses to plan, issues that have been derail planning efforts. Make sure that

the company is in order and that there are no major conflicts before it embark on strategizing.

- **Do not copy and paste:** It is easy to fall into the trap of copying the best practices of a company similar to the organization. Although employing best practices from industry is important, other organizations' experiences are not relevant to the company. Organizations are unique, complex, and diverse. One need to find ones own path instead of following a cookie-cutter approach.

14. What are the components of a Strategic plan?

There are several different frameworks to think about and use while you're developing a strategic plan. Think of the frameworks as different lenses through which to view the strategic planning process. Never look through two or three lenses at once. Normally use one at a time,

- **Strategy and culture:** An organization's culture is made up of people, processes, experiences, ideas and attitudes. The strategy is where the organization is headed, what path it takes, and how it gets there. One can't have strategy without culture or vice versa. The culture is like the culture of a house, and if it's not in order, the best strategy in the world can't the your company anywhere.
- **Internal and external:**Similar to the strategy and culture framework (previous bullet), you have an internal and external framework. The strategy is external. You gather information from your customers, competitors, industry, and environment to identify your opportunities and threats. Through employee surveys, board assessments, and financial statements, you identify your company's strengths and weaknesses, which are internal.
- **The Balanced Scorecard perspectives:** The Balanced Scorecard is a framework used to develop goals and objectives in four areas (instead of departments): financial, customers, internal business processes, and people. The financial, internal business processes, and people areas are internal. The customer area is external.
- **Market focus:** Growth comes from focusing on your customers and delivering superior value to them consistently year after year. Built into your strategic plan is a market-focus framework because of how critical this is to your organizational growth.
- **Where are we now? Where are we going? How will we get there?:**Because it's easy to confuse how all the elements of a plan come together and where they go, this framework is a simple, yet clear way of looking at the whole plan.

15.. Who uses strategic plans?

Every one- or at least every company and organization that wants to be successful. Companies in every industry, in every part of the country, and in most of the Fortune 500 use strategic plans. Organizations within the non-profit, government, and small to big business sectors also have strategic plans.

16. Does every strategic plan include the same elements?

A strategic plan should include may elements:

- A mission statement and vision statement.
- A description of the company's long-term goals and objectives
- Strategic the company plans to use to achieve general goals and objectives.
- Action plans to implement the goals and objectives.

The strategic plan may also identify external factors that can affect achievement of long-term goals. Plans may vary in details and scope (depending on how big the organization is), but for the most part, a strategic plan includes the basic elements listed above.

17. Just exactly what is strategic planning?

The term strategic planning refers to a coordinated and systematic process for developing a plan for the overall direction of your endeavor for the purpose of optimizing future potential. For a profit-making business, this process involves many questions:

- What is the mission & purposes of the business?
- Where do we want to take the business?
- What do we sell currently? What could we sell in the future?
- To whom shall we sell it?
- How shall we beat or avoid competition?

The central purpose of this process is to ensure that the course and direction is well thought out, sound, and appropriate. In addition, the process provides reassurance that the limited resources of the enterprise (time and capital) are sharply focused in support of that course and direction. The process encompasses both strategy formulation and implementation.

18. What is the difference between strategic planning & long-range planning?

The major difference between strategic planning and long-range planning is in emphasis. Long-range planning is generally considered to mean the development of a plan of action to accomplish a goal or set of goals over a period of several years. The major assumption in long range planning is that current knowledge about future conditions is sufficiently reliable to enable the development of these plans. Because the environment is assumed to be predictable, the emphasis is on the articulation of internally focused plans to accomplish agreed-on goals.

The major assumption in strategic planning, however, is that an organization must be responsive to a dynamic, changing environment. Therefore, the emphasis in strategic planning is on understanding how the environment is changing and will change and on developing organizational decisions that are responsive to these changes.

19. Does every company need a strategic plan?

Every endeavor or enterprise already has a strategy. These range from some vague sense of the desires of the owner to massive, overly sophisticated master plans. So the question should not be whether every company needs a strategy but instead whether the company's strategy needs to be well thought out, sound, appropriate, and do-able. The answer is yes.

F. We are highly successful already, so why should we plan?

Success is strong evidence that a company has had a sound and appropriate strategy. Note the paste tense. There's absolutely no guarantee that yesterday's should and appropriate strategy will continue to be successful in the future. Indeed, there's great danger in assuming so without adequate study.

20. Can a smaller company afford the time for strategic planning?

Experience shows that the top management team devotes approximately 2 to 4 percent of its time to practical strategic planning. In reality, structured strategic planning is not something

more to do; it's a better way of doing some thing already being done. Indeed, in the long run, you save time.

But understand, strategic planning can become a time trap. ;you can become caught in a long slog of planning if you get too mired down in the details. From the outset, you need to establish that the plan is a living document and that it is not written in stone. By doing that, you can avoid strategic planning becoming a time trap.

21. Why plan in a world that's highly uncertain?

Your efforts in forward planning can become pointless if you fear that the plan may be overwhelmed by unanticipated events and developments. Uncertainty is, indeed, a major problem in forward planning. However, the greater the uncertainty, the greater the need for good strategic planning because you want to try to be ready for the unknown.

22. How can we be confident that our planning will be successful?

Even in the presence of a structured strategic planning process, it's quite possible to formulate unsound, inappropriate strategies and/or to fail at implementation. But this book helps you run your organization better. You can be confident that the information and best practices outlined in this book result in a successful strategic planning process. I promise!

23. What is strategic thinking?

Strategic thinking means asking yourself "As we doing the right thing?" it requires three major components:

- Purpose or end vision
- Understanding the environment, particularly of the competition affecting and/or blocking achievement of these ends.
- Creativity in developing effective responses to the competitive forces.

24. What is demographic environment of business?

The term **demographics** denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership, home ownership, employment status and location. Data with respect to these factors within a demographic variable, and across households, are both of interest, as well as trends over time to businessmen in addition to economist. Marketers and other social scientists often group populations into categories based on demographic variables. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, education growth rate affect the business with different magnitude. India has relatively younger population as compared to some countries. China on the other hand is having an aging population. Multinationals are interested in India considering its population size. With having approximately 16% of the world's population, the country holds huge potential for overseas companies.

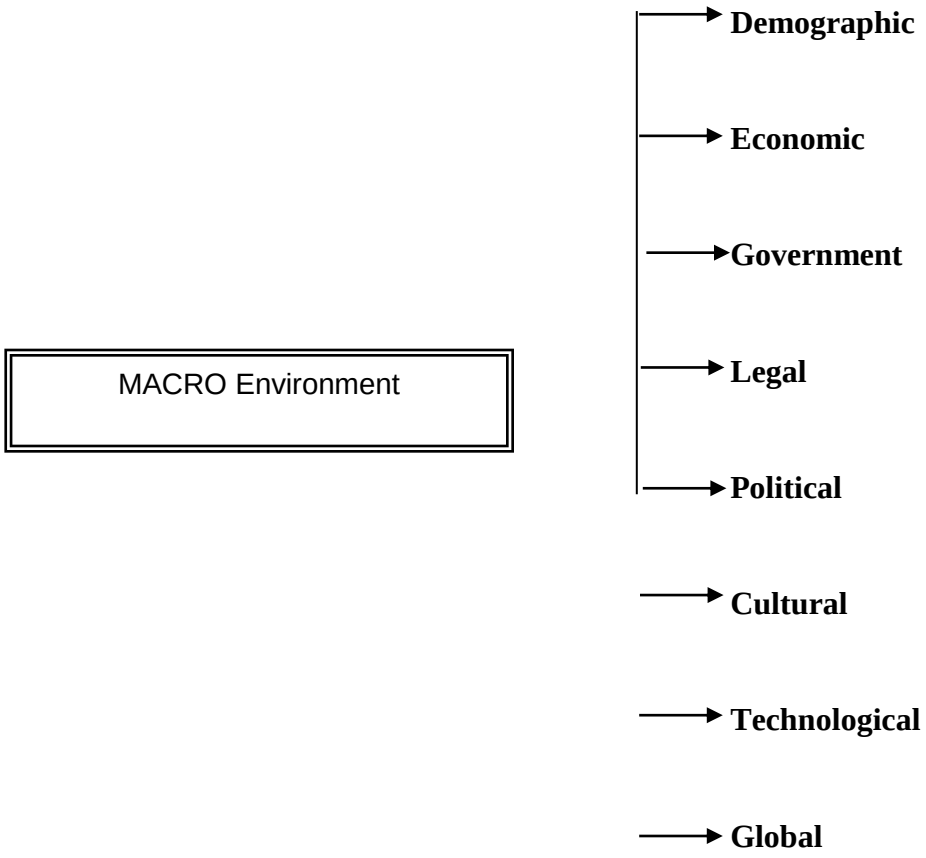
We will briefly discuss a few factors that are of interest to a business.

1	Population size	2.	Geographic Distribution
3.	Ethnic Mix	4.	Income Distribution

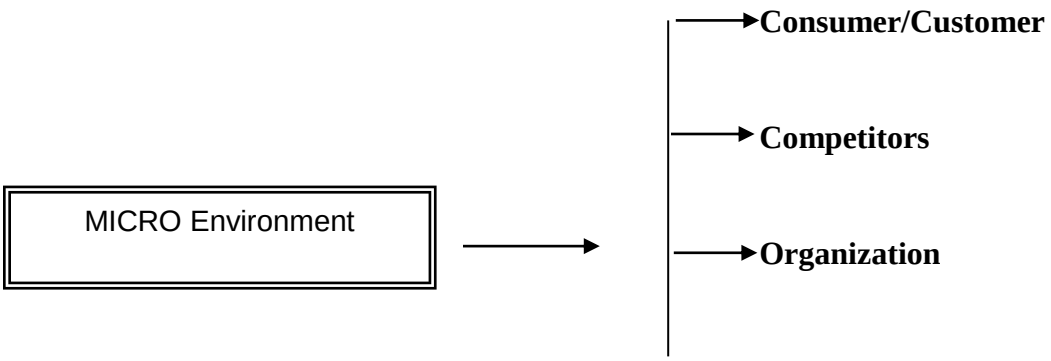
25. Write a short note on The MICRO & MACRO Environment. (Environmental Scanning)

The environment of business can be categorized into two broad categories micro-environment and macro-environment.

