



U.P. Rajarshi Tandon Open
University Prayagraj

MBA-4.2

Strategic Management & Business Policy

1. CONCEPT OF STRATEGY
2. STRATEGIC MANAGEMENT PROCESS
3. Corporate Vision, Mission and Objectives
4. Strategic Intent
5. Environmental Factor Analysis
6. Environmental Scanning and Approaches
7. Competitive and Industry Analysis
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17. Strategic Risk Management
18. Strategic Issues In Emerging Economies
19. Contemporary Issues In Strategic Management



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ITEM	DESCRIPTION OF MODULE
Subject Name	MANAGEMENT
Paper Name	STRATEGIC MANAGEMENT
Module Name/ Title	CONCEPT OF STRATEGY
Module Id	1
Pre-requisites	Basic understanding of Management and its functions
Objectives	Understand the concept of strategy, its evolution, different levels of strategy. Strategic Management and its benefits.
Keywords	Strategy, Plan, Strategic Management

QUADRANT - I

Module 1 : Concept of Strategy
1. Learning Outcomes
2. Understanding Strategy
3. Policy, Strategy & Tactics
4. Evolution of Strategy as a Concept
5. Levels of Strategy
6. Schools of Thought on Strategy Formulation
7. Strategic Management
8. Benefits of Strategic Management
9. Limitations of Strategic Management
10. Summary

Printed and Published by Vinay Kumar Registrar, Uttar Pradesh Rajarshi Tandon Open University, 2024.

Printed By : Cygnus Information Solution Pvt Ltd, Lodha Suprimus Saki Vihar Road, Andheri East, Mumbai.

1. Learning Outcomes

After studying this module, you shall be able to

1. Understand the concept of strategy
2. Differentiate between strategy and related concepts
3. Learn about the evolution of strategy as a concept
4. Learning different levels of strategy
5. Understand various schools of thought on strategy formulation
6. Learn about the concept of strategic management
7. Learn about benefits of strategic management
8. Learn about limitations of strategic management

2. Understanding Strategy

The concept of strategy is fundamental to the process of strategic management. The word strategy comes from Greek *strategos*, which refers to generalship. The concept and practice of strategy and planning started in the military, and overtime, was applied to business and management. The key objectives of both business strategy and military strategy are the same, i.e. to secure competitive advantage over the rivals.

In simplified terms, a strategy is the means to ends, and these ends concern the purpose and objectives of the organisation. They are the things that businesses do, the paths they follow, and the decisions they take, in order to reach certain points and level of success. It relates to developing the long-term scope of an organisation, in such a way so as to deliver competitive advantage to the organization. Strategy is a tool for utilizing resources and skill sets *dynamically* in a changing environment and thereby, meeting market needs and fulfill stakeholders' expectations.

A strategy could be –

- A plan or course of action making a pattern or common thread;

While comparing Strategy and Policy, it is derived that

- a) Policy is a broader or more general concept in the form of guidelines or principles; however, Strategy is more specific as it relates to a particular situation, objective or target.
- b) Policy generally comes first; and strategies are considered as element of policy.

Another term tactics is also at times confused with strategy, however, from an overall strategy, a number of sub-strategies follow. These sub-strategies are referred as tactics. Tactics are the specific activities which deliver and implement the strategies in order to fulfil objectives and pursue the mission. Often short term; they can be changed frequently if necessary.

Examples - Strategy v/s Tactics

- Developing all-rounders in a cricket team => Strategy and sending Irfan Pathan at # 3 is Tactic.
- In army mission, beefing up infantry on the desert borders but attacking via water orders => Strategy and Deploying Submarines / Frigates is Tactic.
- In a business scenario, Mittal Steel (before Arcelor) acquiring a string of ailing steel plants => Strategy and Systematically cutting costs (there) requires Tactic.

The distinction, or rather the relationship, between strategy and tactics can be discussed on the basis of five major factors:

- i) Significance – Strategies have more significance or greater consequences for an organisation than tactics as strategic decisions generally affect the entire organisation or a significant part of the organisation. Tactics may affect only a particular supplier or a particular sale or a customer.
- ii) Level of formulation or conduct – Strategies are formulated at senior or top management level and within overall strategy, tactic are employed by middle and lower levels of management.
- iii) Information base – As strategies have significant impact on an organisation, these are framed with extensive information relating to the company's resources, operations, environment, competitors, customers etc. For tactical decisions the information requirement are lesser and only relates to a smaller part of the organisation

- iv) **Objectivity/ Subjectivity** – Strategies are generally framed by teams and not by individual managers as these are based on detailed analysis of information or data, which renders enough objectivity to strategies. Tactics are more subjective and are sometimes left to the discretion of individual managers.
- v) **Periodicity or Time Horizon** – Strategies are generally long-term, are not made or changed frequently. It takes time to formulate strategies and to determine their effectiveness; therefore, strategies have larger periodicity or time frame. Tactics, on the other hand, can change quite frequently.

Now, while comparing policy, tactics and strategy it is clear that policy comes before strategy and strategy comes before tactics. However, all these concepts are closely interrelated and play crucial roles in the management of a company.

4. Evolution of Strategy as a Concept

Over the years, many authors have discussed the concept of strategy and have given varied approaches relating to strategy. However, the concept is still evolving; some authors have laid the foundations of the concept and given different definitions of strategy. Some of the major contributors in the conceptualisation of strategy are mentioned below –

Alfred D Chandler (1962)

Chandler analysed the dynamic relationships between business environment, organisations and strategy. While studying the organisational change in the US, Chandler defined strategy as: “The determination of the basic long term-goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.”

Kenneth Andrews (1965)

Andrew is known for being a part of the group of professors who contributed in developing the subject of Business Policy. He defined strategy as: “The pattern of objectives, purpose, goals, and the major

policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be.”

Igor Ansoff (1965)

Ansoff, explained corporate strategy as: “The common thread among the organisation’s activities and product-markets... that defines the essential nature of business that the organisation was or planned to be in future.”

William F Glueck (1972)

Glueck discussed strategy as “a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.” He emphasised on three terms namely unified, comprehensive and integrated to describe a plan. Where ‘Unified’ refers to connecting all the divisions of an enterprise with one another; ‘comprehensive’ means including all the critical aspects, and ‘integrated’ means making all components of the plan assimilate with one another.

Igor Ansoff (1984)

Ansoff, while contributing to the field of strategic management in 1984, again explained corporate strategy as: “a set of decision-making rules for the guidance of organisational behaviour.”

Henry Mintzberg (1987)

Mintzberg opined that strategies not necessarily arise from logical planning but may also result from what is unplanned. He defines strategy as: “a pattern in a stream of decisions and actions.” He also distinguished between intended and emergent strategies where intended strategies referred to the plans that managers develop and emergent strategies relate to the activities that actually happen. Therefore, an organisation may begin with a planned and calculated design of strategy and result in another strategy that is in reality realised.

Michael E Porter (1996)

The contributions of Porter in the conceptualisation of strategy are valuable. He is known for his ideas on competitive advantage, five forces model, generic strategies and value chain. He discussed strategy as the locus of general management and describes it as “developing and communicating the company’s unique position, making trade-offs, and forging fit among activities.”

Strategic position is based on customer’s needs, customer’s accessibility, or the assortment of products and services offered by the company. A company in order to build a competitive advantage has to work on creating a unique proposition by selecting actions distinct from those of its counterparts, or on executing similar activities in distinctive ways. However, in order to get a sustainable strategic position, companies have to create a fit of activities by trade-off between different activities to ensure that they relate to each other.

These works of the authors attempt to define the concept of strategy with clarity and precision.

5. Levels of Strategy

In organisations, a single strategy is often inadequate; in fact organisations need multiple strategies at different levels. In order to divide different units or segments, each performing a common set of activities, many companies create operating divisions. Such divisions may also be referred to profit centres or strategic business units (SBUs). An SBU, as defined by Sharplin, is “any part of a business organisation which is treated separately for strategic management purpose.”

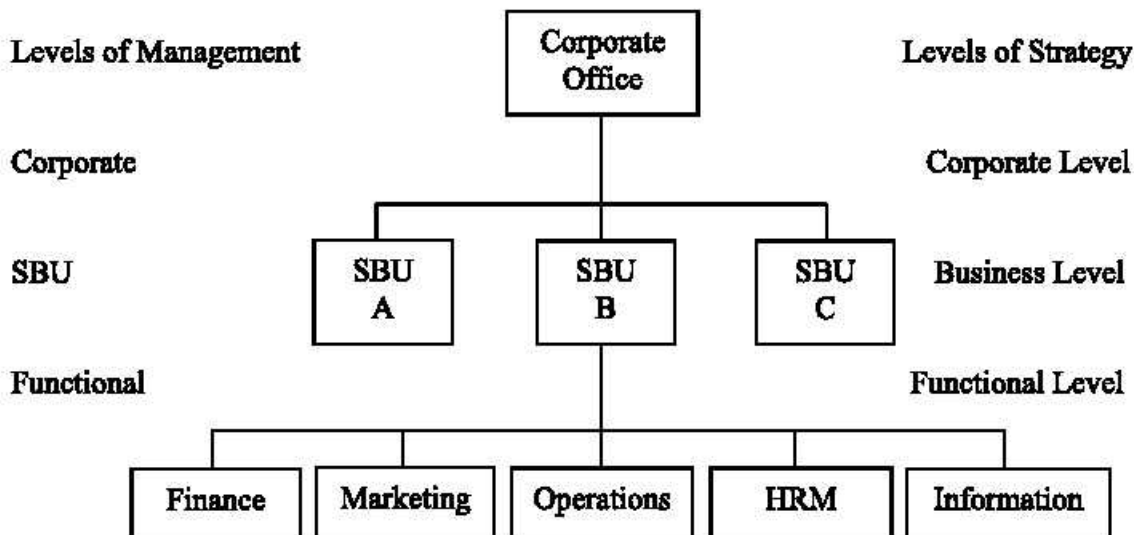
SBUs are involved in a single line of business where each of the SBUs has its own functional departments while the common functions are grouped under corporate level. The different levels of strategy could be at corporate level, the SBU level and at functional level.

