GOVERNMENT ARTS AND SCIENCE COLLEGE

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(Affiliated to Manonmaniam Sundaranar University, Tirunelveli.)

STUDY MATERIAL FOR BBA

STRATEGIC MANAGEMENT

VI – SEMESTER

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PREPARED BY

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STRATEGIC MANAGEMNT

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Course Objective: To enhance decision making abilities of students in situations of Uncertaintyin a dynamic business environment.

UNIT-I: INTRODUCTION

Strategic Management: Concepts- Difference between strategy and tactics-Three levels of strategy, Strategic Management Process- Benefits (15hrs)

UNIT-II: STRATEGY FORMULATION

Strategic Formulation: Corporate Mission: Need –Formulation, Objectives: Classification-Guidelines, Goals: Features- Types, Environmental Scanning- Need- Approaches- SWOT analysis-ETOP-Value chain analysis. (15 hrs)

UNIT-III: CORPORATE PORTFOLIO ANALYSIS

Choice of strategy: BCG matrix-The GE nine cell planning grid- Corporate level generic strategies: Stability, Expansion, Retrenchment, Combination strategies. (15 hrs)

UNIT-IV: STRATEGY IMPLEMENTATION

Strategic Implementation: Role of top management-Process- Approaches, Resource allocation-Factors -Approaches, Mckinsey's 7's framework, Strategic Positioning- Four routes to competitive advantage. (15 hrs)

UNIT-V: STRATEGY EVALUATION

Strategic Evaluation: Importance- Criteria- Quantitative and Qualitative factors, Strategic control: Process-Criteria-Types, Essential features of effective evaluation and control systems. (15hrs)

Reference Books:

1. Strategic Management- Francis Cherunillam
2. Strategic Planning and Management- P.K.Ghosh.
3. Strategic Planning-Formulation of corporate strategy,-V.S.Ramaswamy&S.Namakumari,
4. Strategic Management – Charles W.L. Hill
5. Business Policy – Ahar Kasmi

UNIT-I

STRATEGY AND PROCESS

Concept of strategy:

The term strategy is derived from a Greek word strategos which means generalship. A plan or course of action or a set of decision rules making a pattern or creating a common thread.

Definition for strategic management:

Strategic Management is defined as the dynamic process of formulation, implementation, evaluation and control of strategies to realize the organizations strategic intent.

Conceptual framework for the development of strategic management:

Strategic Advantage Organizational capability Competencies Synergistic Effects

Strengths and weaknesses Organizational Resourcesorganizational behavior

Meaning for Goal:

Goal denotes what an organization hopes to accomplish in a future period oftime

Meaning for Objectives:

Objectives are the ends that state specifically how the goals shall be achieved.They areconcrete and specific in contrast to goals that are generalized.

Role of Objectives:

- Objectives define the organizations relationship with its environment.
- Objectives help an organization pursue its vision and mission.
- Objectives provide the basis for strategic decision making.
- Objectives provide the standards for performance Appraisal.

Characteristics of Objectives:

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- 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.

Meaning of vision:

A vision statement is sometimes called a picture of your company in the future. Vision statement is your inspiration; it is the dream of what you want your company to accomplish.

Meaning for mission:

A mission statement is a brief description of a company's fundamental purpose. The mission statement articulates the company's purpose both for those in the organizations and for the public.

Corporate Governance:

Corporate Governance involves a set of relationships amongst the company's management its board of directors, shareholders and other stakeholders. These relationships which various rules and incentives provide the structure through which the objectives of the company are set and the means of attaining the objectives and monitoring performance are determined.

Definition for Business:

A company should define its business in terms of three dimensions:

1. Who is being satisfied (what customer groups)
2. What is being satisfied (what customer needs)
3. How customer needs are being satisfied (by what skills, knowledge or distinctivecompetencies)

Stake holders in Business:

Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm's

performance. Stake holders can support the effective strategic management ofan organization.

Stake holder's relationship management

Stake holders can be divided into:

1. **Internal Stakeholders**

ShareholdersEmployees Managers Directors

2. **External Stakeholders**

Customers Suppliers Government Banks / creditors Trade unions Mass Media

Stake holder's Analysis:

- Identify the stake holders.
- Identify the stake holders expectations interests and concerns Identifythe claims stakeholders are likely to make on theorganization
- Identify the stake holders who are most important from the organizations perspective.
- Identify the strategic challenges involved in managing the stake holder relationship

Key aspects of Good Corporate Governance

Transparency of corporate structures and operations Corporate responsibility towards employees, creditors, suppliers and local communities where the corporation operates.

Corporate Governance Mechanisms:

Ownership concentrationBoard of Directors

Top management compensationThreat of takeover

Relating corporate Governance to strategic management:

Corporate Governance and strategic intent Corporate Governance and strategy formulation Corporate Governance and strategy implementation Corporate governance and strategy Evaluation

Social Responsibility of BusinessMeaning

Social Responsibility of business refers to all such duties and obligations of business directed towards the welfare of society. The obligationof any businessto protect and serve public interest is known as social responsibility of business.