Macro Environment: consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.



Micro Environment: Consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis.



→ **Market**

→ **Suppliers**

→ **Intermediaries**

This is also known as the task environment and affects business and marketing in the daily operating level. When the changes in the macro environment affect business in the long run, the effect micro environmental changes are noticed immediately. Organizations have to closely analyze and monitor all the elements of micro environment in order to stay competitive.

Environmental Scanning:

Environmental scanning also known as environmental monitoring is the process of gathering information regarding company's environment, analyzing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronize its marketing programmes with its environmental changes.

26. Do you advocate that organizations should concern themselves with the elements of its outside world? Why?

Yes, All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business, which continually remains passive to the relevant changes in the environment, is destined to gradually fade-away in oblivion. To be successful business has not only recognize different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

Environment is sum of several external and internal forces that affect the functioning of business. According to Barry M. Richman and Melvyn Copen "Environment factors or constraint are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly form country to country.

"A strategist looks on the environment as posing threats to a firm or offering immense opportunities for exploitation. Stressing this aspect, Glueck and Jauch wrote: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm.

Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government."

Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.

Different organizations use different inputs, adopt different processes and produce different outputs. For example, an educational institution produces literate people. A hospital provides health and medical services. Organizations depend on the external environment for the inputs required by them and for disposing of their outputs in a mutually beneficial manner. The inputs-output exchange activity is a continuous process and calls for an active interaction with the external environment.

27. What is competitive environment? Discuss the five forces driving industry competition as given by Porter.

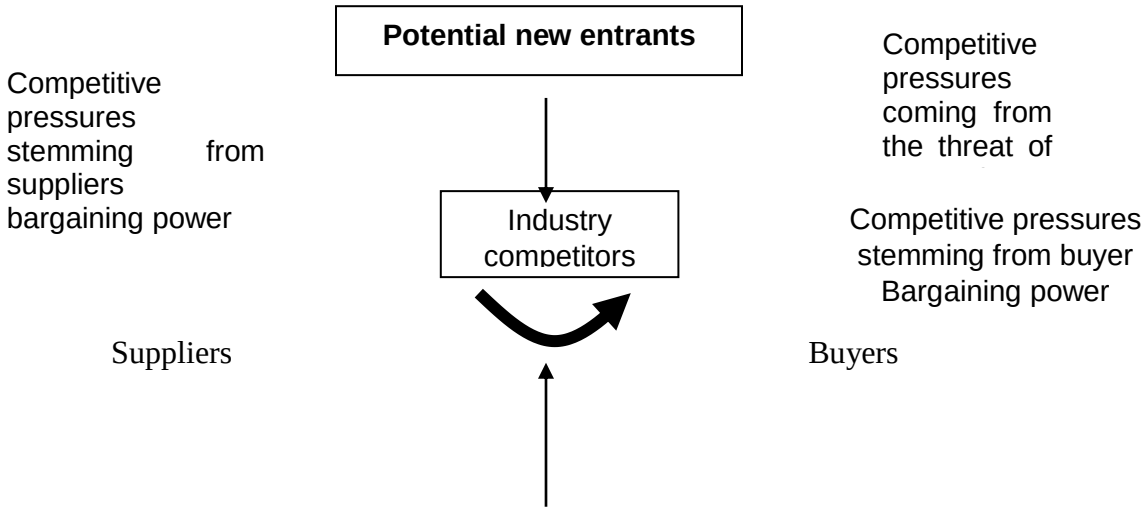
Competitive rivalry is the most obvious form of competition: the head-to-head rivalry between firms making similar products and selling them in the same market. Rivalry can be intense and cut-throat, or it may be governed by unwritten 'rules': gentlemen's agreements which help the industry to avoid the damage that excessive price-cutting, advertising and promotion expenses can inflict on profits. This type of environment is known as competitive environment.To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. Thinking strategically about a company's competitive environment entails using some well-defined concepts and analytical tools.

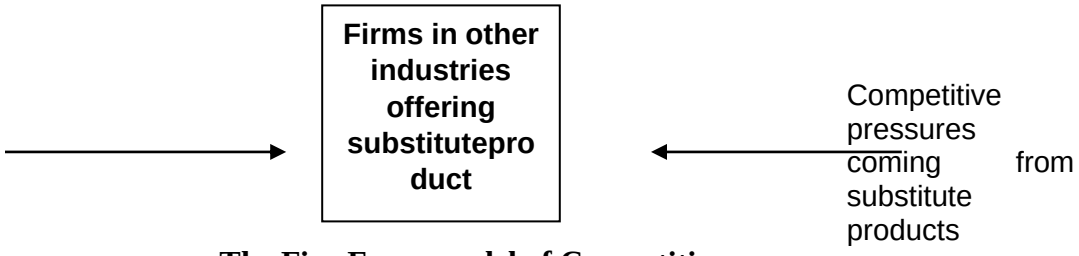
The way one uses the five-forces (**Porter Five Forces)** model to determine what competition is like in a given industry is to build the picture of competition in three steps:

Step 1: Identify the specific competitive pressures associated with each of the five forces.

Step 2: Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).

Step 3: Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.





The Five Force model of Competition

Threat of new entrants: New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

Bargaining power of customers: this is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer in matters such as price, quality and delivery. Such collusion on the art of buyers can be a major force in some industries (Buyer's **Market**).

Bargaining power of suppliers: Quite often suppliers, too, exercise considerable bargaining power over companies in **seller's market**. The more specialized the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

Rivalry among current players: The rivalry among existing players is ideas that can be easily understand. This is what is normally understood as competition. And it is obvious that for any player, the competitors' influences prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

Threats from substitutes: Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fiber.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and these forces govern all such elements. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry as also within a given.

27. Write a short note on business policy.

According to Glueck, development in business policy arose from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning

was replaced by strategic planning, and later by strategic management:, a term that is currently used to describe the process of strategic decision making.

Business policy, as defined by Christensen and others, is "the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance.

28. Explain diversification as strategy.

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. When an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification. Both the technology of the product and of the market are different from the firm's present experience.

Diversification is a means of utilizing their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, invest able funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth. Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

29. What do you understand by strategy? What are major strategic alternatives available to a business organization?

A typical dictionary will define the word strategy as something that has to do with war and deception of an enemy. In business organizational context the term is not much different. Businesses have torespond to a dynamic and often hostile environment for pursuit of their mission. Strategy seeks to relate the goals of the organization to the means of achieving them. A company's strategy is the game plan management is using to stake out market position, conduct its operations, attract & please customers, compete successfully, & achieve organizational objectives.

According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

Stability Strategies: One of the important goals of a business enterprise is stability- to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimize returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same products and services.
- The strategic decisions focus on incremental improvement of functional performance.

Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. An enterprise on the move is a more agreeable stereotype than a steady-state enterprise.

Expansion through diversification: Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. When an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification. Both the technology of the product and of the market are different from the firm's present experience

Expansion through acquisitions and mergers: Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialize growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, and happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result formsuch bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are grater than the some of the effects of the individual resources before merger or acquisition.

Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal- 'Strategic retreat' is often resorted to in military engagements. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimize the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder in launched.

Combination Strategies: The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

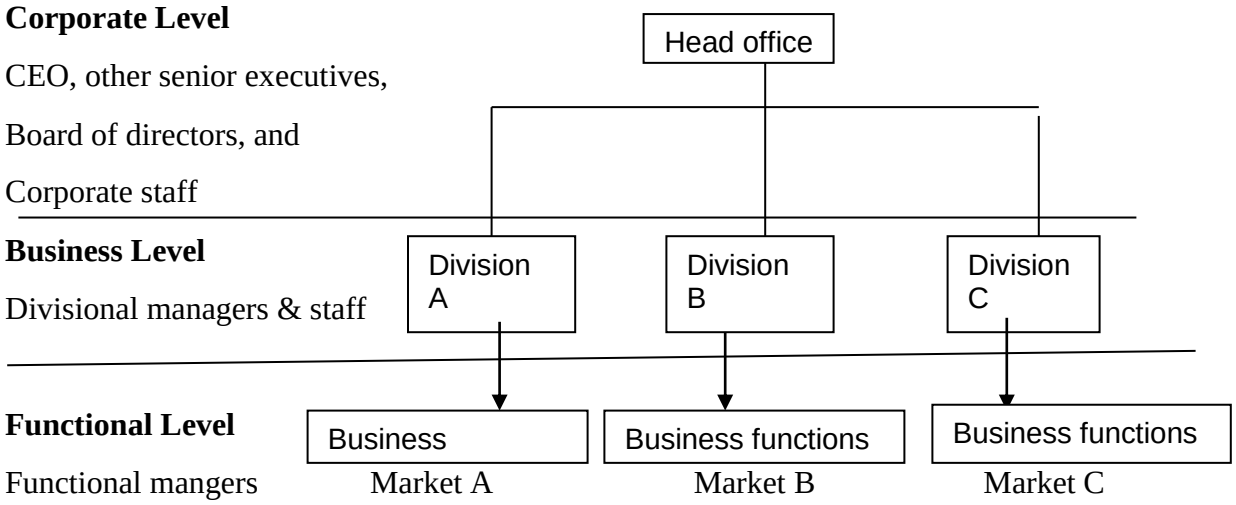
The Dynamics of competitive Strategy: Strategic thinking involves orientation of the firm's internal environment with the changes of the external environment. The competitive strategy

evolves out of consideration of several factors that are external to the firm as shown in the figure- Context in which competitive strategy is formulated.