Corporate level strategy is the overall action plan including all the functions executed by different SBUs. The plan relates to objectives of the company, resource allocation and coordination of the SBUs for best possible results.

SBU level strategy is a complete plan relating to the objectives of SBUs, resources allocated to different functional divisions and coordinate so as to achieve corporate level objectives.

Functional level strategy deals with defining objectives of one specific function, allocating resources among different operations within a function and coordinating between them in order to achieve the SBU and corporate-level objectives.

Different levels of Strategy



(Source – Kazmi, 2010. *Strategic Management and Business Policy*, 3rd Edition)

6. Schools of Thought on Strategy Formulation

The subject of strategic management is still evolving. In the course of its development, several aspects of the concept are emerging, which are gradually leading to a convergence of views. This is an indication of the maturing of the subject. Mintzberg and his associates have given ten schools of thought on strategy formulation. These schools of thought are classified in three groups.

The Prescriptive School

1. The Design School
2. The Planning School
3. The Positioning School

The Descriptive School

4. The Entrepreneurial School
5. The Cognitive School
6. The Learning School
7. The Power School
8. The Cultural School
9. The Environmental School

The Integrative School

10. The Configuration School

A detailed explanation of these schools of thoughts is given below –

1. ***The Design School*** – This school of thought developed in late 1950s and 1960s, Selznick (1957) and Andrews (1965) perceived strategy formation as a process of conception. This school of thought looks at strategy as a unique plan. The chief executive officer creates and leads the strategy formulation process, which is simple and informal, based on judgement and thinking.
2. ***The Planning School*** – This school developed in late 1960s, Ansoff (1965) mainly contributed to this school and explained strategy formation as a formal process, wherein strategy is divided into smaller sub-strategies and programs. The lead role in the strategy is played by the planners. The process strategy formation is formal and deliberate.
3. ***The Positioning School*** – In late 1970s and 1980s, Schendel and Hatten (1970s) and Porter (1980s) formed positioning school. They considered strategy as the organisation's planned generic positions chosen by analysing competition and industry in which the organisation operates. The strategy formation is done by the analysts. The process of strategy formulation is analytical, systematic and deliberate.
4. ***The Entrepreneurial School*** – This school of thought developed in 1950s with the contribution of Schumpeter (1950s), Cole (1959) and several other authors who considered strategy formation as a visionary process. This school viewed strategy as a result of personal and unique perspective

often aimed at the creation of a niche. The strategies are formulated by the entrepreneur or leader and the process of strategy formation is instinctive, far-sighted and largely deliberate.

5. ***The Cognitive School*** – In 1940s and 1950s this school regarded strategy as an individual concept, a result the mental perspective. The strategy formation is done by the thinker-philosopher. Simon (1947, 1957) and March and Simon (1958) contributed to the cognitive school and regarded strategy formation is mental and emergent process.
6. ***The Learning School*** – Emerging from 1950s through 1990s, this school considered strategy formation as an emergent process. Strategy is seen as a unique pattern and the process of strategy formation is new, informal and unorganized. The strategy formation is done by learner within the organisation. Few of the contributors to learning school are Lindblom (1959, 1960), Cyert and March (1963), Weick (1969), Quinn (1980) and Prahalad and Hamel (early 1990s).
7. ***The Power School*** – Developed during 1970s and 1980s, this school regarded strategy formulation as a negotiation process, a political and cooperative process. The main task of strategy formation is performed by anyone in power (micro level) and the whole organisation (macro level). This process of strategy formation is chaotic, may lead to conflict, aggression and lack of cooperation. Allison (1971), Pfeffer and Salancik (1978) and Astley (1984) were major contributors to this school.
8. ***The Cultural School*** – Rhenman and Normann (late 1960s) mainly contributed to this school and perceived strategy formation as a collective process. Here, strategy is considered as a unique and collective perspective. Strategy formulation is done by collectivism displayed within the organisation and the process of strategy formation is ideological, constrained, collective and deliberate.
9. ***The Environmental School*** – This school developed mainly in 1960s and 1970s, and regards strategy formation as a reactive process. This school regards strategy as something generic, occupying specific positions or niche in relation to the environment. Strategy formulation is passive, imposed and emergent; environment is regarded as an entity and plays a major role in strategy formation.

10. The Configuration School – This school emerged in 1960s and 1970s, major contributors of the school include Chandler (1962), Mintzberg & Miller (late 1970s), Miles and Snow (1978). The school regards strategy as a transformation process; that matches any process discussed under the nine schools of thought. The process of strategy formation is integrative and sequential. Additionally, it could also incorporate other elements pointed out under the nine schools of thought. Strategic management as a broader concept of management, considers all the managerial problems, issues, the processes of solving them and also many other variables that operate in a problem-solving environment.

7. Strategic Management

Strategic decision-making is done through the process of strategic management, which has been defined by different authors. The following three definitions present a complete overview of the concept.

‘Strategic management is that set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.’

– F. Glueck

‘Strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organisation.’

– W.F. Glueck

‘Strategic management is primarily concerned with relating the organisation to its environment, formulating strategies to adapt to that environment, and, assuming that implementation of strategies takes place.’

– Pearce & Robinson

All the management functions of a company can be broadly classified into two categories –strategic and operational. Strategic functions are performed more at the senior and top management level, and operational functions are performed more by middle and lower management levels. In other words, as the level of management moves up, the managers perform more strategic functions and less operational functions.

Strategic management is an art as well as science of formulating, implementing and evaluating decisions across functional areas to help an organisation in achieving its objectives. It focuses on integrating management, marketing, finance, production, R&D and IT to achieve organisational success. In business world, the terms strategic planning and strategic management are used interchangeably. The rationale of strategic management is to utilize and develop new and different opportunities for future.

8. Benefits of Strategic Management

Strategic management allows organisations to shape their own destinies by becoming more proactive than reactive; it allows organisations to initiate and influence activities to control its future. The major advantage of strategic management is to help organisations to formulate better strategies by following a methodical, rational approach while making strategic choice. One key focus of the strategic management is on getting the understanding of and commitment from all managers and employees. Understanding is probably one of the most important benefits of strategic management, followed by commitment. In cases where employees and managers understand what the organisation is doing and why, they often feel they are a part of the firm and become committed to assisting it. This also enables employees to understand the linkages between their own compensation and organisational performance. Another great benefit of strategic management is that it empowers the individuals. Empowerment means strengthening employees' sense of effectiveness by involving them in decision-making and to exercise initiative and imagination, and rewarding them for doing so.

Financial Benefits

Research indicates strategic management helps organisations to become more successful and profitable than their counterparts. Systematic planning prepares organisations for uncertain future and also generally shows better financial performance in comparison to their industry. Further, these enterprises are also expected to make more informed decisions by analysing both short and long-term consequences.

The strategic management practices may help a company by yielding following benefits –

- Increased sales
- Improved profitability
- Enhanced productivity

Non Financial Benefits

In addition to the financial benefits, strategic management offers other intangible and non financial benefits. Some of these benefits are –

- Enhanced awareness of external threats
- Improved understanding of competitors' strategies
- Increased employee productivity
- Reduced resistance to change
- Clearer understanding of performance-reward relationships.
- Promotes interaction among managers at divisional and functional levels by enhancing the problem prevention capabilities
- Encourages order and discipline in the organisation
- Creates efficient and effective managerial systems
- Establishes confidence in current business strategy and highlights need for corrective measures
- Provides basis for identifying and rationalising the need for change
- Helps the employees to view change as an opportunity

Greenly stated the below mentioned benefits of strategic management –

1. Permits organisations to identify, prioritise and exploit opportunities.
2. Gives an unbiased and real picture of management problems.
3. Provides guidelines to stimulate coordination and control of activities.
4. Reduces the impact of adverse conditions and changes in the business environment.
5. Helps in taking good decisions to support established objectives.
6. Allows effective allocation of time and resources to identified opportunities.

7. Helps in reducing the wastage of resources and time.
8. Encourages internal communication.
9. Integrates the behaviour of individuals into total effort.
10. Defines clear individual responsibilities.
11. Promotes forward thinking.
12. Provides cooperative and integrated approach to deal with problems and opportunities.
13. Stimulates a favourable attitude toward change.
14. Creates discipline in the management of a business.

9. Limitations of Strategic Management

Strategic management and planning is a complex process, thus has some major limitations –

- a) Analysing a complex and dynamic environment – Complete information or details on environmental changes including markets and competitors, are hardly available. Thus, companies have to act on incomplete information or database.
- b) Plans, frameworks and system mean rigidity – Strategic planning or management reduces flexibility and individual initiatives. All systems imply certain amount of rigidity.
- c) Limitation in implementation – A strategy may be well conceived and formulated, but there may be problems in implementation arising out of internal conflicts, lack of co-ordination, lack of support from top management etc.
- d) Inadequate appreciation by the management – The planning and executing teams may not get adequate appreciation or reward from the top management when their strategies succeed, but, in case of failure, management may not accept the situation. This often discourages initiative and new thinking.