Why should business be socially responsible?

Public image Government RegulationSurvival and growth Employee satisfaction Consumer Awareness

Social Responsibility towards different Interest groups: 1. Responsibility towardsowners:

Owners are the persons who own the business. They contribute capital and bear the business. Run the business efficiently Proper utilization of capitaland other resources. Regular and fair return on capital invested.

Responsibility towards Investors:

Investors are those who provide finance by way of investment in shares, bonds, etc. Banks, financial institutions and investing public are all included in this category.

Ensuring safety of their investmentRegular payment of interest.

Responsibility towards employees:

- Business needs employees or workers to work for it. If the employees are satisfied and efficient, then the business can be successful.
- Timely and regular payment of wages and salaries. Opportunity for better career prospects.
- Proper working conditions Timely training and development
- Better living conditions like housing, transport, canteen and crèches.

Responsibility towards customers:

- No business can survive without the support of customers.
- Products and services must be able to take care of the needs of the customers.
- There must be regularity in supply of goods and services.
- Price of the goods and services should be reasonable and affordable
- There must be proper after sales-service
- Grievances of the consumers if any must be settled quickly.

Responsibility towards competitors

Competitors are the other businessmen or organization involved in a similartype of business.

- Not to offer to customers heavy/discounts and or free products in every sale.
- Not to defame competitors through false advertisements.

Responsibility towards suppliers

Suppliers are businessmen who supply raw materials and other items requiredby manufacturers and traders.

Giving regular orders for purchase of goodsAvailing reasonable credit periodTimely

payment of dues.

Responsibility towards Government

Business activities are governed by the rules and regulations framed bythe government. Payment of fees, duties and taxes regularly as well as honestly Conforming to pollution control norms set up by government Not toindulge in restrictive trade practices.

Responsibility towards society:

A society consists of individuals, groups, organizations, families etc. Theyall are themembers of the society.

- To help the weaker and backward sections of the society.

- To generate employment.
- To protect the environment.
- To provide assistance in the field of research on education, medical science, technology etc.

Steps in strategy formation process:

Strategy formulation:

- Existing business model
- Mission, Vision, Values and goals
- External Analysis, opportunities and threats
- Internal Analysis, Strengths and weaknesses
- SWOT Strategic choice
- Functional level strategies
- Business level strategies
- Global strategies
- Corporate level strategies

Strategy Implementation

Governance and ethics Designing Organization structureDesigning organization culture Designing organization controls Feedback

UNIT-2

COMPETITIVE ADVANTAGE

EXTERNAL ENVIRONMENT

Concept of Environment:

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions events and influences that surround andaffect it.

Characteristics of Environment:

- Environment is complex
- Environment is Dynamic
- Environment is Multi-faceted
- Environment has a far- reaching impact

Macro Environmental Factors:

Demographic Environment Technological Environment Socio-cultural Environment Economic Environment Political Environment Regulatory Environment International Environment Supplier Environment Task Environment

Environmental Scanning

Environmental scanning plays a key role in strategy formulation by analyzing the strengths and weaknesses and opportunities and threats in the environment. Environmental scanning is defined as „monitoring, evaluating, and disseminating of information from external and internal environments to managers in organizations so that long term health of the organization will be ensured and strategic shocks can be avoided.

Porter's five forces model:

Risk of entry by potential competitorsBargaining power of suppliersBargaining power of buyers

Intensity of Rivalry among established firmsThreat of substitutes

His model focuses on five forces that shape competition within an Industry.

Porter argues that the stronger each of these forces is the more limited is the ability of established companies to raise prices and earn greater profits. Within porter' s framework, a strong competitive force can be regarded as a threat because it depresses profits. A weak competitive force can be viewed as an opportunity because it allows a company to earn greater profits. The task facing managers is to recognize how changes in the five forces give rise to new opportunities and threats and to formulate appropriate strategic responses.

Strategic groups within Industries

Meaning

Companies in an industry often differ significantly from each other with respect to the way they strategically position their products in the market in terms of such factors as the distribution channels they use, the market segments they serve, the quality of their products, technological leadership, customer service, pricing policy, advertising policy, and promotions. As a result of these differences, within most industries it is possible to observe groups of companies in which each company follows a business model that is similar to that pursued by other companies in the group. These different groups of companies are known as strategic groups.

Proprietary group:

The companies in this proprietary strategic group are pursuing a high risk high return strategy. It is a high risk strategy because basic drug research is difficult and expensive. The risks are high because the failure rate in new drug development is very high.

Generic group:

Low R&D spending, Production efficiency, as an emphasis on low prices characterizes the business models of companies in this strategic group. They are pursuing a low risk, low return strategy. It is low risk because they are investing millions of dollars in R&D. It is low return because they cannot charge high prices.

Competitive changes during Industry Evolution Industry:

An industry can be defined as a group pf companies offering products services that are close substitutes for each other that is product or services that satisfy the same basic customer needs. A company's closest competitors its rivals are those that serve the same basic customer needs.

Industry and sector

An important distinction that needs to be made is between an industry and a sector. A sector is a group of closely related industries.