30. Discuss different strategic levels in organizations.

In most companies, there are two main types of mangers: general managers, who bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions, and functional mangers, who are responsible for supervising a particular function, that is, a task, activity, or operation. Like finance and accounting, production, marketing, R & D, information technology, or materials management.

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. If a company provides several different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service. The general mangers of these divisions then become responsible for their particular product line. The overriding concern of general mangers is for the health of the whole company or division under their direction; they are responsible for deciding how to create a competitive advantage and achieve high profitability with the resources and capital they have at their disposal. Figure 'levels of strategic management' shows the organization of a multidivisional company that is, a company that competes in several different businesses and has created a separate self-contained division to manage each of these. As you can see, there are three main levels of management: corporate, business, and functional. General mangers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.The corporate level of management consist of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, the role of **corporate-level mangers** is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organizations. **Figure: Level of Strategic Management**



Consider General Electric (GE) as an example, GE is active in a wide range of businesses, including, lighting equipment, major appliances, motor and transportation equipment, turbine generators, construction and engineering services, industrial electronics, medical systems, aerospace, aircraft engines, and financial services. The main strategic responsibilities of its CEO, Jeffrey immelt, are setting overall strategic objectives, allocating resources among the different business areas, deciding whether the firm should divest itself of any of its businesses, and determining whether it should acquire any new ones. In other words, it is up to Immelt to develop strategies that span individual businesses; his concern is with building and managing the corporate portfolio of businesses to maximize corporate profitability.

It is not his specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of the general mangers in these different businesses or business level mangers. However, it is Immelt's responsibility to probe the strategic thinking of business-level mangers to make sure that they are pursuing robust strategies that will contribute toward the maximization of GE's long-run profitability and to hold them into account for their performance.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level mangers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level mangers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company purposes are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

A business unit is a self-contained division (with its own functions-for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business level manger, is the head of the division. The strategic role of these mangers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level general managers are concerned with strategies that span individual business, business-level general mangers are concerned with strategies that are specific to a particular business. At GE, a major corporate goal is to be first or second in every business in which the corporation competes. Then the general mangers in each division work out for their business the details of a strategy that is consistent with this objective.

Functional-level mangers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manger's sphere of responsibility is generally confined to one organizational activity, whereas general mangers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business and corporate-level general managers.

In GE's aerospace business, for instance, manufacturing mangers are responsible for developing manufacturing strategies consistent with the corporate objective of being first or second in that industry. Moreover, functional mangers provide most of the information that

makes it possible for business-and corporate level general mangers to, formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manger is, functional mangers themselves may generate important ideas that subsequently may become strategies for the company. Thus, it is important for general mangers to listen closely to the ideas of their functional mangers. An equally great responsibility for mangers at the operational level is strategy implementation; the execution of corporate and business level plans.

Characteristics of strategic management decisions at different levels

Characteristics	**Level of Strategy**		
	Corporate	**Business**	**Functional**
Type	Conceptual	Mixed	Operational
Measurability	Value judgments dominant	Semi quantifiable	Usually quantifiable
Frequency	Periodic or sporadic	Periodic or Sporadic	Periodic
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide range	Moderate	Low
Profit potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long range	Medium range	Short Range
Flexibility	High	Medium	Low
Cooperation required	Considerable	Moderate	Little

31. Discuss the process of strategic management.

The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are

- Setting vision and mission: Forming a strategic vision of where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purposeful action.
- Setting objectives: Converting the strategic vision into specific performance outcomes for the company to achieve.
- Crafting a strategy to achieve the desired outcomes.
- Implementing and executing the chosen strategy efficiently and effectively.
- Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

32. **Discuss Importance of Strategic Management.**

Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure. In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defense mechanism, helping the firm avoid costly mistakes in product market choices or investments.

Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth. It is not just a matter of projecting the future. It is not just a forecasting job; it is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and even shape the future in its favour. Its ultimate burden is influencing the environmental forces in its favour, working into the environs and shaping it, instead of getting carried away by its turbulence or uncertainties. It is environmental uncertainty that makes strategy and strategic conduct essential in a business. The more intense the environmental uncertainty, more critical is the need for strategic management.

Quite naturally, considerable thought, expertise and effort goes into the process of strategic management. The success of the efforts and activities of the enterprise depends heavily on the quality of strategic management, i.e. the vision, insight, experience, quality of judgment and the perfection of methods and measures.

Strategic planning and implementation have become a must for all organizations for their survival and growth in the present turbulent business environment. 'Survival of fittest' as propagated by Drawin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organization but those who can change and adapt successfully to the changes in business environment. Just like the extinction of the dinosaurus who ruled the earth one time but failed to survive in change condition of earth natural environment many organizational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only following strategic analysis, formulation and implementation.

32. List the characteristic of Corporate Strategy.

In general, a corporate strategy has the following characteristics:

- It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
- It is action oriented and is more specific than objectives.
- It is multi-pronged and integrated.
- It is flexible and dynamic.
- It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
- It is generally meant to cope with a competitive and complex setting.
- It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.

- It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
- It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- It provides unified criteria for managers in function of decision-making.

33. Elaborate Vision, Mission and Objectives.

Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this chapter.

The Vision

Very early in the strategy making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully rezoned conclusions about how to try to modify the company's business makeup and the market position it should shake out.

Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organization identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Henry Ford's vision of a car in every garage had power because in captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

A Strategic Vision is a road map of a company's future –providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The three elements of a strategic vision:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "who we are and where we are now?
2. Using the mission statement as basis for deciding on a long-term course making cholices about "Where we are going?"
3. Communicating the strategic vision is clear, exciting terms that arouse organization wide commitment.

Development of A Strategic vision:

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- Many successful organizations need to change direction not in order to survive but in order to maintain their success.
- A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
- The best-worded vision statement clearly and crisply illuminate the direction in which organization is headed.

Mission:

According to Glueck&Jauch mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Analysis shows that in actual practice many business firms fail to conceptualize and articulate the mission and business definition with the required clarity. And such firms are seen to fumble in the selection of opportunities and the choice of strategies. Firms wedded to the idea of strategic management of their enterprise cannot afford to be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

Need of mission :

- To ensure unanimity of purpose within the organization.
- To provide a basis for motivating the use of the organization's resources.
- To develop a basis, or standard, for allocating organizational resources.
- To establish a general tone or organizational climate, for example, to suggest a business like operation.
- To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating future in the organization's activities.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A company's **Mission Statement** is typically focused on its present business scope- "Who we are and what we do", mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Mission should contain elements of long-term strategy as well as desired out comes they often basic values and the philosophy of the organizations that is perceived by the senior mangers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy. Following points are useful while writing mission of a company:

- The mission is not to make a profit.
- One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development-one that typically sets it apart form other similarly situated companies.

- A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- Good mission statements are highly personalized-unique to the organization for which they are developed.

Objectives and Goals:

Business organization translates their vision and mission into objectives. As such the term objectives are synonymous with goals, however, we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes, which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, several theorists on the subject do not make this distinction. Accordingly, we will also use the term interchangeably. All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objectives are organizations performance targets-the results and outcomes it wants to achieve. They function as yardstsick for tracking an organizations performance and progress.

Objectives with strategic focus relate to outcomes that strengthen an organizations overall business position and competitive vitality. Objective to be meaningful to serve the intended role must possess following characteristics:

- Objectives should define the organization's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame.
- Objectives should be measurable and controllable.
- Objectives should be challenging.
- Different objectives should correlate with each other.
- Objectives should be set within constraints.

34. What is a key success factor?

An industry's key success factors (KSFs) are those things the most affect industry member's ability to prosper in the marketplace- the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close

attention to them- they are- the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

- On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?
- What resources and competitive capabilities does a seller need to have to be competitively successful?
- What does it take for sellers to achieve a sustainable competitive advantage?

In apparel manufacturing, the KSFs are appealing designs and colour combinations (to create buyer interest) and low cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins). In tin and aluminum cans, because the cost of shipping empty cans is substantial, one of the keys is having plants located close to end-use customers so that the plant's output can be marketed within economical shipping distances (regional market share is far more crucial than national share).

Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration. At the very least, managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important. They heed to know what kinds of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy. In contrast, a company with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors. Indeed, companies that stand out on a particular KSF enjoy a stronger market position for their, efforts-being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the industry's KSF s cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Mangers, therefore, have to resist the temptation to include factors that have only minor importance on their list of key success factors the purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

35. Explain dogs in BCG matrix?

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth matrix. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.
  Using the matrix, organizations can identify four different types of products or SBU as follows:

- **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

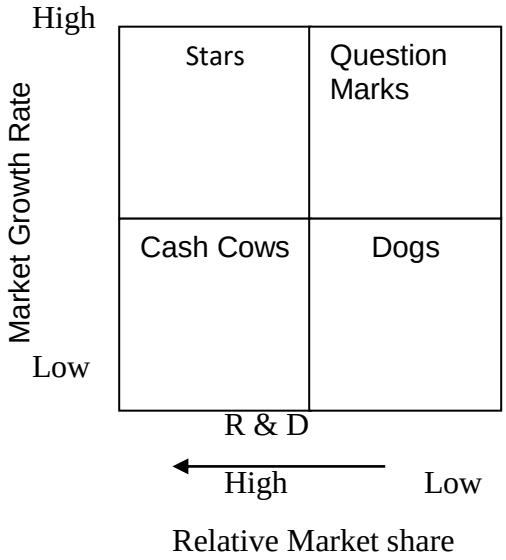


Figure: BCG Growth-share Matrix

Question Marks,Sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organizations to turn them stars and then to cash cows when the growth rate reduces.

- **Dogs** are low-growth, low share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation.