In addition to the above mentioned limitation, some mistakes are commonly committed by companies while approaching strategic management/planning. These pitfalls or mistakes are–

- Undertaking strategic planning only to satisfy company policy or regulatory requirements laid down;

- Using it to get control over decisions and resources;
- Top managers not actively supporting the strategic planning process;
- Top managers taking independent decisions which conflict with the strategic planning process;
- Failing to inform the plan to employees
- Delegating planning to some third party or planner rather than including the concerned managers;
- Failing to involve key managers or employees in different stages of process;
- Failing to make use of the plan as a standard for measuring performance;
- Viewing planning to be an unnecessary or unimportant exercise;
- Failing to generate a conducive climate in the organisation which may support the change;
- Being engrossed in current problems that strategic planning has neglected or has paid insufficient attention to;
- Being very formal in planning and completely overlooking flexibility and creativity.

10. Summary

- A strategy is the means to ends for an organisation.
- It is a plan or course of action.
- It is related to the organisation's activities which are drawn from the policies, objectives and goals.
- Strategy is mostly about the long-term actions, moulded by overall purpose & mission of the organisations.
- Strategy should lead to competitive advantage and help win market battles against competition.
- It must be backed by resources & skill-sets.
- Operations (Tactics) must align with Strategy.
- Strategy must adapt to environmental influences and help to deliver on various expectations.
- Strategy is different from Policy and Tactics.
- The evolution of strategy as a concept and different authors' view of strategy.

- Strategy operates at different levels of an organisation. The different levels of strategy could be at corporate level, the SBU level and at functional level.
- Strategy formulation has been divided into ten schools of thought as given by Mintzberg and his associates. These schools of thought are classified in three groups viz. prescriptive school, descriptive school and integrative school.
- Strategic management is an art as well as science of formulating, implementing and evaluating decisions across functional areas to help an organisation in achieving its objectives.
- The major advantage of strategic management is to help organisations to formulate better strategies by following a methodical, rational approach while making strategic choice.
- The strategic management practices may help a company by yielding following financial benefits i.e. increased sales, improved profitability and enhanced productivity.
- In addition to the financial benefits, strategic management offers other intangible and non financial benefits to the organisation.
- Strategic management and planning is a complex process, thus has some major limitations related to changing environment, rigidity, implementation issues etc.

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ITEM	DESCRIPTION OF MODULE
Subject Name	MANAGEMENT
Paper Name	STRATEGIC MANAGEMENT
Module Name/ Title	STRATEGIC MANAGEMENT PROCESS
Module Id	Module No – 2
Pre-requisites	Understanding of strategy, plans and strategic management
Objectives	Understanding the strategic management process
Keywords	Strategic management, Strategic management process, SMP

QUADRANT - I

Module 2 : Strategic Management Process
1. Learning Outcomes
2. Phases in Strategic Management Process (SMP)
3. Elements of SMP
4. Comprehensive Model of SMP
5. Wheelen & Hunger Model of SMP
6. Intended and Realised Strategies
7. Participants in SMP
8. Strategic Drift
9. Learning Organisations
10. Summary

1. Learning Outcomes

After studying this module, you shall be able to

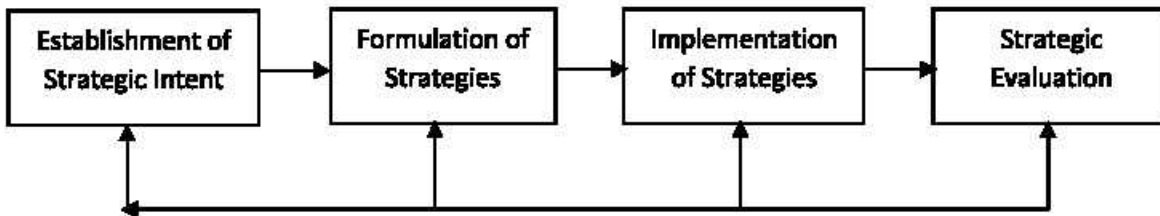
1. Identify different phases in strategic management process.
2. Understand various elements of strategic management process.
3. Learning different models of strategic management process.
4. Understanding Intended and Realised Strategies.
5. Learn about the approaches to strategic management process.
6. Learn about various participants in strategic management process.

2. Phases in Strategic Management Process (SMP)

“Strategic management is the dynamic process of formulation, implementation, evaluation and control of strategies to achieve the organisation’s strategic intent.”

This definition emphasises on four stages of the strategic management process namely formulation, implementation, evaluation and control. The four phases of strategic management process are depicted as –

Four Phases of Strategic Management Process



(Source – Kazmi, 2010. Strategic Management and Business Policy, 3rd Edition)

The first stage relates to establishment of strategic intent for the organisation. Strategic intent is the list of objectives that an organisation creates for itself. This includes defining its vision, mission, objectives and business. The aim of strategic management is effectively realising the strategic intent.

In the second stage a single strategy or few strategies are formulated, the stage is also called strategic planning. Essentially, this is an analytical phase in which strategists think, analyse and plan strategies.

The third phase of implementation is the 'putting into action' phase. The strategies formulated in the previous stages are implemented through a number of executive and managerial actions.

Lastly, the fourth stage of evaluation and control involves assessing whether the formulated strategies were apt and whether the same were implemented effectively. The outcomes of assessment help in suggesting corrective actions ranging from making minor changes to severe reformulations of strategies.

These four stages are considered to be chronologically linked and each following phase provides a feedback to the previous phases. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary.

3. Elements of SMP

Each phase of the strategic management process consists of a number of elements, which are discrete and identifiable activities performed in logical and sequential steps. The following are considered as essential elements of SMP –

A. Establishing the hierarchy of strategic intent –

- A. Creating and communicating a vision
- B. Designing a mission statement
- C. Defining the business
- D. Adopting the business model
- E. Setting objectives

B. Formulation of strategies –

- F. Performing environmental appraisal
- G. Doing organisational appraisal
- H. Formulating corporate-level strategies
- I. Formulating business-level strategies
- J. Undertaking strategic analysis

- K. Exercising strategic choice
- L. Preparing strategic plan
- C. ***Implementation of strategies –***
- M. Activating strategies
- N. Designing the structure, systems and processes
- O. Managing behavioural implementation
- P. Managing functional implementation
- Q. Operationalising strategies
- D. ***Performing strategic evaluation and control –***
- R. Performing strategic evaluation
- S. Exercising strategic control
- T. Reformulating strategies

4. Comprehensive Model of SMP

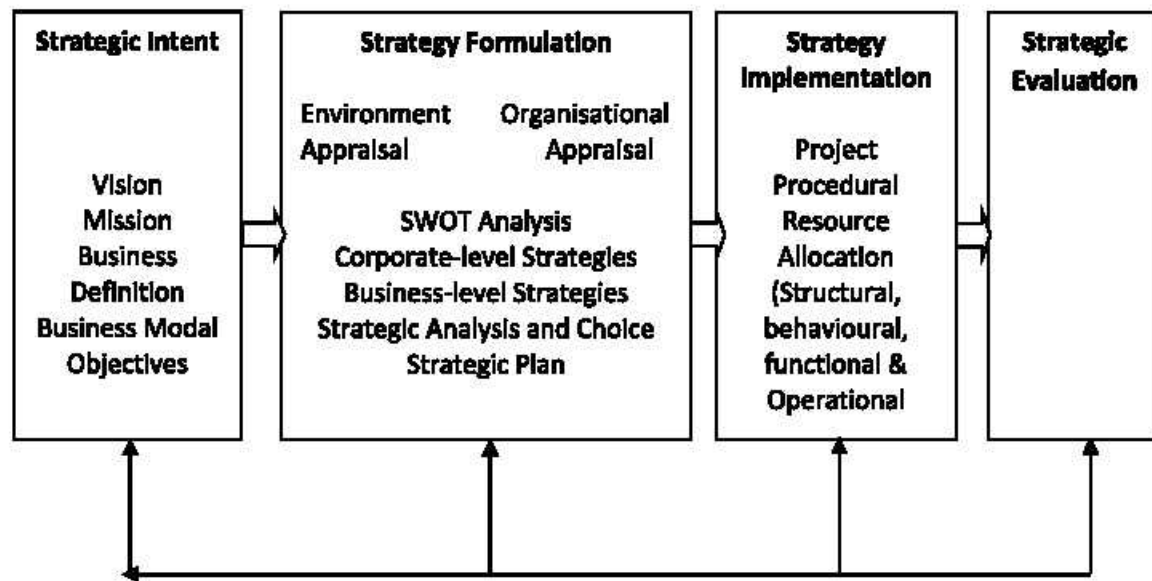
The strategic management process is elucidated with the help of a model consisting different phases which include the above mentioned elements.

The steps of the process are discussed in brief as –

- A. The hierarchy of strategic intent lays foundations for the strategic management of an organisation. The intent establishes the vision, mission, business definition, and objectives for the organisation. It makes clear what an organisation stands for, the vision highlights what the organisation wants to achieve in long run. The mission relates the organisation to the society at large. The business definition defines the businesses of the organisation while the business model depicts how the organisation creates revenue. The objectives of the organisation explain what is to be achieved in a set time frame and serve as benchmarks for measuring performance.
- B. Environmental and organisational appraisal identifies various opportunities and threats functional in the environment, as well as defines the strengths and weaknesses of an organisation. In such a manner, enables organisation to take advantage of existing opportunities by using its strengths and reduce the impact of threats and minimise the weaknesses.