Industry and market segments:

Market segments are distinct groups of customers within a market that can be differentiated from each other on the basis of their distinct attributes and specific demands.

Industry life cycle Analysis

The task facing managers is to anticipate how the strength of competitive forces will change as the industry environment evolves and to formulate strategies that take advantage of opportunities arise and that counteremerging threats.

Stages in Industry life cycle Analysis:

Embryonic Stage Growth Stage Industry shakeout

Maturity stage Declining stage

Globalization and Industry Structure

In conventional economic system, national markets are separate entities separated by trade barriers and barriers of distance, time and culture. With globalization, markets are moving towards a huge global market place. The tastes and preferences of customers of different countries are converging on common global norm. Products like coco-cola, Pepsi, Sony walkman and McDonald hamburgers are globally accepted.

The intense rivalry forces all firms to maximize their efficiency, quality, innovative power and customer satisfaction. With hyper competition, the rate of innovation has increased significantly. Companies try to outperform their competitors by pioneering new products, processes and new ways of doing

business. Previously protected national markets face the threat of new entrants and intense rivalry. After regulation of Indian economy the industrial sector has witnesses' enormous changes. The banking sector reforms also contributed to changes in the economic conditions of India. Merger, acquisition and joint venture with MNCs take place in large number. Ultimately intense competition is felt in the industrial scene. A vibrant stock market has emerged.

National Context and Competitive advantage:

In spite of globalization of markets and production successful companies in certainindustries are found in specific countries

Japan has most successful consumer electronics companies in the world Germany has many successful chemical and engineering companies in the world

United States has many of the world's successful companies in computer and biotechnology

It shows that national context has an important bearing on the competitive position of the companies in the global market

Economists consider the cost and quality of factors of production as the major reason for the competitive advantage of some countries with respect to certain industries.

Factors of production include basic factors such as labor, capital, raw material, land and advanced factors such as technological know-how, managerial talent and physical infrastructure

The competitive advantages U.S enjoys in bio-technology due to technological know-how, low venture capital to fund risky start-ups in industries.

According to Michael porter the nation's competitive position in an industry depends on factor conditions, Industry rivalry, demand conditions, and related and supporting industries.

The determinants of national competitive advantage:

Intensity of Rivalry

Factor conditions

Local Demand conditions

Competitiveness of related and supporting industries

Strategic Types:

Miles and snow have classified the strategic types into:

Defenders:

The defender strategic type companies have a limited product line and theyfocus on efficiency of existing operations.

Prospectors:

These firms with broad product items focus on product innovation and market opportunities. They are pre-occupied with creativity at the expense of efficiency.

Analyzers:

Analyzers are firms which operate in both stable and variable markets.In stable markets the companies emphasize efficiency and in variable markets they emphasize innovation, creativity and differentiation.

Reactors:

The firms, which do not have a consistent strategy to pursue, are called reactors. There is an absence of well-integrated strategy structure culture relationship. Their strategic moves are not integrated but piecemeal approach to environmental change makes them ineffective.

Internal Analysis: Distinctive Competencies, Competitive advantage, and Profitability

Internal Analysis is a three step process:

Manager must understand process by which companies create value for customers and profit for themselves and they need to understand the role of resources,capabilities and distinctive competencies in this process.

They need to understand how important superior efficiency, innovation, quality and responsiveness to customers are in creating value and generating high

profitability. They must be able to identify how the strengths of the enterpriseboost its profitability and how any weaknesses lead to lower profitability.

Competencies, Resources and Competitive advantage

Meaning of Competitive advantage:

A company has a competitive advantage over its rivals when its profitability is greater than the average profitability of all companies in its industry. It has a sustained competitive advantage when it is able to maintain above average profitability over a number of years.

Distinctive Competencies:

Distinctive competencies are firm specific strengths that allow a company to differentiate its product and achieve substantially lower costs thanits rivals and thus gain a competitive advantage.

Resources:

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

Capabilities:

Capabilities refer to a company's skills at co-coordinating its resources and putting them to productive use.

A critical distinction between Resources and capabilities:

The distinction between resources and capabilities is critical tounderstanding what generates a distinctive competency. A company may havevaluable resources, but unless it has the capability to use those resources effectively, it may not be able to create a distinctive competency.

For Example:

The steel mini-mill operator Nucor is widely acknowledged to be the most cost efficient steel maker in the United States. Its distinctive competencyin low cost steel making does not come from any firm specific and valuable resources. Nucor has the same resources as many other mini-mill operators. What distinguishes Nucor is its unique capability to manage its resources in a highly productive way. Specifically, Nucor's structure, control systems and

culture promote efficiency at all levels within the company.

Strategy, Resources, Capabilities and competencies

The relationship of a company's strategies distinctive competencies and competitive advantage.

Distinctive competencies shape the strategies that the company pursues which lead to competitive advantage and superior profitability. However, it is also very important to realize that the strategies a company adopts can build new resources and capabilities or strengthen the existing resources and capabilities thereby enhancing the distinctive competencies of the enterprise. Thus the relationship between distinctive competencies and strategies is not a linear one, rather it is a reciprocal one in which distinctive competencies shape strategies and strategies help to build and create distinctive competencies.