Once the organizations have classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

1. **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. **Hold:** Here the objective is to preserve market share.

3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere. The growth-share matrix has done much to help strategic planning study; however, their are problems and limitations with the method. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

36. What's the significance of SWOT analysis of an organization?

- It provides a logical framework SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy. Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to differences in approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.
- It presents a Comparative Account: SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. The helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations says, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths. In case a different strategy is needed, a situation varies.
- It guides the strategist in strategy identification: it is natural that a strategist faces a problem when his organization cannot be matched in the four patterns. It is possible that the organization may have several opportunist and same serious threats. It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors. In such situation, SWOT analysis guides the straight to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

SWOT analysis helps mangers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

Faced with constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e. an organization's SWOT analysis.

Figure: SWOT analysis: A company's strengths, weaknesses, Opportunities and threats.

Potential resource strengths and competitive capabilities A	Potential weaknesses and competitive deficiencies B
Potential company opportunities	Potential external threats to company's well being

A. Potential Resources Strengths and competitive capabilities:

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business.
- Strong brand name, image/company reputation.
- A widely recognized market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Proprietary technology/superior technological skills/important patents.
- Superior intellectual capital relative to key rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving product processes.
- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- A reputation for good customer service.
- Better product quality relative to rivals.
- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

B. Potential Resource Weaknesses and competitive deficiencies:

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- Sub-par profitability; no cost control measures or cost accounting practices.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- Too narrow a product line relative to rivals.
- Weak brand image or reputation.
- Weaker dealer network than they rivals and/or lack of adequate global distribution capability.
- Sub-par e-commerce systems and capabilities relative to rivals.
- Short on financial resources to find promising strategic initiatives.
- Lots of underutilized plant capacity.
- Behind on product quality and/or R & D and/ or technological know-how.
- Not attracting new customers as rapidly as rivals.

C. Potential company opportunities:

- Serving additional customer groups or expanding into new geographic markets or product segments.

- Expanding the company's product line to meet a broader range of customer needs.
- Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
- Using the internet and e-commerce technologies to dramatically cut costs/ or to pursue new sales growth opportunities.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Openings to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company's brand name or reputation to new geographic areas.

D. Potential External Threats to Company's Well-being:

- Likely entry of potent new competitors.
- Loss of sales to substitute products.
- Mounting competition from new internet start-up companies pursuing e-commerce strategies.
- Increasing intensity of competition among industry rivals-may cause squeeze on profit margins.
- Technological changes or product innovations that undermine demand for the firm's product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulatory requirements.
- Growth bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry's product.
- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.

37. Explain Ansoff's product market growth matrix.

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

Market Penetration: Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales

to presents customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers.

Market Development: Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

Product Development: Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

	Existing	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure: Ansoff's Product Market Growth Matrix

38. Explain the General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed. This also uses two factors in a matrix/grid situation as shown below:

Business position

Market Attractiveness	High	Medium	Low
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

Figure: The GE Matrix

Each of the above two factors is rated according to criteria such as the following:

Evaluating the ability to compete: Business position	**Evaluating the market attractiveness**
Size	**Size**
Growth	**Growth**
Share by segment	**Customer satisfaction levels**
Customer loyalty	**Competition: quality, types,**
Margins	**Effectiveness, commitment**
Distribution	**Price levels**
Technology skills	**Profitability**
Patents	**Technology**
Marketing	**Government regulations**
Flexibility	**Sensitively to economic trends**
Organization	

Figure: Criteria for rating Business position and Market Attractiveness

The criteria used to rate market attractiveness and business position assigned different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors are calculated for each SBU. Based on these ratings, each SBU is labeled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Every organization has to make decisions about how to use its limited resources most effectively. That's where this planning models can help determine which SBU should be stimulated for growth, which one maintained in their present market position and which one eliminated.

39. Explain types of business level strategies.

Focus strategy :: A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive performances or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer performances will drift toward the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

Differentiation strategy ::

Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R & D and marketing functions and substantial amenities to attract scientists and creative people.

39. Explain Corporate level strategies.

Conglomerate diversification: In conglomerate diversification, no such linkage exists; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/ technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

Retrenchment, Divestment and Liquidation strategies: Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

Turnaround Strategies: Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

- Persistent negative cash flow;
- Negative profits;
- Declining market share;
- Over manning, high turnover of employees, and low morale;
- Uncompetitive products or services;
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround should include:

1. Analysis of product, market, production processes, competition, and market segment positioning.
2. Clear thinking about the market place and production logic.
3. Implementation of plans by target-setting, feedback, and remedial action.

Sets of ten elements that contribute to turnaround are:

- Changes in the top management;
- Initial credibility-building actions;
- Neutralizing external pressures;
- Initial control;
- Identifying quick payoff activities;
- Quick cost reductions;
- Revenue generation;

- Asset liquidation for generating cash;
- Mobilization of the organizations;
- Better internal coordination.

Divestment Strategies:

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

- A business that had been acquired proves to be a mismatch and cannot be integrated within the company;
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological up gradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

Liquidation Strategies:

A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium and large sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Liquidation strategy may be unpleasant as a strategic alternative but when a “dead business is worth more than alive”, it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

41. Explain Diversification Strategy:

Diversification endeavors can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing business, diversification endeavour have been classified into four broad categories:

1. Vertically integrated diversification
2. Horizontally integrated diversification
3. Concentric diversification
4. Conglomerate diversification

Vertically integrated diversification: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence it moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. The example of Reliance Industries provided at the close of this chapter illustrates this dimension of vertically integrated diversification.

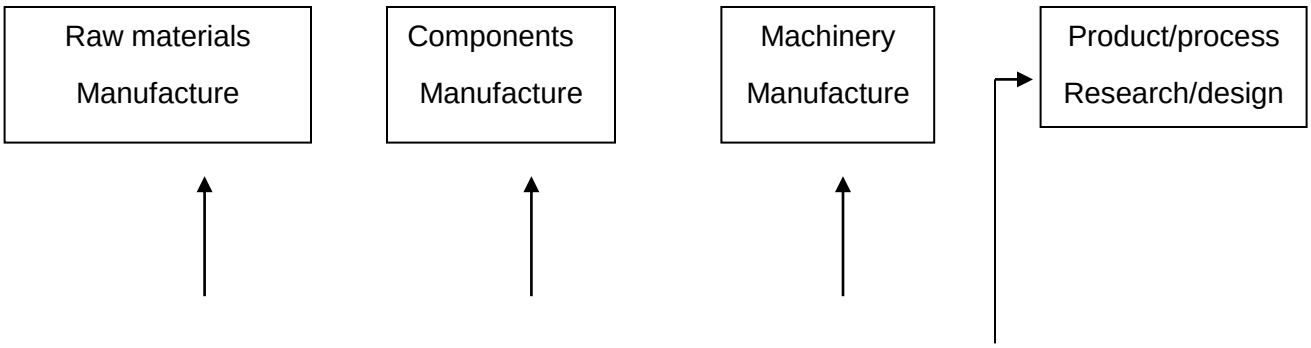
Horizontal integrated diversification: Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

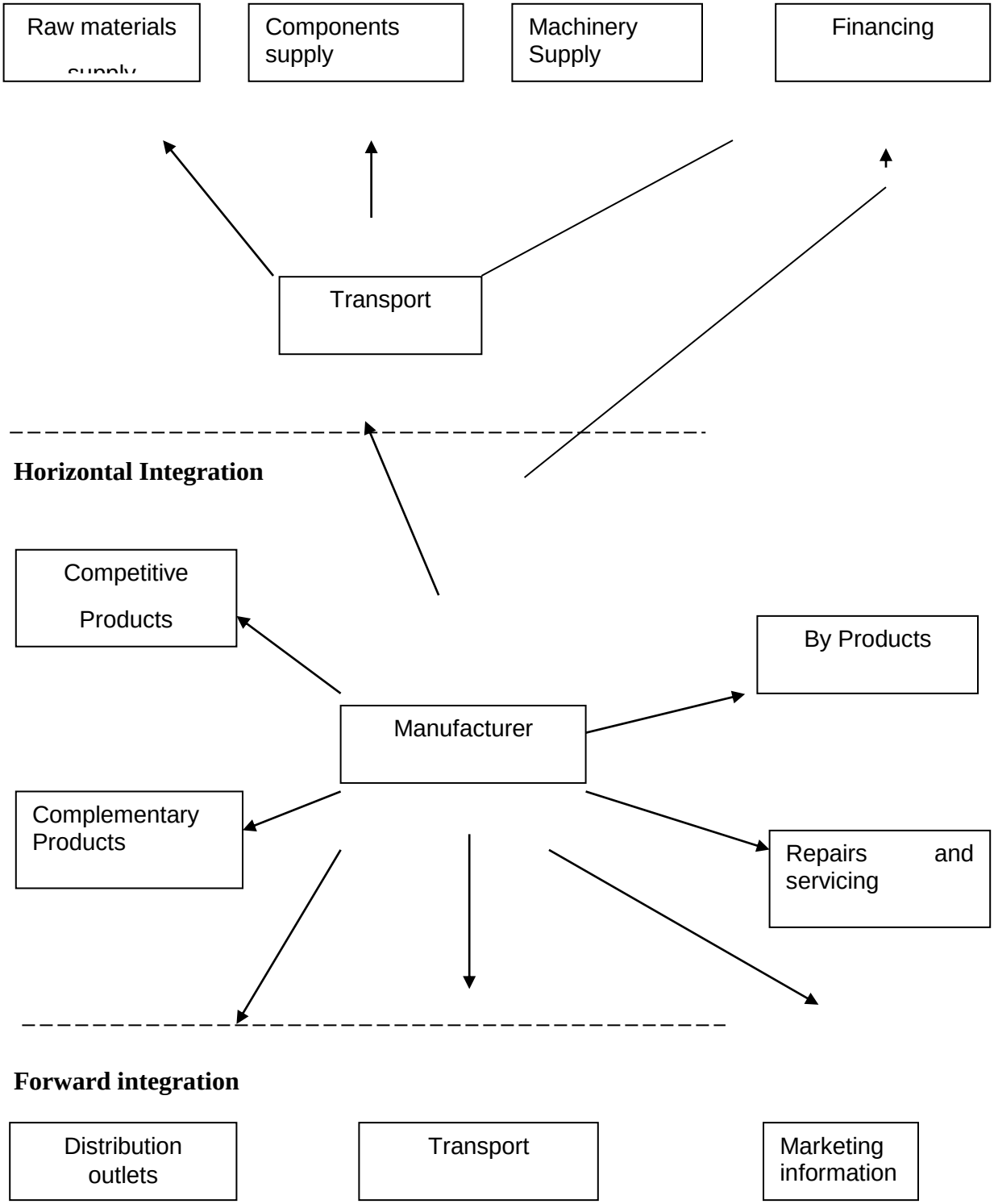
Related Diversification	Unrelated Diversification