The model suggested by different authors as a comprehensive model of strategic management is exhibited in the figure –

Comprehensive Model of Strategic Management



(Source – Kazmi, 2010. *Strategic Management and Business Policy*, 3rd Edition)

C. Formulation of strategies at four levels viz. corporate, business, functional and operational takes place in an organisation. The major strategies are formulated at corporate and business levels where corporate strategies relate to the strategic decisions regarding the business, business strategies focus of building competitive advantage for the business.

D. Strategic alternatives and choices are necessary for defining various alternative strategies and selecting the most appropriate strategy keeping in view the environmental opportunities and threats as well as the organisational strengths and weaknesses. Strategies are defined and selected at corporate and business-level. The process of strategy selection includes strategic analysis and choice. As a result, a strategic plan ready for implementation.

E. For strategy implementation, the developed strategic plan is applied through various sub-processes like project implementation, procedural implementation, resource allocation, structural implementation, behavioural implementation, and functional implementation. Project implementation deals with setting up the organisation while procedural implementation deals with defines different regulations within which Indian organisations have to work. In resource allocation, resources are procured and committed for the plan. The structural aspect defines the organisational structure and systems to meet the requirements of the strategy. The behavioural aspect deals with the leadership style, corporate culture, corporate politics, personal values, ethics, social responsibility etc. and the functional aspect relates to different functional areas for the policies to be formulated.

F. The last phase is strategic evaluation which assesses the performance of the organisation and the results of the implemented strategies. The results of the assessment help in exercising strategic control over the future strategic management process.

5. Wheelen & Hunger's Model of SMP

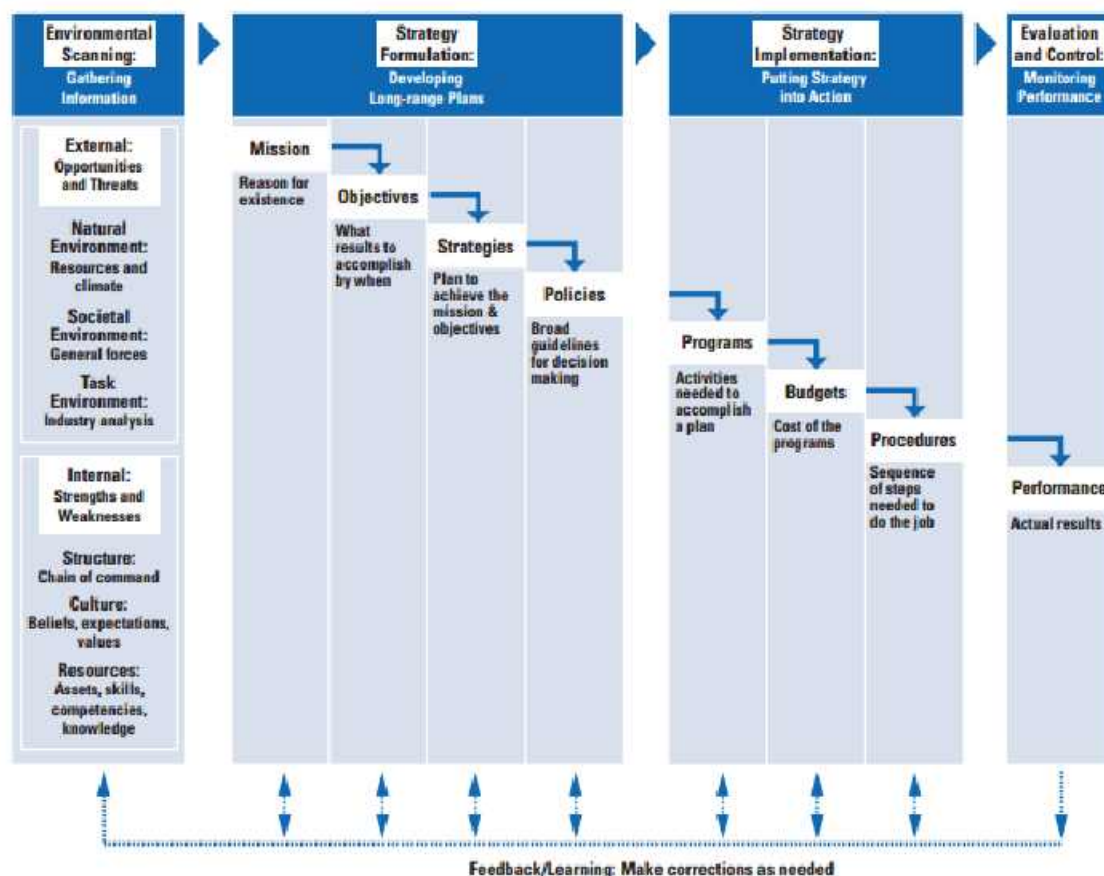
Another model on strategic management process proposed by Wheelen & Hunger, includes four steps namely environmental scanning, strategy formulation, strategy implementation, evaluation and control, and feedback/ learning process.

A. *Environmental scanning* is the observing, analysing and spreading information relating to the business environment both external and internal to all the important people in an organisation. The scanning process enables an organisation to identify strategic factors—which have a bearing on the future of the organisation. Environmental scanning can be done through SWOT analysis, which helps in identifying its Strengths and Weaknesses, and also facilitates the company in recognising Opportunities and Threats that exist in its business environment.

B. *Strategy formulation* relates to developing long-term plans on the basis of environmental opportunities and threats keeping in view the strengths and weaknesses (SWOT) of a company. Strategy formulation consists of outlining corporate mission, its objectives, making strategies and policy framework. An organisation may formulate its objectives in relation to - profitability, efficiency,

growth, shareholders' wealth, utilization of resources (ROE or ROI), reputation, contributions to employees, contributions to society, market leadership, technological leadership etc.

Wheelen & Hunger's Model of Strategic Management



(Source: Wheelen & Hunger, "Strategic Management and Business Policy: Toward Global Sustainability," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM), International Meeting, Richmond, VA, 1981.)

C. *Strategy implementation* is concerned with putting the formulated strategies and policies into action. This is done by making programs, budgets and processes; and may also involve alterations in the organisation structure, culture etc. The strategies are generally implemented at the middle and

lower management levels and are reviewed by the top management. This stage also involves making regular decisions on daily basis, thus is also referred as operational planning.

D. *Evaluation and control* is exercised by comparing actual performance with the previously set objectives. The result of this exercise helps managers and management is taking corrective measures to improve the performance. This process further helps in identifying the problems in the implemented strategic plans and providing useful information to improve the future plans and performance. Evaluation and control, thus, improves an organization's performance, which is generally measured in terms of profits and ROI.

E. *Feedback/ Learning Process* - A business unit develops strategies and programs before undertaking any exercise but it must regularly take corrective actions or decisions with regards to the existing plans. For example, poor performance (as measured in evaluation and control) usually indicates that something has gone wrong with either strategy formulation or implementation. It may also help in identifying some of the key variable which might have been ignored during environmental scanning and assessment.

6. Intended and Realised Strategies

All strategic management processes start with planned or intended strategies. However, the actual or realised strategy may be different. Taking the idea that an organisation's intended strategy is changed during its implementation, Mintzberg and Waters argue that new strategy emerge to modify and change the planned strategy, so that over time the realised strategy is different from the one originally intended by senior managers. Thus, a strategy is a mixture of a senior management's deliberate strategy, which is a planned strategy designed by senior managers for implementation at other organisational levels, and emergent strategy, which is strategy not foreseen by senior management that arises during the implementation of deliberate strategy. Between intended and realised strategies, there are emergent strategies. The intended strategy is the one originally planned: this can be emergent in its original, modified or an entirely different form because of developing situations. The realised strategy

is what is actually implemented because of changed internal or external circumstances. Wright and others (1998, 1997) have dealt with it at length.

Emergent strategies are usually suggested by functional or operating-level managers. Higher level management has to assess the emergent strategy in the context of the already approved strategy (intended strategy) and decide whether the emergent strategy suits the organisation's objectives, needs and capabilities. This would also involve assessment of the changed environment which necessitates the emergent strategy. Usually, intended strategies are top-down process whereas emergent strategies are a bottom-up approach. Therefore, the effectiveness of emergent strategy depends on the flow of communication between top management and functional-level management. In most cases, strategies are a mix of intended and emergent strategies. The unrealised intended strategy will be either dropped or replaced by an emergent strategy. The relationship between intended, emergent and realised strategies is depicted in the figure below –



(Source: Witcher & Chau, 2014. Strategic management: principles and practice.)

The difference between intended, emergent and realised strategies can be understood with the help of an example. Honda entered the US market with the intended strategy to market motorcycles with 250cc and 305cc engines. But, the intended strategy failed because the US market preferred smaller models. Honda had a 50cc motorcycle which was a great success in the domestic market. So, Honda had to review its strategy and decided to change its strategy. So, the intended strategy was modified by emergent strategy and the realised (final) strategy was met with great success.

7. Participants in SMP

Strategic planning is a team effort and involves all levels and functional units of an organisation — top executives, middle managers and supervisors, and employees. Although strategic planning begins at the top, leaders should seek and reflect the input of managers, supervisors, and front-line employees.