Competitive advantage of a company becomes depends on three factors:

- The value customers place on the company's products
- The price that a company charges for its products The costs of creating those products.
- The value customers place on a product reflects the utility they get from a product, the happiness or satisfaction gained from consumingor owning the product utility must be distinguished from price.
- Utility is something that customers get from a product. It is a function of the attributes of the product such as its performance, design, quality, and point of sale and after-sale service.

Differentiation and cost structure

Toyota has differentiated itself from General motors by its superior quality, which allows it to charge higher prices, and its superior productivity translates into a lower cost structure. Thus its competitive advantage over GM is the result of strategies that have led to distinctive competencies resulting in greater differentiation and a lower cost structure.

Consider the automobile Industry, In 2003 Toyota made 2402 dollar in profit on every vehicle it manufactured in North America. GM in contrast, made only 178-dollarprofit per vehicle. What accounts for the difference?

First has the best reputation for quality in the industry. The higher quality translates into a higher utility and allows Toyota to charge 5 to 10 percent higher prices than GM. Second Toyota has a lower cost per vehicle than GM in part because of its superior labor productivity.

Generic Building Blocks of Competitive advantage:

Superior Quality Superior Efficiency

Superior Customer responsivenessSuperior Innovation

Competitive advantageLow cost Differentiation

1. Superior Efficiency

A business is simply a device for transforming inputs into outputs . Inputs are basic factors of production such as labor, land, capital, management, and technological know-how. Outputs are the goods and services that the business produces. The simplest measure of efficiency is the quantity of inputs that it takes to produce a given output. That is efficiency outputs/Inputs.

Two important components of efficiency

Employee productivityCapital productivity.

2. Superior quality

A product can be thought of as a bundle of attributes. The attributes of many physical products include their form, features, performance, durability, reliability, style and design.

3. Superior Innovation:

Innovation refers to the act of creating new products or processes. Product innovation is the development of products that are new to the world or have superior attributes to existing products. Process innovation is the development of a new process for producing products and delivering them to customers.

Superior customer Responsiveness:

To achieve superior responsiveness to customers a company must be able

to do a better job than competitors of identifying and satisfying its customer needs. Customers will then attribute more utility to its products and creating a differentiation based on competitive advantage.

Core competencies:

Core competence is a fundamental enduring strength which is a key to competitive advantage. Core competence may be a competency in technology, process, engineering capability or expertise which is difficult for competitors to imitate. One core competence gives rise to several products. Honda's core competence in designing and manufacturing engines had led to several products and business such as cars, motorcycles, lawnmowers, generators etc.

The durability of competitive advantage

Barriers to Imitation

Capability of competitors

General dynamism of the Industry environment

Avoiding failures and sustaining competitive advantage

When a company loses its competitive advantage, its profitability falls. The company does not necessarily fail; it may just have average or below average profitability and can remain in this mode for considerable time although its resource and capital base is shrinking. A failing company is one whose profitability is new substantially lower than the average profitability of its competitors, it has lost the ability to attract and generate resources so that its profit margins and invested capital are shrinking rapidly.

Reasons for failure:

- Inertia
- Prior strategic commitmentsThe Icarus Paradox

Steps to Avoid failure:

- Focus on the building blocks of competitive advantage
- Institute continuous improvement and learning Track Best Industrial Practice and BenchmarkingOvercome Inertia

Evaluation of key resources: (VRIO)

Barney has evolved **VRIO** framework of analysis to evaluate the firm's key resources.

The following questions are asked to assess the nature of resources.

Value- Does it provides competitive advantage? Rareness- Do other competitors possess it?

Imitability- Is it costly for others to imitate? Organization- Does the firm exploit the resources

UNIT-3

STRATEGIES

Generic Strategic AlternativesMeaning of Corporate Strategy:

Corporate strategy helps to exercise the choice of direction that an organization adopts. There could be a small business firm involved in a single business or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases would be about the basic direction of the firm as a whole.

According to Gluek, there are four strategic alternatives:

Expansion strategies Stability strategies Retrenchment Strategies Combination strategies

1. Expansion strategies:

The corporate strategy of expansion is followed when an organization aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies singly or jointly in order to improve its overall performance.

2. Stability strategies:

The corporate strategy of stability is adopted by an organization when it attempts an incremental improvement of its performance by marginally changing one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies respectively.

3. Retrenchment strategies:

The corporate strategy of retrenchment is followed when an organization aims at contraction of its activities through a substantial reduction or elimination of the scope of one or more of its businesses in terms of their respective customer groups, customer functions or alternative technologies either singly or jointly in order to improve its overall performance.

4. **Combination strategies:**

The combination strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment strategies either at the same time in its different businesses or at different times in one of its businesses with the aim of improving its performance

5. **Growth strategy:**

Growth strategy is a corporate level strategy, designed to achieve increase insales, assets and profits.