• Exchange or share assets or competencies, thereby exploiting
  • Brand name
  • Marketing skills
  • Sales & distribution capacity
  • Manufacturing skills
  • R & D and new product Capability
• Economies of scale
	• Manage and allocate cash flow.
	• Obtain high ROI
	• Obtain a bargain price
	• Refocus a firm
	• Reduce risk by operating in multiple product markets
	• Tax benefits.
	• Obtain liquid assets.
	• Vertical integration
	• Defend against a takeover.

Figure: Related Diversification options for A manufacturer

Backward Integration




Raw materials supply
Components supply
Machinery Supply
Financing
Transport
Horizontal Integration
Competitive Products
By Products
Manufacturer
Complementary Products
Repairs and servicing
Forward integration
Distribution outlets
Transport
Marketing information

Concentric diversification too amounts to related diversification. In concentric diversification, the new business is liked to the existing businesses through process, technology or marketing. The new business is linked to the existing business through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While a vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

42. **Explain Expansion Strategy:**

Expansion or growth strategy can either be through intensification or diversification. Igor Ansoff gave a framework as shown which describe the intensification options available to a firm.

I. Growth in existing product markets Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current	II. Product development add product features, product refinement Develop a new-generation product Develop new product for the same market
III. Market development Expand geographically target new segments.	IV. Diversification involving new products and new markets related unrelated

Figure: Product-Market Expansion Greed

Market Penetration: The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

Market Development: If consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

Product Development: Product Development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

43. Elaborate major reasons for organizations adopting different grand strategies.

A. Stability strategy is adopted because:

- It is less risky, involves less changes and people feel comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.
- Consolidation is sought through stabilizing after a period of rapid expansion.

B. Expansion strategy is adopted because:

- It may become imperative when environment demands increase in pace of activity.
- Psychologically, strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Increasing size may lead to more control over the market vis-à-vis competitors.
- Advantages from the experience curve and scale of operations may accrue.

C. Retrenchment strategy is adopted because:

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and un-viability.
- The environment faced is threatening
- Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

D. Combination strategy is adopted because:

- The organization is large and faces complex environment.
- The organization is composed of different businesses, each of which lies in a different industry requiring a different response.

44. Write a short note on evaluating worth of a business.
Evaluating the worth of a business:

Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Other strategies, such as retrenchment may result in the sale of a division of an organization or of the firm itself. Thousands of transactions occur each year in which businesses are bought or sold in the United States. In all those cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

All the various methods for determining a business's worth can be grouped into three main approaches:

- The first approach in evaluating the worth of a business is determining its net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings. After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value. If a firm has goodwill, it will be listed on the balance sheet, perhaps as "intangibles".
- The second approach to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five year average profit level could also be used. When using the approach, remember that firms normally suppress earnings in their financial statements to minimize taxes.
- The third approach, letting the market determine a business's worth, involves three methods. First, base the firm's worth on the selling price of a similar company. A potential problem, however, is that sometimes comparable figures are not easy to locate, even though substantial information on firms that buy or sell to other firms is available in major libraries. The second approach is called the price-earnings ratio method. To sue this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The third approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per share amount that a person or firm is willing to pay to control (acquire) the other company. As indicated in the Global Perspective, European firms aggressively are acquiring American firms, using these and perhaps other methods for evaluating the worth of their target companies.

45. How proper logistics management helps business.

Logistics Strategy:

Management of logistics is a process, which integrates the flow of supplies into, through and out of an organization to achieve a level of service, which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. Organizations try to keep the cost of transporting materials as low as possible consistent with safe and reliable delivery. Supply chain management helps in logistics and enables a company to have constant contract with its distribution team, which could consist of trucks, trains, or any other mode of transportation. Given the changes that affect logistics operations such as emerging technologies and industry initiatives, developing and using a formal logistics strategy is very important. For a business organization effective logistic strategy will involve raising and finding solutions to the following questions:

- Which sources of raw materials and components are available?
- How many manufacturing locations are there?
- What products are being made at each manufacturing locations?
- What modes of transportation should be used for various products?
- What is the nature of distribution facilities?
- What is the nature of materials handling equipment possessed? Is it ideal?
- What is the method for deploying inventory in the logistics network?
- Should the business organization own the transport vehicles?

Improvement is logistics can results in savings in cost of doing business. These savings can also reveal in the profits of the company. Some examples of how logistics can help a business are as follows:

- Cost savings
- Reduced inventory
- Improved delivery time
- Customer satisfaction
- Competitive advantage

46. What is human resource management? Discuss its role in implementation of strategy.

The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optional contribution is ensured. This implies selecting the best available personnel, ensuring a 'fit' between the employee and the job and retaining, motivating and empowering employees to perform well in direction of corporate objectives.

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. This means how they are acquired, developed, motivated and retained organization play an important role in organizational success. This presupposes an integrated approach towards human resource functions and overall business functions of an organization.

Strategic Role of Human Resource Management:

The prominent areas where the human resource manger can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource management must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important task of a professional management is to ensure that the object of an organization has been internalized by each individual working in the organization. Goals of an organization states the very purpose and justification of its existence.

   The management have to ensure that the objects of an organization becomes the object of each person working in the organization and the objectives are set to fulfill the same. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with the objectives defined.

2. **Creating competitive atmosphere:** Present's globalize market maintaining a competitive gain is the object of any organization. There are two important ways of business can achieve a competitive advantages over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.

3. **Facilitation of change:** The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personal function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.

4. **Diversion of workforce:** In the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young an old workers, educated and uneducated workers, unskilled and professional employee, etc. Moreover, many organizations also have people of different castes, religious and nationalities. The workforce in future will comprise more of educated and self conscious workers. They will ask for higher degree of participation and avenues for fulfillment. Money will no longer be the sole motivating force for majority of the workers. Non-financial incentives will also play an important role in motivating the workforce.

5. **Empowerment of human resources:** Empowerment means authorizing every number of a society or organization to take of his/her own destiny realizing his/her full potential. It involves giving more power to those who at present, have little control what they do and little ability to influence the decisions being made around them.

6. **Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization, which may not be shared by others. This may be in the form of human resources, marketing, capability, or technological capability. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of the reason, many organizations have restructured their businesses by divesting those businesses, which do not match core competence. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.

7. **Development of workers ethics and culture:** Greater efforts will be needed to achieve cohesiveness because workers will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will sift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

47. Discuss the concept of production strategy formulation.

The strategy for production are related to the production system, operational planning and control, and research and development (R & D). The strategy adopted affects the nature of product/service, the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and objectives which are used to determine the operations plans and policies. Thus, a strategy of expansion through related diversification, for instance, will affect what products are offered to which market and how these markets are served. The operations system structure, which is concerned with the manufacturing/service and supply/delivery system, and operations system objectives, which are

related to customer service and resources utilisation, both determine what operations, plans and policies are set.

Production system:

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organization but also its ability to implement strategies and achieve objectives. For example, Excel Industries a pioneering company in the area of industrial and agro chemicals, adopts a policy of successive vertical integration for import substitution. It starts with the end product and then integrates backward to make raw materials for it. Another example is of Lakshmi Machine works, where operations policy related to the product range is aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenization, and adaptation to customer needs.

Operations planning and control:

Strategies related to operations planning and control are concerned with aggregate production planning; material supply; inventory, cost and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to-day operations can be managed in the light of long term objectives.

Operations planning and control provides an example of an organizational activity that is aimed at translating the objectives into reality. For instance, instrumentation Ltd. is a public sector company engaged in the business of process control and automation and in currently following a strategy of expansion and diversification. Operations planning and control at this company is based on the policy of ancillarisation. There are about 259 ancillary units that supply sub-assemblies and components. The company's centralized production is at Kota in Rajas than and its operations plans are based on the plans of its ancillary units. The centralized production provides all the basic inputs to ancillaries and performs the functions of testing, standardizing, and fabricating the equipment.

Some companies use quality as a strategic tool. The operations policies at KSB pumps Ltd. lay a great emphasis on quality aspects. In implementing its strategy of stable growth, KSB pumps has built a solid reputation for its quality products. Structurally, it has a separate department of quality assurance having two groups of quality inspection and quality engineering. Thus, quality is a consideration not only at the inspection stage but is built into the design itself.

48. What is financial strategy? How worth of a business can be evaluated?

The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/usage of funds, and evaluating the worth of a business. Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require finance/accounting policies are:

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.
2. To lease or buy assets.

3. To determine an appropriate payout ratio.
4. To extend the time of accounts receivable.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand.

Acquiring capital to implement strategies/sources of funds: Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment by applying debt to products and projects earning more than the cost of the debt. In low earning periods, too much debt in the capital structure of an organization can endanger stockholders' return & jeopardize company survival. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. Some special stock is issued to finance strategy implementation, ownership & control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, & acquisitions.