Since strategies are formulated at corporate level, SBU level and functional level, therefore, managers from all these levels participate in strategic management process. In addition to the managers, the board of directors also play a definite role. At times, consultants also play an important role in framing the strategic process. Thus, there are five major participants in the strategic management process with varied roles. The five participants are –

- A. Board of Directors
- B. Chief Executive Officer (CEO)
- C. Corporate Planning Staff
- D. Other managers
- E. Consultants

Role of Board of Directors

Professional boards can play very effective roles in strategic management process. They participate in setting and reviewing corporate objectives, formulation of long-term strategies, examination and review of proposals for new investment, appointment of chief executives and other key personnel, etc. These boards play a balancing role between strategy making process in the companies and the shareholders. Major strategic functions performed by these boards are –

- a. Approval of corporate budget and resource allocation for strategic investments
- b. Periodic review of the strategic planning process
- c. Monitoring the chief executive's role in the strategic management process
- d. To trigger discussion on growth possibilities and alternatives
- e. Guiding the chief executive in formulating organisation-level strategies
- f. Review of strategy implementation with respect to results or profitability

Role of Chief Executive

In the strategic management process of a company, the chief executive plays a crucial role. Main functions performed by chief executive are strategic as well as non-strategic. Some of the vital strategic functions of chief executives are –

- a. Deciding organisational mission and objectives
- b. Setting major policies, priorities etc.
- c. Providing direction and leading the process in long-term planning
- d. Directing short-term planning
- e. Leading organisational resource development team
- f. Allocating major resources to strategic functions and projects
- g. Committing new projects and resources
- h. Mobilising support to internal and external stakeholders
- i. Managing relationship with the environment
- j. Managing the board

Role of Corporate Planning Staff

As a result of the rising instability in the competitive environment, the strategic management process has also become more complex. Therefore, most of the large and multinational companies have a separate corporate planning department, which is equipped with specialised planning staffs that form the core of strategic planning activities of a company. This unit perform various functions mostly of strategic nature like –

- a. Assisting the chief executive in developing and formalising fundamental concepts or visions about organisational growth and diversification.
- b. Scanning the environment and identifying new business opportunities.

- c. Analysing cost benefits of alternative investment opportunities and allocating resources to various projects and activities.
- d. Integrating SBU plans into corporate plans.
- e. Monitoring progress of strategic plans at corporate level, SBU level and functional levels.
- f. Undertaking mid-term review of plans and strategies and, suggesting changes, if required.
- g. Evaluating plan performance – measuring the degree of success or failure of strategic plans and reporting to the chief executive for necessary action.

Role of Senior Managers

The senior managers can be heads of SBUs as well as functional heads who play an important role in the whole process of strategic management.

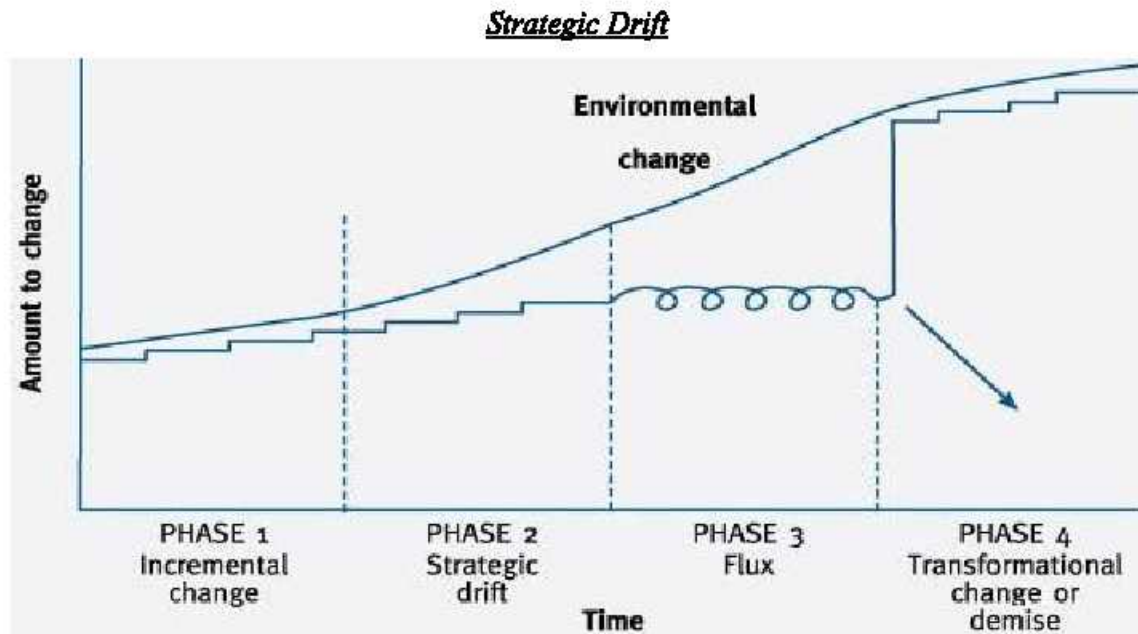
The senior managers also participate in various functional and managerial committees including top management committees which are involved in strategic planning and management. As members of such committees, they may participate in critical decisions like making new investment, restructuring, diversification, etc. Corporate planning staff is also represented in all these committees.

Role of Consultants

Management consultants also play an important role in the process of strategic planning of a company. Consultants provide their services in diverse functional areas of management including the strategic planning. The companies where no strategic planning divisions exist, consultants provide inputs for planning. Whenever the management feels the need for such consultancies, the consultants can take planning and strategy exercises. The leading strategic consultants use latest tools, techniques and models to define solutions to specific strategic management issues. Consultants offer diversified skills and experience from various companies which make them more effective in formulating strategic plans.

8. Strategic Drift

In the strategic management process of every company, there is a risk of 'strategic drift'. In other words, strategic drift is the widening gap between demand for change by environmental forces and actual strategic change in a company.



(Source: Johnson & Scholes, 2008. *Exploring corporate strategy: Text and cases*)

In simple term the failure to respond to company's external environment i.e. the competition, consumers wants and needs etc. Strategic drift occurs when a company, is not able to act according to the changing business environment or respond swiftly to the changes in the external environment and thereby keeps following the same strategy which has served it very well in the past. This shows that the company is not following its changing external environment and thus is obviously out of touch with external trends. In actual business situations also many companies have continued with their once successful business model even when it is clearly evident that the model is increasingly inappropriate in terms of future trends.

When there is a pressure for change, companies usually look for what is familiar. However, this creates problems when managing strategic change, because the action required may be outside the present

system and organisations may be required to significantly change significantly their core strategies. The situation may be one of declining performance and company may first seek to improve implementation of the existing strategy. And in case this is not effective, a change of strategy may be required.

Therefore, an organisation should strive to strike a balance while developing strategies. It has internal pressures (cultural or managerial) which tend to constrain strategy development, environmental forces, including market and competitors, which it must cope with for a particular strategic process to succeed. Every organisation has to constantly endeavour to align or realign these two forces to avoid the occurrence of a strategic drift.

9. Learning Organisations

Due to fear of strategic drift, every company should be learning organisation. The environment is too complex and changes too rapidly for strategic management to deliver desired results. Such uncertainty in the environment requires that strategy should be managed in a more unconventional, 'discontinuous' way and not through incremental changes. Managers should not regard their experience as fixed and unalterable; in fact, they should try to develop an organisation in which they continually challenge past experience and practices and strive for new, innovative ways. In other words, they should develop learning organisation.

10. Summary

- Strategic management is the dynamic process of formulation, implementation, evaluation and control of strategies to realise the organisation's strategic intent.
- The four stages of strategic management process are formulation, implementation, evaluation and control.
- Elements of strategic management process - establishing the hierarchy of strategic intent, formulation of strategies, implementation of strategies and performing strategic evaluation and control.

- Comprehensive Model of Strategic Management explaining strategic intent, strategy formulation, strategy implementation and strategic evaluation
- Wheelen and Hunger's Model of Strategic Management explaining environmental scanning, strategy formulation, implementation, evaluation and control, and feedback/ learning process.
- An organisation's intended strategy is changed during its implementation.
- A strategy is a mixture of a senior management's deliberate strategy, which is a planned strategy designed by senior managers for implementation at other organisational levels, and emergent strategy, which is strategy not foreseen by senior management that arises during the implementation of deliberate strategy.
- Intended strategy is the one originally planned: this can be emergent in its original, modified or an entirely different form because of developing situations.
- The realised strategy is what is actually implemented because of changed internal or external circumstances.
- Major strategic functions performed by boards of directors like approval of corporate budget and resource allocation for strategic investments, periodic review of the planning, monitoring the chief executive's role, trigger discussion on growth possibilities and alternatives, guiding the chief executive in formulating organisation-level strategies, review of strategy implementation.
- Strategic functions performed by chief executives are deciding organisational mission and objectives, setting major policies, priorities etc., providing direction and leading the process in long-term planning, directing short-term planning, leading organisational resource development team, allocating major resources to strategic functions and projects, committing new projects and resources, mobilising support to internal and external stakeholders, managing relationship with the environment etc.
- Specialised planning staffs perform various functions mostly of strategic nature like assisting the chief executive, Scanning the environment, identifying new business opportunities, analysing cost benefits, allocating resources to various projects, integrating SBU plans into corporate plans, monitoring progress of strategic plans at corporate level, SBU level and functional levels, evaluating plan performance etc.