Growth strategies may be classified as follows:

- Vertical growth Horizontal growth
- Vertical growth occurs when one function previously carried over by a supplier or a distributor is being taken over by the company in order to reduce costs, to maintain quality of input and to gain control over scarce resources. Vertical growth results invertical integration.

1. **Horizontal integration:**

A firm is said to follow horizontal integration if it acquires another firm that produces the same type of products the same type products with similar production process/marketing practices.

2. **Vertical integration:**

Vertical integration means the degree to which a firm operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing and retailing. Vertical integration occurs when a company produces its own inputs or disposes of its own outputs.

3. **Backward Integration:**

Backward integration refers to performing a function previously provided by asupplier.

4. **Forward integration:**

Forward integration means performing a function previously

provided by a retailer.

Diversification:

Diversification is considered to be a complex one because it involves a simultaneous departure from current business, familiar products and familiar markets. Firms choose diversification when the growth objectives are very high and it could not be achieved within the existing product/market scope.

Types of diversification:

- **Related diversification:**

In related diversification the firm enters into a new business activity, which is linked in a company's existing business activity by commonality between one or more components of each activity's value chain.

- **Unrelated diversification:**

In unrelated diversification, the firm enters into new business area that has no obvious connection with any of the existing business. It is suitable, if the company's core functional skills are highly specialized and have few applications outside the company's core business.

Concentric diversification:

Concentric diversification is similar to related diversification as there are benefits of synergy when the new business is related to existing business through process, technology and marketing.

Strategic Alliance

Meaning:

A strategic alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.

Types of Strategic Alliances : Joint Venture

Equity Strategic Alliance Non-equity Strategic Alliance Global Strategic Alliance

Stages of Alliance operation: Strategy Development Partner Assessment

Contract Negotiation Alliance Operation Alliance Termination

Advantages of Strategic alliance:

Allowing each partner to concentrate on activities that best match their capabilities Learning from partners developing competences that may be more widely exploited elsewhere. Adequacy a suitability of the resources competencies of an organization for it tosurvive

Disadvantages of strategic Alliance:

Alliances are costly

Alliances can create indirect costs by blocking the possibility of cooperatingwith competing companies, thus possibly even denying the company variousfinancing options.

Joint ventures also expose the company to its partners and the unique technologiesthat it has are sometimes revealed to its partner company.

McKinsey's 7S Model

This was created by the consulting company McKinsey and company in the early 1980s. Since then it has been widely used by practitioners and academics alike in analyzing hundreds of organizations. The Paper explains each of the seven components of the model and the links between them. It also includes practical guidance and advice for the students to analyze organizations using this model. At the end, some sources for further information on the model and case studies available.

The McKinsey 7S model was named after a consulting company, McKinsey and company, which has conducted applied research in businessand industry. All of the authors worked as consultants at McKinsey andcompany, in the 1980s, they used the model to analyze over 70 large organizations. The McKinsey 7S Framework was created as a recognizable and easily remembered model in business. The seven variables, which the authors terms "levers", all begin with the letter "S".

Description of 7Ss:

Strategy

Strategy is the plan of action an organization prepares in response to, or anticipation of changes in its external environment.

Structure

Business needs to be organized in a specific form of shape that is generally referred to as organizational structure. Organizations are structured in a variety ofways, dependent on their objectives and culture.

Systems

Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. For example, a company may follow a particular process for recruitment.

Style/culture

All organizations have their own distinct culture and management style. It includes the dominant values, beliefs and norms which develop over time and become relatively enduring features of the organizational life.

Staff

Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got thecentral position in the strategy of the organization, away from the traditional model of capital and land.

shared valuessuper ordinate goals

All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field.

The seven components described above are normally categorized as soft and hard components:

Hard componentsSoft components

- **Hard components are:** Strategy Structure Systems
- **Soft components are: Shared valuesStyle**

Meaning:

Distinctive Competitiveness

Distinctive Competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gainadvantage over the competition; generally, it is an activity that a firm performsbetter than its competition. To define a firm's distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength and bothmeets market needs and gives the firm a comparative advantage in the market place, that strength is the firm's distinctive competence.

Defining and Building Distinctive Competence:

To define a company's distinctive competence, managers often follow a particular process.

- They identify the strengths and weaknesses in the given marketplace.
- They analyze specific market needs and look for comparative advantagesthat they have over the competition.

Balanced Scorecard

The balanced scorecard is a strategic performance management tool- asemi-standard structured report supported by proven design methods and automation tools that can be used by managers to keep track of the execution of activities by staff within their control and monitor the consequences arising from these actions.

History

The first balanced scorecard was created by Art Schneider man (an independent consultant on the management of processes) in 1987 at Analog Devices, a mid-sized semi-conductor company. Art Schniederman participated in an unrelated research study in 1990 led by Dr.Robert S.Kaplan in conjunction with US management consultancy Nolan-Norton, and during this study described his work on balanced Scorecard. Subsequently, Kaplan and DavidP.Norton included anonymous details of this use of balanced Scorecard in their 1992 article on Balanced Scorecard. Kaplan & Norton's article wasn't the only

paper on the topic published in early 1992. But the 1992 Kaplan & Norton paper was a popular success, and was quickly followed by a second in 1993. In 1996, they published the book The Balanced Scorecard. These articles and the first book spread knowledge of the concept of Balanced Scorecard widely, but perhaps wrongly have led to Kaplan & Norton being seen as the creators of the Balanced Scorecard concept.