The major factors regarding which strategies have to be made are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

Projected financial statements/budgets: Projected (pro forma) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches. This type of analysis can be used to forecast the impact of various implementation decisions (for example, to increase salaries by 25% to support a market-penetration strategy, to increase research and development expenditures by 70% to support product development, or to sell common stock to raise capital for diversification). Nearly all financial institutions require a projected financial statements whenever a business seeks capital. A pro-froma income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. When compared to prior years and to industry averages, financial ratios provide valuable insights into the feasibility of various strategy implementation approaches.

Primarily as a result of the Enron collapse and accounting scandal, companies today are being much more diligent in preparing projected financial statements to "reasonably rather than too optimistically" project future expenses and earnings.

A financial budget is also a document that details how funds will be obtained and spent for a specified period of time. Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years. Fundamentally, financial budgeting is a method for specifying what must be done to complete strategy implementation successfully.

Financial budgeting should not be thought of as a tool for limiting expenditures but rather as a method for obtaining the most productive and profitable use of an organization's resources.

Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.

There are almost as many different types of financial budgets as there are types of organizations. Some common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expenses budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets. When an organization is experiencing financial difficulties, budgets are especially important in guiding strategy implementation.

Financial budgets have some limitations. First, budgetary programs can become so detailed that they are cumbersome and overly expensive. Over budgeting or under budgeting can cause problems. Second, financial budgets can become a substitute for objectives; a budget is a tool and not an end in itself. Third, budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards. Finally, budgets are sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover. To minimize the effect of this last concern, mangers should increase the participation of subordinates in preparing budgets.

Management/Usage of funds: Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment; fixed assets acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

Implementation of projects in pursuance of expansion strategies typically results in increase in capital work in progress and current assets. If plans and policies are not clear, the usage of funds is inefficient, leading to less than an optimum utilization of resources. An example is of Modi Cement, which followed a deliberate policy of generous capital investment in setting up its plant based on the latest technology. AS compared to its competitor japyeeRewa's plant, which cost Rs. 120 crore, Modi's plant had an investment of Rs. 153 crore. The result was high interest liability and depreciation, causing a serious dent in profitability in the initial years. Other factors of usage of funds are also considered by companies to attract and retain shareholders' interest. Payout policies for dividends and bonus distribution play an important role in the usage of funds.

The management of funds is an important area of financial strategies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilisation of funds objectives which are central to any strategic action. Organizations that implement strategies of stability, growth or retrenchment cannot escape the rigors of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company. For instance, Gujrat Ambuja Cement, currently a highly profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control.

This company has been particularly successful in maintaining a low cost for power, which is a major input in cement manufacturing.

Financial plans and polices, however, present a dilemma before management. The priorities of management may often conflict with those of shareholders. It is the responsibility of the strategists to minimize the conflict of interest between the management and the shareholders.

49. Explain Marketing strategy techniques

- **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke in Delhi.
- **Augmented Marketing:** It is provision of additional customer services & benefits built around the care & actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
- **Direct Marketing:** Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, Mail, Tele-computing, Electronic Marketing, Shopping, and TV shopping.
- **Relationship Marketing:** The process of creating, maintaining, and enhancing strong, value laden relationships with customers and other stakeholder. For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strength bonds. It will go a long way in building relationships.
- **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the, banking, saving, retailing, educational or utilities.
- **Person Marketing:** People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behaviour towards particular people. For example, politicians, sports starts, film stars, professional i.e. market themselves to get votes, or to promote their careers and income.
- **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and nonprofit organizations practice organization marketing.
- **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, business sites marketing, tourism marketing.
- **Enlightened Marketing:** A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovative marketing, value marketing sense-of mission marketing, and societal marketing.
- **Differential Marketing:** A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example. Hindustan Lever

Ltd. has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment.

- **Synchro-marketing:** When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchromaking can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example woolens or coolers; or hospitals under booked on weekend or end of the week.
- **Concentrated Marketing:** A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
- **Demarketing:** Marketing Strategies to reduce demand temporarily or permanently the aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads and busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here Demarketing can be applied to regulate demand.

50. Illustrate Strategy Implementation & Control

Strategy formulation and implementation can be contrasted in the following ways:

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

Forward Linkages & Backward Linkages: -

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organization. For instance, the organization structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership

has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

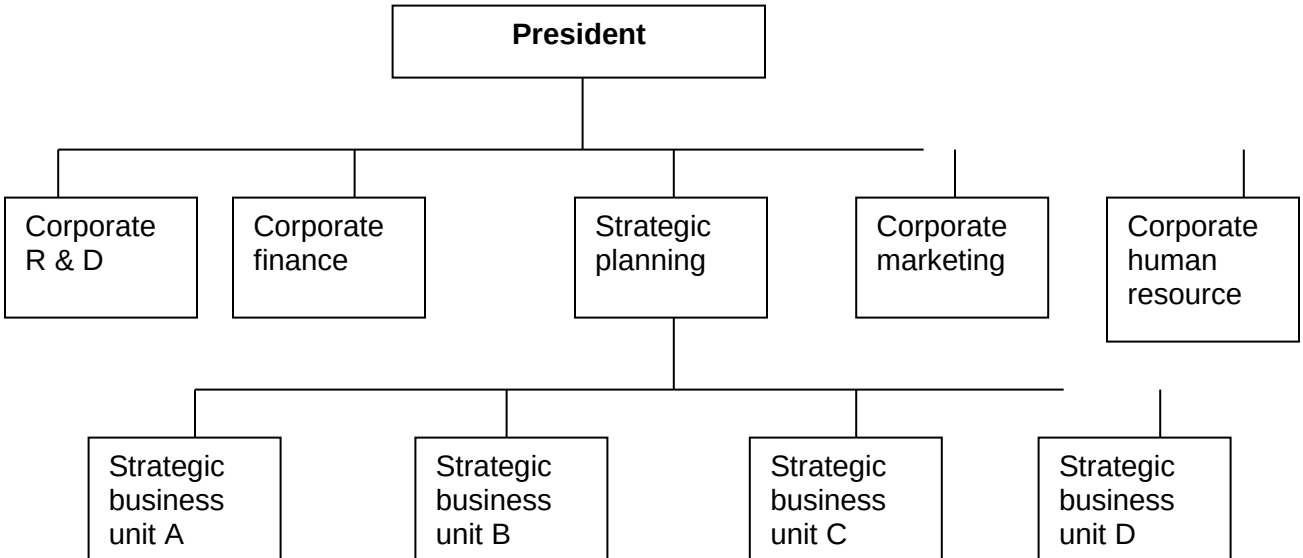
Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with 'implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies, which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

The Strategic Business Unit (SBU) structure:

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategist. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area mangers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its mangers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, the SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.



Division	Division	Division	Division	Division	Division

Figure: SBU Structure

This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems. It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness with each SBU at the third level.

This means that, within each SBU, divisions are related to each other, as also that SBU group are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organized to achieve synergy. Individual SBUs are treated as profit centers and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organized into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g. Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability. By its strategy, Sony is one of the few companies that have the opportunity to integrate software and content across a broad range of consumer electronics products. It will implement this strategy through the SBU structure.

For General Electric, this structure will enable the company to "walk, talk and think" like smaller companies by making decisions and introducing innovative products more rapidly. GE's SBU form is made up of 10 strategic business units which should enable it to act quickly and more effectively. Structural flexibility is perceived to be of equal importance with strategic flexibility and both of them would enable the company to respond more rapidly to emerging opportunities.

51. Explain Matrix Organization Structure Changing organizational design

Old Organizational design	New organizational design
One large corporation	Mini business units & cooperative relationships
Vertical communication	Horizontal communication
Centralized top-down decision making	Decentralized participative decision making
Vertical integration	Outsourcing & virtual organization
Work/quality teams	Autonomous work teams
Functional work teams	Cross-functional work teams

Minimal training	Extensive training
Specialized job design focused on individual	Value chain team-focused job design

52. Write a note on Strategic Business units & Core Competence:

At this juncture, it is pertinent to introduce the concept of Strategic Business Unit (SBU). In modern times, most corporations organize their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. The student must have a good grasp of this concept, since it is a vital idea in the strategic planning and strategic management endeavour. In fact, reference to this idea will keep recurring in our subsequent discussions in this text.

The concept is relevant to multi-product, multi-business enterprises. It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses; it has to necessarily group the products/businesses into a managerable number of strategically related business units and then take them up for strategic planning. The question is: what is the best way of grouping the products/businesses of such large enterprises?

An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

Historically, large, multi-business firms were handling business planning on a territorial basis since their structure was territorial. And in many cases, such a structure was the outcome of a manufacturing or distribution logistics. Often, the territorial structure did not suit the purpose of strategic planning. When Strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties: (i) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and (ii) since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

The concept of strategic business units (SBU) breaks away from this practice. It recognizes that just because a firm is structured into a number of territorial units say six units, it is not necessarily in six different businesses. It may be engaged in only three distinct businesses. It is also possible that it is engaged in more than six businesses. The endeavour should be to group the businesses into an appropriate number of strategic business units before the firm takes up the strategy formulation task.

The principle underlying the grouping is that all related products- related from the standpoint of “function” should fall under one SBU. In other words, the SBU concept helps a multi-business corporation in scientifically grouping its businesses into a few distinct business units. Such a grouping would in its turn, help the corporation carry out its strategic management endeavour better. The concept provides the right direction to strategic planning by removing the vagueness

and confusion often experienced in such multi-business enterprises in the matter of grouping of the businesses.

The attributes of an SBU and the benefits a firm may derive by using the SBU idea.