- Role of senior managers relates to evaluation of proposals for new investment, restructuring, diversification, etc.
- Consultants also play very useful role, they use latest tools, techniques and models to define solutions to specific strategic management issues. which may relate to
- Strategic drift is the widening gap between demand for change by environmental forces and actual strategic change in a company.
- Strategic drift occurs when a company, is not able to act according to the changing business environment or respond swiftly to the changes in the external environment and thereby keeps following the same strategy which has served it very well in the past.
- Managers should try to develop an organisation in which they continually challenge past experience and practices and strive for new, innovative ways. In other words, they should develop learning organisation.

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Items		Description of Module
Subject Name		Management
Paper Name		Strategic Management
Module Title		Corporate Vision, Mission and Objectives
Module Id		Module 5
Pre-Requisites		Concept and Process of Strategic Management
Objectives		To understand the importance and process of setting up of corporate vision, mission and objectives
Keywords		Vision, Mission, Goals, Objectives

QUADRANT I

Module 5 : Corporate Vision, Mission and Objectives	
1.	Learning Outcome
2.	Introduction
3.	Meaning of Vision
4.	Characteristics of Vision Statement
5.	Vision Formulation
6.	Meaning of Mission
7	Characteristics of Mission Statement
8	Difference between Vision and Mission
9	Goals and Objectives
10	Conclusion

1. Learning Outcome:

After completing this module the students will be able to:

- Understand the role and meaning of corporate vision and mission.
- Differentiate between vision and mission
- Describe the characteristics of an effective vision.
- Understand the concepts of goals and objectives

2. Introduction

The first step in the strategic formulation process is to establish the strategic intent in form of vision, mission, goals and objectives. This the starting point of all the managerial actions. Vision and mission are often considered as an essential part of strategic management. There is probably not a strategic management book that does not mention or explain the importance of these two elements. In history we can find beautiful examples of great visions of e.g. Bill Gates, Steve Jobs or Henry Ford that stay behind companies' success

In a business it's difficult or impossible to agree on strategic or even tactical decisions if everyone in the organization is not headed in the same direction, toward some common purpose. Therefore experts believe that developing shared mission, vision and values is the first step in laying a strong foundation for making strategic and tactical decisions that will help the business grow and succeed.

Many a times these terms are used interchangeably therefore it is important to understand the differences between them. This module focuses on introducing these concepts in detail, highlighting various characteristics and differences between these terms.

3. Meaning of Vision

The vision is the source and the main idea of a company. Vision refers to what an organization aspires to be in future. It acts as a company's roadmap and depicts what a company wants to become. Nanus, (1992) defines vision as realistic, credible, attractive future for an organization. Over decades the management researchers and practitioners have argued that vision is important to leadership, strategy implementation and organizational change. Clarifying the vision of the company and communicating it to the employees of an organization can have powerful results. Visionary organizations are capable of leading change, when the leaders realize that their visions of the future are not firmly fixed and remain flexible to accommodate change.

Mark Lipton (1996) in their article published in Sloan Management review proposes that managing with a vision can benefit the organization in the following ways

- A vision enhances a wide range of performance measures
- A vision provides a basis for a strategic plan
- A vision promotes change
- A vision motivates individuals and facilitates recruitment of talent
- A vision keeps decision making in context

A vision paints a vivid picture of an organization and serves as a concrete foundation for the organization. It serves as an enduring promise and does not fluctuate from year to year. On the basis of vision statement, the organization aligns all its activities. In simple words we can say that a vision of an organization tells that where organization want to reach in future.

A vision statement of the organization is in written format. Vision statement of an organization should be inspiring and provide a base to frame strategy for achieving the ultimate vision of the organization. The normal life span of a vision statement is 10 to 20 years and it articulates the ultimate long-range goal of an organization.

When developing a vision statement, it should be seen that the following questions are answered:

- What do we want to do going forward?
- When do we want to do it?
- How do we want to do it?

For example vision of NHPC is a world class, diversified & transnational organization for sustainable development of hydro power and water resources with strong environment conscience. Vision of

NTPC is "To be the world's largest and best power producer, powering India's growth."

The vision of ITC is "Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the company's stakeholders". Similarly the vision of Nike is "To be the number one athletic company in the world". The vision of Google is "Organize World's information and make it universally accessible and useful". The Coca Cola Company while presenting its vision focuses on the following factors – People, Portfolio, Partners, Planet, Profit and Productivity.

A powerful vision, if fully embraced and executed by an organization. It can also position the firm for industry-wide leadership.

4. Characteristics of Vision statement

An effective vision statement should be compelling and meaningful for the employees working in an organization. A vision statement can be evaluated on the basis of the following characteristics

1. **Future Focused** – An effective vision statement should describe the organizations desired future. It should answer the following question – "How will our organization look like in 10 years from now?" It should promote long term thinking within an organization.
2. **Clarity** – A good vision statement should be clearly articulated and should be easy to understand for even the junior most employees in an organization.
3. **Relevant** – An effective vision statement should be relevant to an organization in all times and should relate with the history and values of an organization.

4. **Challenging** – Vision statement should be challenging enough and should set high standards enabling the members of the organization to perform.
5. **Inspirational** – A good vision statement should inspire the employees on an organization to move them emotionally and guide them towards a meaningful purpose.

According to a leading management thinker Philip Kotler, a well worded vision statement should be graphic (painting a picture of the kind of company that management intends to create), directional (indicate kind of business and strategic changes that may be forthcoming), focused (should be specific so that managers are able allocate resources and make decisions), flexible (should be capable of change whenever required), feasible (should be achievable), durable (should cater to the long term interest of the stakeholders) and easy to communicate.

5. Vision Formulation

An important question that comes next is how can companies develop their vision? In other words Jim Collins and Jerry Porras in their classic article published in Harvard Business Review in September 1996 proposed how successful companies create their vision statement. They further proposed a Built to Last Vision Framework according to which there are two major components of establishing an effective vision statement. These are core ideology and envisioned future.

According to Collins and Porras, “Core ideology defines a company’s timeless character.” This is integral to the process of setting up the company’s vision. They emphasized it is essential to identify those elements of company which will never change. Core Ideology includes two components i.e. core values and core purpose. Core values are the handful of beliefs, guiding principles or tenets that are absolutely non-negotiable within an organisation. Similarly the core purpose is the organization’s fundamental reason for being. The core purpose guides and directs an organization and it motivates and inspires the employees working for the company. Purpose is essentially permanent; it could easily ensure for 50 or more years. Though it never achieved, yet it is clear

For example Coca Cola describes their winning culture and they list down their values across leadership, collaboration, Integrity, Accountability, Passion, Diversity and Quality. For instance on passion, they have identified their value as “Committed in heart and mind”. Similarly on quality, they mention – “What we do, we do well”. The company also strongly emphasize on values like “Work Smart”, “Act like owners”, “Be a Brand”. Infosys, a leading IT company of India has identified their values that drive them to commitment as – Client Value, Leadership by Example, Integrity and Transparency, Fairness and Excellence.

Collins and Porras suggest that the core values should revolve around 3-5 major issues and more important the values are reflected in the actions and not merely on the website or company related material.

According to Collins and Porras, an envisioned future is the means through which core ideology is translated into a tangible goal. It includes a long term goal which was described by them as BHAG

[Big, Hairy, Audacious Goals]. BHAG can be measured and companies can easily make an assessment on the progress. The goals should be inspiring so that it stimulates the employees and get the people going. The BHAG's can change once they are achieved are they are major milestones which take the company towards its path of purpose. While formulating BHAG's the company should think about the four categories i.e. Target (For example : Become a 10,000 crore company by 2020), Common enemy (For example : Nike in 1960's had a goal – Crush Adidas), Role Model (For example : Become the Apple of the footwear industry) and Internal Transformation (For example : Transform the company from telecom service provider to a total communication solution provider)

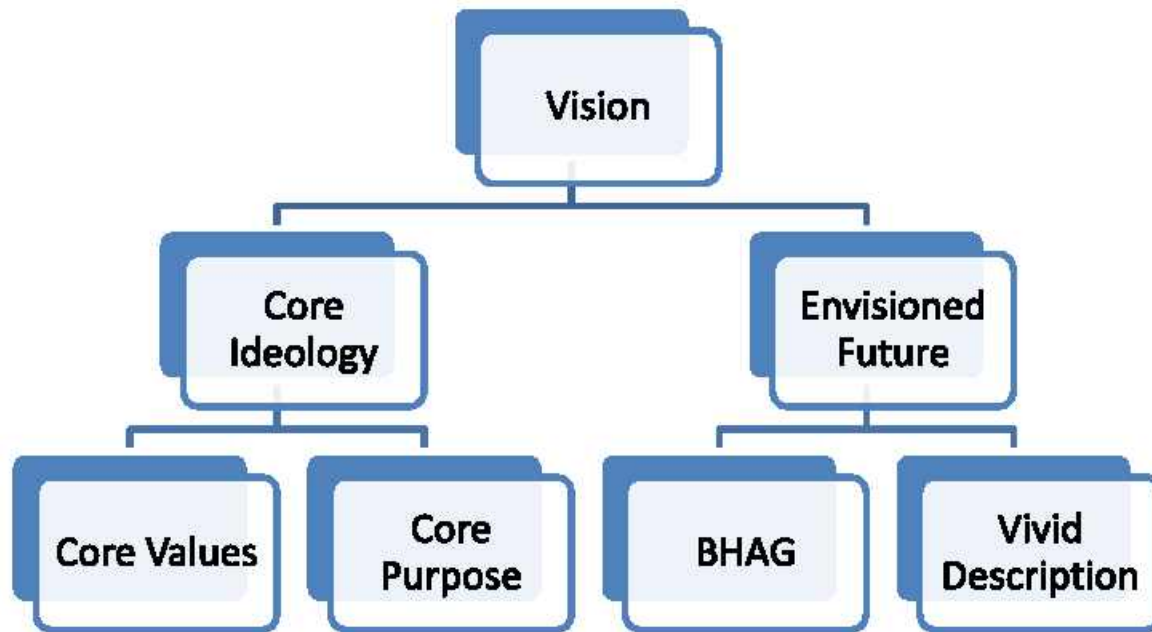


Figure 1: Collins and Porras Framework of Setting Vision

The second part of the envisioned future is vivid description – It basically communicates about what the company will be like when the BHAG are achieved. Vivid narrative description: In simple terms, vivid description pertains to the the story of the company as their preferred future? John Kotter, author of *Leading Change*, suggests that the vision should vivid, repeatable, and possible to convey in no more than 5 minutes. According to Collins and Porras, the essential parts of vivid description are passion, emotion and conviction.