Four Perspectives:

- **Financial:** Encourages the identification of a few relevant high-level financial measures.
- **Customer:** Encourages the identification of measures that answer the question "How do customers see us?"
- **Internal Business Process:** encourages the identification of measures that answer the question "What must we excel at?"
- **Learning and Growth:** encourages the identification of measuresthatanswer the question "Can we continue to improve and create value?"

Business level strategy

This chapter examines how a company selects and pursues a business model that will allow it to complete effectively in an industry and grows its profits and profitability. A successful business model results from business level strategies that create a competitive advantage over rivals and achieve superior performance in an industry. In this chapter we examine that competitive decisions involved in creating a business model that will attract and retain customers and continue to do so over time so that a company enjoys growing profits and profitability.

To create a successful business model, strategic managers must:

- Formulate business- level strategies that will allow a company to attract customers away from other companies in the industry.
- Implement those business level strategies which also involve the use of functional level strategies to increase responsiveness to customers, efficiency,innovation and quality.

Competitive positioning and the Business model:

- To create a successful business model, managers must choose a set of business-level strategies that work together to give a companycompetitive advantage over its rivals
- To craft a successful model a company must first define its business, which entails decisions about
  - ❖ Customer needs or what is to be satisfied
  - ❖ Customer groups or what is to be satisfied
  - ❖ Distinctive competencies or how customer needs are to be satisfied.

The decision managers make about these three issues determine which set of strategies they formulate and implement to put a company's business model into action and create value for customers.

Formulating the Business model: Customer needs and product Differentiation

1. **Customer needs:** are desires, wants that can be satisfies by means of the attributes or characteristics of a product a good or service.

For Example: A person's craving for something sweet can be satisfied by chocolates, ice-cream, spoonful of sugar.

Factors determine which products a customer chooses to satisfy these needs:

The way a product is differentiated from other products of its type so that it appeals to customers

The price of the product

All companies must differentiate their products to a certain degree to attract customer. Some companies however decide to offer customers a low prices products and do not engage in much product differentiation Companies that seek to create something unique about their product differentiation, their products to a much greater degree that others so that they satisfy customers needs in ways other products cannot.

2. **Product differentiation:**

It is the process of designing products to satisfy customer's needs. A

company obtains a competitive advantage when it creates makes and sells a product in a way that better satisfies customer needs than its rivals do. If managers devise strategies to differentiate a product by innovation, excellent quality, or responsiveness to customers they are creating a business model based on offering customers differentiated products.

3. Customer groups:

The second main choice involved in formulating a successful business model is to decide which kind of products to offer to which customer groups. Customer groups are the sets of people who share a similar need for a particular product. Because a particular product usually satisfies several different kinds of desires and needs, many different customer groups normally exist in a market. In the car market, for example some customers want basic transportation and others want the thrill of driving a sports car. Some want for luxury purpose.

4. Identifying customer groups and market segments:

use them for sporting purposes those who like to wear them because theyare casual and comfort. Within each customer group there are often subgroups composed of people who have an even more specific need for a product. Inside the group of people who buy athletic shoes for sporting purposes, for example are subgroups of people who buy shoes suited to a specific kind of activity, such as running, aerobics, walking and tennis.

A company searching for a successful business model has to group customers according to the similarities or differences in their needs to discover what kinds of products to develop for different kinds of customers. Once a group of customers who share similar or specific need for a product has been identified, this group is treated as a market segment.

Three Approaches to Market Segmentation:

- **No Market segmentation:**

  First a company might choose not to recognize that different market segments exist and make a product targeted at the average or typical customer. In this case customer responsiveness is at a minimum and the focus is on price, not differentiation.

- ***High Market segmentation***

  Second a company can choose to recognize the differences between customer groups and make a product targeted toward most or all of the different market segments. In this case customer responsiveness is high and products are being customized to meet the specific needs of customers in each group, so the emphasis is on differentiation not price.

- ***Focused Market segmentation***

  Third a company might choose to target just one or two market segments and decide its resources to developing products for customers in just these segments. In this case, it may be highly responsive to the needs of customers in only these segments, or it may offer a bare-bones product to undercut the prices charged by companies who do focus on differentiation.