- A scientific method of grouping the businesses of a multi-business corporation, which helps the firm in strategic planning.
- An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities.
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- An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Product/businesses within an SBU receive same strategic planning treatment and priorities.
- The task consist of analyzing and segregating the assortment of businesses/portfolios and regrouping them into a few, well defined, distinct, scientifically demarcated business units. Products/businesses that are related from the standpoint of "function" as assembled together as a distinct SBU.
- Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned accordingly; otherwise they are made into separate SBUs.
- Grouping the business on SBU lines helps the firm in strategic planning by removing the vagueness and confusion generally seen in grouping businesses; it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- Each SBU will have a CEO. He will be responsible for strategic planning for the SBU and its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

53. Explain Value Chain Analysis:

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added form each were linked to an analysis of an organization's competitive advantage by Michael Porter.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user. In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.

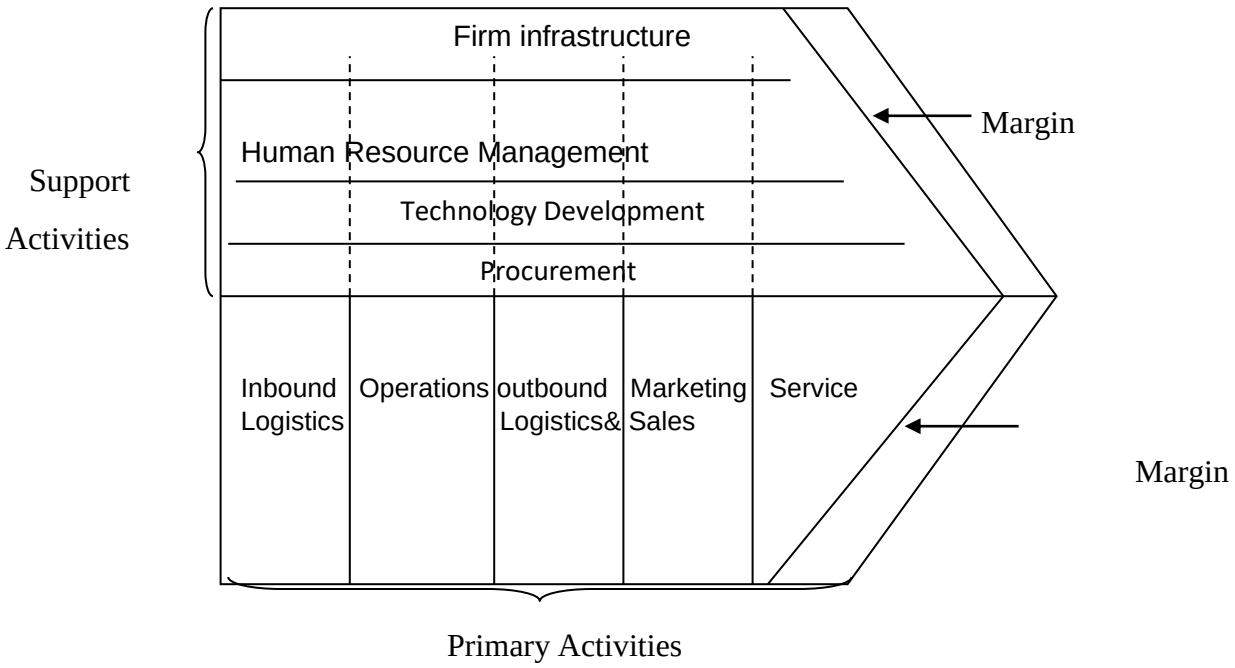

Figure: Value Chain (Michael Porter)

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.
- Operations transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.
- Outbound logistics collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. in the case of services, it may be more concerned with arrangements for brining customers to the services if it is a fixed location (e.g. sports events).
- Marketing and sales provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which helps users' access a particular service are often important.
- Service are all those activities, which enhance or maintain the value of a product/service, such as installation, repair training and spares.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas

- Procurement: This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
- Technology development: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R & D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
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- Human resource management: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- Infrastructure: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

Building a strategy supportive corporate culture:

Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of "how we do things around here," its own lore (stories told over and over to illustrate company values and what they mean to stakeholders), its own taboos and political do not in other words, its own ingrained beliefs, behaviour and thought patterns, business practices, and personality that define is **corporate culture**. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. The bedrock of Wal-Mart's culture is dedication to customer satisfaction, zealous pursuit of low costs, a strong work ethic. At Microsoft, there are stories of the long hours programmers put in, the emotional peaks and valleys in encountering and overcoming coding problems, the exhilaration of completing a complex program on schedule, the satisfaction of working on cutting-edge projects, the rewards of being part of a team responsible for a popular new software program, and the tradition of competing aggressively. These are refractions of Bill Gates marvelous leadership.

54. Discuss Business Process Reengineering
Definition of BPR:

Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. The redesign effort aims at simplifying and streamlining a process by eliminating

all redundant and non-value adding steps, activities and transactions, reducing drastically the number of stages or transfer points of work, and speeding up the work-flow through the use of it systems.

BPR is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR focuses on the process of producing the output and output of an organization is the result of its process.

"Business process reengineering means starting all over, starting formscratch". Reengineering, in other words, means pulling aside much of the age-old practices and procedures of doing a thing developed over hundred years of management experience. It implies forgetting how work has been done so far, and deciding how it can best be done now.

Reengineering begins with a fundamental rethinking. In doing reengineering people must ask some most basic questions about their organizations and about their operations. They try to find out answers to such questions like "why do we do what we do? Any why do we do it the way we do?" An attempt to find out answers to such questions may startlingly reveal certain rules, assumptions and operational processes as obsolete and redundant. Reengineering does not begin with anything given or with any assumptions. The thinking process in reengineering begins with a totally free state of mind without having any preconceived notion. Reengineering first determines what a company must do. And then it decides on how to do it. Reengineering ignores what the existing process is and concentrates on what it should be. If something is not required to be done it is outright discarded.

Another key element in the reengineering involves radical redesigning of process. Radical redesigning means going to the root of the problem areas and not attempting to make any superficial changes. Radical redesign involves completely discarding all existing structures and procedures and evolving completely new ways of doing the work. "Reengineering is about business reinvention – not business improvement, business enhancement, or business modification."

The next key concept that lies behind reengineering is that it aims at achieving dramatic improvement in performance. In an organization feels the need for marginal improvement in any area of operation at any point of time, the same can be achieved by conventional methods of adjustments in operating processes and reengineering is not the answer. Reengineering is meant for replacement of the old process by altogether new one to achieve dramatic improvement in the performance.

Implementing BPR in organizations:

In a crude sense, companies began business process improvement with a continuous improvement model. This model attempts to understand and measure the current processes, and make performance improvements. However, some companies make reengineering efforts under the assumption that the current processes are wrong and irrelevant. Under such perspectives designers of business process disassociate themselves from existing processes. This helps in looking at the problem with a clean mind, free of any biases.

The approach to BPR begins with defining the scope and objectives of the reengineering project. Persons entrusted with the tasks of BPR have to undertake research in the light of scope and objectives. They have to go through a learning process. They have to research customers, employees, competitors, new technology, etc. With the help of this research base BPR designers are in a position to create a vision for the future and design new business processes. They also create a plan of action based on the gap between the current and proposed processes, technologies and structure. Steps in BPR are as follows:

Determining objectives & Framework: Objectives are the desired end results of the redesign process which the management and organization attempts to realize. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.

Identify Customers and Determine their needs: The designers have to understand customers- their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.

Study the Existing Process: The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

Formulate a redesign process plan: The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is to real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

Implement the redesign: it is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalzed the new process.

The Role of information Technology in BPR:

The accelerating pace at which information technology has developed during the past few years had a very large impat in the transformation of business processes. Various studies have conclusively established the role of information technology in the transformation of business processes. That information technology is going to play a significant role in changing the business processes during the years to come, has been established beyond doubt.

A reengineered business process, characterized by IT assisted speed, accuracy, adaptability and integration of data and service points, is focused on meeting the customer needs and expectation quickly and adequately, thereby enhancing his/her satisfaction level.

Globalization and competition call for better management, faster response to change and adherence to globally accepted standard of quality and services.

- Impact of IT systems are identified as:
- Compression of time
- Overcoming restrictions of geography and/or distance

- Restructuring of relationships

IT initiatives, thus, provide business values in three distinct areas:

- Efficiency- by way of increased productivity
- Effectiveness- by way of better management,
- Innovation- by way of improved products and services.

All these can bring about a radical change in the quality of product and services, thereby improving the competitiveness and customer satisfaction. Information technology (IT) is a critical factor in the success of bringing this change.

Problems in BPR:

Reengineering is a major and radical improvement in the business process. Only a limited number of companies are able to have enough courage for having BPR because of the challenges posed. It disturbs established hierarchies and functional structures and creates serious repercussions and involves resistance among the work-force. Reengineering takes time and expenditure, at least in the short run that many companies are reluctant to go through the exercise. Even there can be loss in revenue during the transition period. Setting of targets is tricky and difficult. If the targets are not properly set or the whole transformation not properly carried out, reengineering efforts may turn-out as a failure.

54. What is Benchmarking?

In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization.

Benchmarking is not a panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational circumstances. Further, benchmarking exercises are also repeated periodically so that the organization does not lag behind in the dynamic environment.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other acknowledged leaders in their field. Xerox pioneered this process in late 70's by benchmarking its manufacturing costs against those of domestic and Japanese competitors and got dramatic improvement in the manufacturing cost. Subsequently ALCOA, Eastman Kodak, IBM adapted benchmarking. Firms can use benchmarking process to achieve improvement in diverse range of management function like:

- Maintenance operations
- Assessment of total manufacturing costs

- Product development
- Product distribution
- Customer services
- Plant utilization levels
- Human resource management

The Benchmarking Process:

Benchmarking processes lack standardization. However, common elements are as follows:

1. Identify the need for benchmarking and planning: This step will define the objectives the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

2. Clearly understanding existing business processes: this step will involve compiling information and data on performance. This will include mapping processes. Information and data is collected by different methods for example, interviews, visits and filling of questionnaires.
3. Identify best processes: Within the selected framework, best processes are identified. These may be within the same organization or external to them.
4. Compare own processes and performance with that of others: While comparing gaps in performance between the organization and better performer is identified. Further, gaps in performance is analysed to seek explanations. Such comparisons have to be meaningful and credible. Feasibility of making the improvements in the light of the conditions that apply within the organization is also examined.
5. Prepare a report and implement the steps necessary to close the performance gap: A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.
6. Evaluation :Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

55. What is business strategy?

Strategy is the determination of the basic long goals and objectives of an enterprise and the adoption of the course of action and the allocation of the resources necessary for carrying out these goals‖. It‘s a comprehensive master plan stating how the corporation will achieve its mission and objectives of maximizes the competitive advantage and minimizes the competitive disadvantage.