A well crafted visioning exercise can have a major impact on an organization. While formulating or revising the vision the top level executives can answer the following questions

- Where are we Now?
- Where do we want to Go?

- Where do we want to be?
- Why is this important to us?
- What are the obstacles in the way?
- What actions can we take to overcome them?
- What are our priorities?
- When do we know that we are on track?

Finding answers to these questions can help the executives to formulate a vision.

6. Meaning of Mission

Mission gives the answer of why organization exists and also defines the path to achieve vision of an organization. Mission statement is written process that communicate why organization exist. A firm's mission describes the organization in terms of business it is in, the customers it serves, and the skills it intends to develop to fulfill its vision.

In other words, the mission statement is the heart of a company. The mission statement guides the actions of employees, partners, and management. The mission statement tries to answer the following questions

- What do we do today?
- For whom do we do it?
- What is the benefit?

For example, the mission of ITC is "To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value." Similarly the mission of Harley Davidson is "We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments." Coca Cola puts its mission as "To refresh the world..., To inspire moments of optimism and happiness..., To create value and make a difference."

7. Characteristics of a Mission Statement

There are no hard and fast rules to develop a mission statement; however, if an organization keeps in mind the following characteristics, it can develop an effective mission statement.

1. **Simple** – Generally companies tend to develop mission statements which are long and full of management words. Research indicates that if the mission statements are small, they are not only memorable but also effective. Many experts believe that mission statements which are 8 words or less are easy to remember and are effective. For example, the mission of Domino is "Sell More Pizza, Have More Fun".
2. **Be Specific** – A good mission statement should include some description about the function of the business. For example, a mission that includes "become the industry leader" does not

specify anything and mean nothing to the stakeholders. However, if the mission statement indicates "To provide world class travel services" is more specific.

3. **Be Realistic** - Mission statements should be developed in a way that it includes something that is possible. Generally mission statements include statements which are impossible to achieve and then later discourage the employees.
4. **Strategic Positioning** – An effective mission statement should include a brief description of the strategic position of the company within the market.
5. **Relevant to Stakeholders** – A good mission statement should focus on the interest of the relevant stakeholders especially the customers. The mission statement should aim at satisfying the customer needs.
6. **Long Term Orientation** – An effective mission statement should take a long term view and should be designed keeping in view a long term perspective. However, the flexibility should not be compromised.

Many strategists believe that the true impact can be expected if the mission statements focus on the following dimensions.

- Define what the company is
- Key values and beliefs
- Concern for satisfying multiple stakeholders
- Distinctive competence
- Broad enough to allow for creative growth
- Desired competitive position
- Competitive strategy
- Specific customers served and products or services offered
- Serve as framework to evaluate current activities
- Stated clearly so that it is understood by all

8. Difference between Vision and mission

S.N.	Basis of Difference	Vision	Mission
1.	Time	Long term Oriented	Short Term Oriented
2.	Focus	Future Oriented	Focuses on Present
3.	Answer	Where organization wants to be in future?	Why organization exists?
4.	Flexibility	Vision cannot change	Mission may change
5.	Followed	Vision is followed by Mission	Mission is followed by employees and policies itself
6.	Development	When development a Vision statement you have to think	When development a Mission Statement You Talk

		about Values.	About Actions.
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9. Goals and Objectives

A goal is an overarching principle that guides decision making. A goal illustrates what is to be achieved in some future time. Goals are related directly to vision and mission and they direct everyday actions and decisions.

Objectives are specific, measurable steps that can be taken to meet the goal. They specify organization issues and milestones. The objectives should fulfill the SMART criterion which stands for Specific, Measurable, Attainable, Relevant and Time-Bound. For example a company could set its objective as “We want to increase our sales by 35% in the next 12 months” or “We will recruit 35 new engineers from a premier technical institute and they will start working on the new projects by the end of the current financial year”

To differentiate between goals and objectives one can view it like this

Goals	Objectives
Where you want to go?	How to get there?
Increases Effectiveness	Back Goals and Make you more efficient
Described in words	Supported with numbers and specific dates

For example, some of the common business goals can be

- Increase customer satisfaction
- Improve employee satisfaction
- Introduce new product or services
- Increase the Brand Equity
- Diversify into new markets
- Penetrate into existing markets
- Reduce Operational costs
- Increase the network with stakeholders
- Enhance profitability by reducing costs

While developing goals and objectives the executive should keep the following points into consideration

- Goals and Objectives should be linked to the mission and vision of the company
- Goals should always be measurable
- Goals can be designed keeping view the acronym ACES i.e. Achieve, Conserve, Eliminate and Steer Clear. In other words, goals are also meant to identify what a company intends to eliminate in addition to what it intends to achieve.
- Goals can be of various types including – day to day work goals, problem solving goals, development goals, innovation goals and profitability goals.

- The goals set forth should be clear and simple
- The goals should be specific and realistic
- The goals should be acceptable with the values of the company and employees
- The goals should be flexible so that it can be changed and adopted whenever needed

The following example can help to understand how goals and objectives can be setup

Goals	Corresponding Objectives
Improve Profitability	Net Profit as percentage of sales
Increase Volume	Increase in Market Share
Provide Stability	Variance in Seasonal Sales
Improve Company Image	Allocation in Socially responsible activities

10. Conclusion

Setting up a vision of a company is considered to be a very important step in strategic management. It gives direction to a company and acts as a reference point in the future. Vision tells us also about the future and suggests how we should change. Similarly the mission should be defined before the strategy is developed. The mission defines the space in which the company will operate. Once the vision and mission are established, the company then set up goals and objectives. This module emphasizes on setting up of inspirational, motivational, specific, realistic, and easy to understand statements about the vision, mission, goals and objectives.

ITEM DESCRIPTION OF MODULE	
Subject Name	MANAGEMENT
Paper Name	STRATEGIC MANAGEMENT
Module Name/ Title	STRATEGIC INTENT
Module Id	4
Pre-requisites	Fundamentals of Strategic Management, Strategic Management Process
Objectives	Understand the need, importance and relevance of strategic intent in the development of organizational strategy.
Keywords	Strategic Intent, Vision, Mission, Strategic Thinking

QUADRANT - I

Module 04 : Strategic Intent
1. Learning Outcomes
2. Introduction
3. What is Strategic Intent?
4. Hierarchy of Strategic Intent
5. Effective formation of Strategic Intent
6. Importance of Strategic Intent
7. Characteristics of Strategic Intent
8. Developing Strategic Mindset
9. Summary

1. Learning Outcomes

At the end of this module, you will be able to

- Understand the concept of strategic intent
- Explain the hierarchy of strategic intent
- Characteristics of strategic intent
- How strategic thinking and mindset can make strategic planning effective

2. Introduction

It is said that well begun is half done. The effectiveness of the strategic management process largely depends upon how clearly the vision of the company is articulated. In today's cut throat competition almost every organization is busy to identify its unique source of sustainable competitive advantage. The sustainability of any organization largely depends upon how clearly the organization is able to identify its purpose and the ends it intends to pursue. To explain this fundamental building block of the strategic management process, Gary Hamel and C K Prahalad coined the term "strategic intent" in the year 1989. Despite its importance, it is seen that many organizations are still not clear about its long term strategic intent and therefore are unable to maintain competitive strategic advantage in the long run. In this module, we shall explore this important concept and understand what are the key elements of strategic intent and also understand its importance.

3. What is Strategic Intent?

Organizations must define "what they want to do" and "why they want to do this". This "why they want to do" underlies the end result that is likely to be achieved through "what they want to do". This end result is referred to as "strategic intent". In simple terms strategic intent envisions a desired leadership position of the corporate. As defined by Hamel and Prahalad (1989), strategic intent refers to "expression of the leadership position the organization wants to attain and establishes a clear criterion on how progress towards its achievement will be measured". It refers to the purpose that organization strives for? What a firm should set out to achieve? It is important to understand that strategic intent is internally focused, defining what will be to produced and marketed, utilizing its internal core competencies.

As a name suggesting that "intent" related to future, whereas strategic included clear plan of action designed to achieve organizational long term goals. Therefore strategic intent may be defined as the plan of action (mission, vision and goal) which is developed by the organization intended to achieve future's goal. Strategic intent is considered to be very important for any

organization because it aligns the organizational activities with the goals itself. This has three attributes sense of direction, sense of discovery, sense of destiny.