Generic Business- level strategies:

- ***Cost leadership:*** *A company's business model in pursuing a cost- leadership strategy is based on doing everything it can to lower its cost structure so it can make and sell goods or services at a lower cost than its*
- *competitors. In essence a company seeks to achieve competitive advantage and above average profitability by developing a cost leadership. Business model that positions it on the value creation frontier as close as possible to the lower costs/lower prices axis.*
- ***Focused Cost leadership:*** *A cost leader is not always a large national company that targets the average customer. Sometimes a company can target one or a few market segments and successfully pursue cost leadership by developing the right strategies to serve those segments.*
- ***Differentiation:*** *A differentiation business model is based on pursuing a set of generic strategies that allows a company to achieve a competitive advantage by creating a product that customers perceive as different or distinct in some important way.*

Focused Differentiation:

A in the case of the focused cost leader, a company that pursues a

business model based on focused differentiation chooses to specialize in serving the needs of one or two market segments of niches. One it has chosen its market segment. A focused company position itself using differentiation

Gap Analysis

Meaning: In gap Analysis, the strategist examines what the organizationwants to achieve (desired performance) and what it has really achieved (actualperformance). The gap between what is desired and what is achieved widensas the time passes no strategy adopted.

Corporate portfolio AnalysisMeaning:

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

Environment Threat and Opportunity Profile (ETOP)

Meaning of Environmental Scanning:

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

Appraising the Environment:

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

Structuring Environmental Appraisal:

The identification of environmental issues is helpful in structuring the

environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. There are many techniques to structure the environmental appraisal. One such technique suggested by Gluek is that preparing an ETOP for an organization.

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

Meaning of organizational Appraisal:

The purpose of organizational appraisal is to determine the organizational capability in terms of strengths and weaknesses that lie in different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for strategy formulation to take place.

Strategic Advantage Profile (SAP):

A SAP can also be prepared directly when students analyses cases during classroom learning, without making a detailed OCP. An SAP provides a picture of the more critical areas which can have a relationship with the strategic picture of the firm in the future.

Organizational Capability Profile (OCP)

Meaning:

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

	Summarized form of OCP		
Capability Factors	Weakness	Normal	Strength
Financial Capability	-5	0	+5

Factors

Sources of funds Usage of funds Management of funds

SWOT Analysis

Meaning:

Every organization is a part of an industry. Almost all organizations face competition either directly or indirectly. Thus the industry and competition are vital considerations in making a strategic choice. It is quite obvious that any strategic choice made by an organization cannot be made unless the industry and competition have been analyzed. The environmental as well organizational appraisal dealt with the opportunities, threats, strengths andweaknesses relevant for an organization.

Consolidated SWOT profile for a bicycle company

ETOP	Sector Impact	SAP	Impact factor
Economic	Up Arrow	Finance	Down Arrow
Market	Horizontal Arrow	Marketing	Horizontal Arrow
International	Down Arrow	Operations	Up Arrow
Political	Horizontal Arrow	Personnel	Horizontal Arrow
Regulatory	Horizontal Arrow	Information management	Up Arrow
Social	Up Arrow	General Management	Up Arrow

Building and Re-structuring the corporation

There are various methods for the firms to enter into a new business and restructurethe existing one.

Firms use following methods for building:

- **Start-up route**

  In this route, the business is started from the scratch by building facilities, purchasing equipments, recruiting employees, opening up distribution outlet and so on.

- **Acquisition**

  Acquisition involves purchasing an established company, complete with all facilities, equipment and personnel.

- **Joint Venture**

  Joint venture involves starting a new venture with the help of a partner.

- **Merger**

  Merger involves fusion of two or more companies into onecompany.

- **Takeover**

  A company which is in financial distress can undergo the process of takeover. A takeover can be voluntary when the company requests another company to takeover the assets and liabilities and save it from becoming bankrupt.

Re-structuring:

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

Re-structuring strategies:

Retrenchment:

Retrenchment strategies are adopted when the firm's performance is poor and its competitive position is weak.

Divestment Strategy

Divestment strategy requires dropping of some of the businesses or part of the business of the firm, which arises from conscious corporate judgement in order to reverse a negative trend.

Spin-off

Selling of a business unit to independent investors is known as spin- off.It is the best way to recover the initial investment as much as possible. The highest bidder gets the divested unit.

Management-buyout

selling off the divested unit to its management is known as management buyout.

Harvest strategy

A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it.

Liquidation

Liquidation is considered to be an unattractive strategy because the industry is unattractive and the firm is in a weak competitive position. It is pursued as a last step because the employees lose jobs and it is considered to bea sign of failure of the top management.

Strategy in Global Environment

Introduction:

In international business operations business enterprises pursue global expansion to support generic business level strategies such as cost leadership and differentiation. Companies expand their operations globally in order to increase their profitability. They perform the following activities towards this end.

Transferring their distinctive competencies

Dispersing various value creation activities to favorable locations Exploiting experience curve effects.

Global Strategies:

International Strategy Multi-domestic strategy Global Strategy Transnational Strategy

Entry Mode:

Global companies have five options to enter into a foreign marketExporting

Licensing Franchising Subsidiary Joint venture

Wholly owned subsidiaries

Global Strategic Alliance:

A strategic alliance is a cooperative agreement between companies who are competitors from different companies. It may take the form of formal joint venture or short-term contractual agreement with equity participation or issue- based participation.