56. What is strategic management?

Strategic management is that set of managerial decisions and actions that determine the long-run performance of a corporation of includes environmental Scanning, strategy formulation strategy implementation and evaluation and control. The study of strategic management therefore emphasizes the monitoring and evaluating of external opportunities and threats in the light of corporation‘s strengths and weaknesses.

57. What is corporate strategy?

Corporate strategy describes a company‘s overall direction in terms of its general altitude towards growth and the management of its various businesses and product lines. Corporate strategy is composed of directional strategy, portfolio analysis and parenting strategy, corporate strategies typically fit within the three main categories of stability, growth and retrenchment.

58. Define Ethics?

Ethics specify what good, true, is fair, just, right and proper in business. Businesses his relate to the behaviour of a business man in a business situation. They are concerned primarily with the impacts of decisions on people within and without the organization. Business ethical behaviour is conduct that is fair and just over and above the various rules and regulations.

59. What do you mean by strategic myopia?

While identifying the external strategic factors, the managers sometimes miss or ignore crucial new developments. Personal values and functional experiences of a corporation‘s manager as well as the success of current strategies bias both their perception of what they important to monitor in the external environment and the interpretations of what they perceive. This willingness to reject unfamiliar as well as negative information is called strategic myopia.

60. What is core- competency?

Core-competencies are the things that a corporation can do exceedingly well. It is the combination of an organization‘s resources and capabilities if the core competency of an organization is superior to that of its competitors it is called distinctive competency.

61. What is Distinctive competency?

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

62.Define joint venture?

Joint ventures are partnerships in which two or more firms carryout a specific project or corporate in a selected area of business. Joint ventures can be temporary or long term. Ownership of the firm remains unchanged. Every joint venture has a scheduled life-cycle, which will end sooner or later every joint venture has to be dissolved when it has outlived its life-cycle. Changes in the environment forces joint ventures to be redesigned regularly.

63. What is conglomerate diversification?

When firms create new businesses that are unrelated to its original business, it is called conglomerates diversification. The benefits of conglomerate diversification are reductions of risks, economics of large scale operations, financial stability, increase in profits and attain managerial competence.

64. What are barriers to Entry?

An entry barrier is un obstruction that make it difficult for a company to enter an industry Established companies already operating in an industry often attempt to discourage the potential competitors by creation. High Entry barriers, such as rand Loyalty, absolute cost advantages, economics of scale customer switching cost, product differentiation etc.

65. Distinguish between hostile takeover and friendly takeover?

Takeover can be defined the ownership or control over the other firm. Of one firm acquires the ownership against the wishes of hi others management it is called hostile takeover. Of the acquisition is through the mutual consent of both the parties it is called friendly takeover.

66. What is Horizontal Expansion?

It‘s a growth strategy. Of a firm fries to expand its business by creating other firms in their same line of business it is called horizontal expansion. The aim of horizontal expansion is to increase market Shane. To reduce cost of production through large scale economic, to take advantage of synergy and to promote products and services more efficiently to a larger audience.

67. Define strategic Group?

Strategic group is a set of business units or firms that pursue similar strategies with similar resources. Categorizing the firms in an industry into a set of strategic groups is very useful for the better understanding of the competitive environment. Because a corporation‘s structure and culture reflect the kinds of strategies it follows.

Companies or Business units belonging to a particular strategic group within the same industry tend to be strong rivals and tend be more similar to each other than to competitors in other strategic group within the same industry.

68. Define corporate governance

Corporate governance refers to the relationship between the board of Directors, top management and the investors or shareholders in defer mining the direction and performance of the corporation.

69. What is backward integration?

When a company or firm acquire or create another firm which provides raw material component parts or other input for the original firm, it is called backward integration. 16. Define strategic outsourcing

Strategic outsourcing refers to the separation of some the company‘s value creation activities within the business and as letting them be performed by a specialist in that activity strategic outsourcing will lower the cost-structure of the company and increase its profitability. Moreover strategic outsourcing of non-core activities helps the company to focus management attention on those activities that one most important for its long term competitive position.

70. Distinguish between programs and procedures.

A program is a statement of the activities or steps needed to accomplish single use plan of makes the strategy action-oriented of my involve restructuring the corporation changing the company‘s internal structure or beginning a new research effort.

Procedures are a system of sequential steps or techniques set describe in detail how a particular job or task is to be done. They typically detail the various activities that must be carried out for completion of the corporations programs.

71. What is Entrepreneurial mode?

It is a type of strategic decision making. In this mode, the strategy is developed by one powerful individual. The focus is on opportunities and problems are secondary, strategy is guided by the

founders own vision or direction and is exemplified by large, bold decisions. The dominant goal is growth of the corporation..

72. What is Adaptive mode?

This is a decision making mode sometimes referred to as ―muddling through‖. This is characters by reactive solutions to exiting problems rather than a proactive search for new opportunities strategy is fragmented and is developed to move the corporation forward in incremental steps.

73. What is planning mode?

This mode of strategic decision making the systematic gathering of appropriate information for situation malice, the generation of feasible alternative strategies. And the rational selection of the most appropriate strategy. This mode includes both the pro-active search for new opportunities and the reactive solution of exiting problems.

74. Define strategic management.

Strategic management is the process where managers establish an organization's long-term direction, set the specific performance objectives, develop strategies to achieve these objectives and undertake to execute the chosen action plans.

75. Define the strategy

Strategy is a blueprint of all the important entrepreneurial, competitive and functional area actions that are to be taken in pursuing organizational objectives and positioning the organization for sustained success and reveals how the targeted results will be accomplished.

76. Enumerate some characteristics of strategic management.

a. it is a combination of strategy formulation and strategy implementation;
b. it is the highest level of managerial activity;
c. it is performed by an organization's CEO (Chief Executive Officer) and executive team;
d. it provides overall direction to the enterprise.

77. What specific entrepreneurial aspects include the strategy formation process?

a. searching actively for innovative ways the organization can improve on what it is already doing;
b. ferreting out new opportunities for the organization to pursue;
c. developing ways to increase the firm's competitive strength and put it in a stronger position to cope with competitive forces;
d. devising ways to built and maintain a competitive advantage;
e. deciding how to meet threatening external developments;
f. encouraging individuals throughout the organization to put forth innovative proposals and championing those that have promise;
g. directing resources away from areas of low or diminishing results toward areas of high or increasing results;
h. deciding when and how to diversify;
i. choosing which businesses (or products) to abandon, which of the continuing ones to emphasizes, and which new ones to enter or add.

78. What involves the strategic management function?

The strategic management function directly involves all managers with line authority at the corporate, line-of-business, functional area, and major operating department levels.

79. Which are the steps of strategic management?

a. specifying an organization's objectives;
b. developing policies an plans to achieve these objectives;
c. allocating resources to implement the policies.

80. How is strategy formulation process referred sometimes?
a. determining where you are now;
b. determining where you want to go,
c. determining how you get there.

81. What involves the strategy implementation?
a. allocation of sufficient resources (financial, personnel, time, technology support),
b. establishing a chain of command or some alternative structure,
c. assigning responsibility of specific tasks or processes to specific individuals groups,
d. it also involves managing the process (monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, making adjustments to the process as necessary),
e. implementing specific programs, meaning acquiring the requisite resources, developing the process, training, process testing, documentation and integration with legacy process.

82. Which are the components of strategic management?
a. defining the organization's business and developing a strategic mission,
b. establishing strategic objectives and performance targets,
c. formulating a strategy to achieve the objectives,
d. implementing an executing the chosen strategic plan,
e. evaluating strategic performance and making corrective adjustments.

83. What is a strategic mission?
a. the management's view of what the organization seek to do and to become over the long-term is the organization's strategic management.

84. What is formulating a strategy reveal?

Formulating a strategy reveals how the targeted results will be accomplished – a detailed action plan is necessary to achieve both short-run and long-run results.

85. What means strategy implementation and execution?

Strategy implementation and execution means putting the strategy into place and getting individuals and organizational subunits to go all out in executing their tasks in the next step. The leadership's challenge is to so stimulate the enthusiasm, pride and commitment of managers and employees in order to carry out the chosen strategy and to achieve the targeted results.

86. Enumerate the most important strategic objectives.
a. the market position and competitive standing the organization aims to achieve;
b. the annual profitability targets;
c. key financial and operating results to be achieved through the chosen activities;
d. any other milestones by which strategic success will be measured.

87. What does strategy formulation involve?

Strategy formulation involves doing a situation analysis: both internal and external; both micro-environmental and macro-environmental, setting the objectives by crafting vision statements, mission statements, overall corporate objectives, strategic business unit objectives and tactical objectives that suggest the strategic plan.

88. Which are the characteristics of the strategic management process?
a. mangers do not necessarily go through the sequence in rigorous lock-step fashion,

b. the tasks involved in strategic management are never isolated from everything else that falls a manager's purview,
c. the demands that strategy management puts on the manager's time are irregular,
d. formulating and implementing strategy must be regarded as something that is ongoing and that evolves.

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