- To gain access to foreign market

- To reduce financial risk
- To bring complementary skills
- To reduce political risks
- To achieve competitive advantage
- To set technological standards

GE Nine-cell Matrix

This corporate portfolio analysis technique is based on the pioneering efforts of the General Electric Company of the United States, supported by the consulting firm of McKinsey& company. The vertical axis represents industryattractiveness, which is a weighted composite rating based on eight different factors. These factors are: market size and growth rate, Industry profit margin, competitive intensity, seasonality, cyclicality, economies of scale, technology and social, environmental, legal and human impacts. The horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors. These factors are: relative market share, profit margins, ability to compete on price and quality, knowledge of customer and market, competitive strengths and weaknesses, technological capability and calibre of management.

Strategic Analysis and choice

Meaning of strategic choice:

Choice of a strategy involves an understanding of choice mechanism and issuesinvolved in it.

Definition:

Gleuek has defined strategic choice as the process of selecting the best strategy out of all available strategies.

Steps in strategic choice:

Focusing on strategic alternativesEvaluating strategic alternativesConsidering

Decision factorsChoice of strategy

Objective factors are grouped into two categories:

- ***Environmental factors***

  It includes volatility of environment, input supply from environment and powerful stakeholders.

- ***Organizational factors***

  It includes organization's mission, the strategic intent, its businessdefinition and its strengths and weaknesses.

Subjective factors:

Various subjective factors may be classified as:

Organization's past strategiesPersonal factors

- *Attitude to risks*
- *Internal political consideration*
- *Pressure from stakeholders*

Process of Strategic choice:

Strategic choice involves evaluation of the pros and cons of each strategic alternative and selection of the best alternative. Three techniques are used in the process of selection of a strategy.

Devil's Advocate Dialectical

Enquiry Strategic shadow

Committee

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

2. *Dialectical inquiry involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be argued by advocates before the key decision makers. Finally one alternative willemerge viable for implementation.*

A strategic shadow committee consists of members drawn below executive level. They serve the committee for two years. They inspect all

materials and attend all meetings of executive strategy. The members generate views regarding constraints faced by management. Their report is submitted to Board of Directors.

UNIT-4

STRATEGY IMPLEMENTATION

Introduction:

Organizational structure and culture can have a direct bearing on a company's profits. This chapter examines how managers can best implement their strategies through their organization's structure and culture to achieve a competitive advantage and superior performance.

Implementing strategy through organizational design:

Strategy implementation involves the use of organizational design, the process of deciding how a company should create, use and combine organizational structure control systems and culture to pursue a business model successfully.

Strategy Implementation through Organizational design: The

implementation of strategy involves three steps: Organizational

structureOrganizational culture control systems**Basics of designing**

organization structure:

The following basic aspects which require a strategist's attention while designing structure

Differentiation Integration Bureaucratic cost

Allocating Authority and Responsibility **Span**

of control:

Span of control means the number of subordinate's manager controls effectively. The term span of control refers to the number of subordinates who report directly to a manager.

Grouping Tasks, functions and Divisions Tall and Flat organizations Centralization

Decentralization

Integration and Integrating Mechanisms:

Much coordination takes place among people, functions and divisions

through the hierarchy of authority, often however as a structure becomescomplex, this is not enough and top managers need to use various integrating mechanisms to increase communication and coordination among functions and divisions. Greater the complexity of an organizations structure the greater is the need for coordination among people, functions and divisions to make the organizational structure work efficiently.

Three kinds of integrating mechanisms:Direct contact

- Liaison Role
- Teams

Designing Strategic Control Systems:

Introduction:

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

Steps in Strategic Control process:

- Establish standards and Targets
- Create Measuring and monitoring systems Compare Actual with targets
- Evaluate and take corrective actions

Levels of control:

- Corporate level managers
- Divisional level managers
- Functional level managers
- First level managers

Types of control system:

- Personal control
- Output control

- Behavior control

Organizational power and Politics:

Organizational power:

The organizational power is the ability to influence people or things usuallyobtained through the control of important resources.

Organizational Politics:

The organizational politics may be viewed as the tactics by which self interested individuals and groups try to power to influence the goals and objectives of the organization to further their own interest.

- Sources of power
- Ability to cope with uncertainty
- Centrality
- Control over information
- Non-substitutability
- Control over contingencies
- Control over resources

Organizational Conflict:

Conflict may be defined as a situation when the goal directed behaviorof one group blocks the goal directed behavior of another.

Organizational conflict process:

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

Conflict Resolution strategies:

Changing task Relationship Changing controls Implementing strategic changeChanging Leadership Changing the strategy

Managing the organization:

The basic principles for organization change are as follows:

UNIT-5

TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL:

Strategic Control:

Strategy formulation is based on assumptions about environmental and organizational factors which are nebulous and dynamic in nature. The time gap between strategy formulation and implementation is the major reason for these assumptions turned out to be invalid.

Types of strategic controls: Premise control Implementation control Strategic Surveillance Special Alert control

Techniques of Strategic Evaluation and control:

There are two methods in strategic evaluation and control:

Strategic momentum control Strategic leap control Strategic Issue Management Strategic field Analysis Systems Modeling

Scenarios