- **Sense of Direction:**
To define the strategic intent with clarity, it is important to have a long term sense of view about the future markets and consumers so that the firm is able to design and identify the competitive position it intends to build over the next decade. It is important to have a unifying and personalizing sense of direction so that there is no confusion in terms of where the organization is heading to.
- **Sense of Discovery:**
Once the sense of direction is clear, it is important that the company's strategic intent should retain a sense of discovery and excitement about the future. This acts as a great motivational factor and provides an opportunity to the employees of the organization to explore new competitive territory and in the process create a competitively unique outlook for the firm.
- **Sense of Destiny:**
Further it is important to understand that strategic intent also has an emotional edge to it. The employees of the organization should own this so that they are able to work hard to realize the desirable strategic intent. All the stakeholders in the organization should perceive the strategic intent as inherently worthwhile and channelize their efforts towards realizing it.

The underlying purpose of having a well defined strategic intent is to ensure that the employees understand, believe and live according to it. Strategic Intent should have a well defined logic, should communicate an urge among its employees to discover its intended future. This perspective is very important for the vitality of the employees. Expression of strategic intent is to help individuals and organizations share the common intention to survive and continue or extend themselves through time and space

Strategic Intent is a long term goal which should be ambitious and built upon firm's core competence and also stretch the firm's core competence. Since strategic intent works like an obsession for an organization, there is a possibility that it may result in the resource and capability gap. In order to ensure that the resource and capability gap does not become an hindrance in achieving the desired future position, the firm should also identify this gap and also put in efforts to bridge this gap enabling the firm to achieve its desired future position. The concept of strategic management also encompasses active management process which focuses on providing leadership in terms of motivating and communicating people to contribute creatively. The job of the leadership is also to ensure that the motivation among the employees is sustained over a longer period of time irrespective of change in circumstances. Another critical aspect is to ensure that the resource allocation is done properly so that there is no constraint. In simple terms strategic intent is the combination of vision (Where we want to get to?) and intent (How we intend to get there?).

4. Hierarchy of Strategic Intent

To ensure that the organization is able to realize its strategic Intent, this concept has a hierarchy and it includes organizational vision, mission, objectives, goals and plan. The framework within which firms

operate, adopt a predetermined direction and attempt to achieve their goal is provided by strategic intent. Let us briefly understand each of these concepts, though a detailed discussion is provided in subsequent modules.

Vision: Vision is highest in hierarchy of strategic intent and reflects the aspiration of organization. It is defined as a long term goal of the organization in which organization is intended to achieve in future. Vision of the organization is developed before starting the business. Therefore it aligns the every employee's work with the organizational long term goal. It is what that organization aspires to be in future. It is the first element that organization focuses upon and acts accordingly to other activities. For example: What I want my business to be?

Mission: Mission is fundamental unique purpose that sets a business apart from other firms. it gives the answer of why organization exists and also defines the path to achieve vision of an organization. Mission statement is written process that communicates why organization exists. For example what my business is and does?

Goals: Goals denote what an organization hopes to accomplish in a future period of time. These are tactical objectives that organization's management defines to outline predictable future outcomes and guide employees' efforts. For example, what will get my business there?

Objectives: Objectives are the end state specifically how the goals shall be achieved. Objectives of the organization are short-term and medium-term goals that an organization seeks to accomplish. It plays an integral role in formulating policies for business and allocation of organizational resources at right place. For example, right person at a right place.

Plan: it includes deciding about future in advance. It helps to achieve the long term objectives of the firm and monitoring explicit strategy to achieve them. Human resource allocation is also considered as one of the important aspect of the planning.

5. Effective formation of Strategic intent

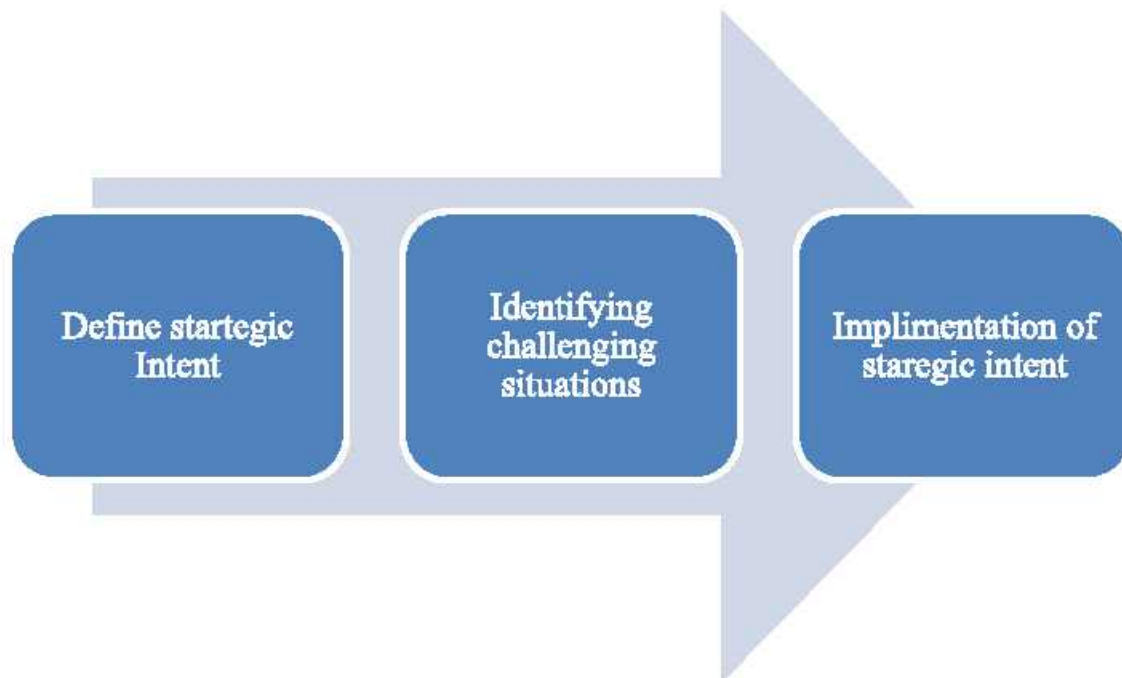
The effectiveness of the formation of strategic intent depends upon the following conditions

- All the management levels should be committed towards the pursuit of specific, significant performance criterion.
- The employees should believe in their company's value proposition and create products that meet the expectations of the consumers.
- The employees should be entirely focused on the firm's ability to outperform its competitors and thereby ensuring sustainable competitive advantage.
- Strategic Intent implies a stretch for an organization. As intentions are always ambitious and are beyond fit, organizations will have to stretch its resources and capabilities beyond limit.

- There is a possibility of misfit between the ambition of an organization and its present resources. As discussed earlier there can be resource capability gap which the firm should provision for and also identify how it intends to fill this gap.
- Wherever required, the organizations will have to build new competencies and capabilities to achieve its vision. According to Hamel and Prahalad, organizations should learn how to leverage resources which is important for the long term success.

The process of strategic intent is as below

Strategic intent: the organizations are supposed to define their strategic intent at a very early stage. It should involve all those factors that may guide, direct and influence firm's day to day activities. Therefore, it becomes necessary for every organization to set up their master plan.



Identifying challenging situations: while framing strategies and objectives firms are required to identify the potential challenges that may encounter in future and should communicate with all the employees in organization.

Implementation of strategic intent: if problems are clearly defined and communicated within business the next step is to implement or give power to implement strategic intent in the organization.

6. Importance of Strategic Intent:

Having a clear and well defined strategic intent is important because of the following reasons. These include –

- Expression of strategic intent is to help individuals and organizations share the common intention to survive and continue or extend themselves through time and space
- Achieve clarity of purpose among all managers and employees.
- Project a sense of worth and intent to all the stakeholders.
- Helps in Optimum utilisation and allocation of the resources.
- Good Vision is always a source of inspiration to the employees.
- Brings in role clarity among employees.
- Fosters long term thinking approach among the employees.
- Reduces the chances of conflict.
- Fosters risk taking and experimentation among the employees.
- Makes the organization competitive, original and unique.
- Promotes logical implementations of the plans.
- Creates synergy in the efforts of the firm due to common desired strategic direction.
- Provides a focal point for all the stakeholders in an organization.
- Enables superior organizational performance and therefore enhances shareholder value.
- Resolve divergent views among the managers.

7. Characteristics of the Strategic Intent:

As discussed earlier, establishing a clear strategic intent is critical for the long term success of the organization. Some of the characteristics of strategic intent include

- It starts from reality to be
- It implies intentionality and drive
- Establishing BHAG – “Big, Hairy, Audacious Goal” – While writing a BHAG, it is important to know that it is Big, but simple and understandable; there is no right or wrong goal. It focuses on results vs. activity; is highly focussed, energizing and tangible; and challenges and excites the people to think beyond usual. BHAG is basically an answer to the intersection of the following three questions – What you are potentially best at?; What you are deeply passionate about?; and What drives your actions and decisions? .
- A BHAG engages people and requires little or no explanation. It acts as a unifying focal point of effort and acting as a catalyst for team spirit.
- It is said that great ideas bring great results and therefore BHAG focuses on establishing grandiose performance target.
- It reflects a purpose which is beyond fit i.e. out of proportion to its immediate capabilities and market position.
- The magic of well crafted strategic intent is creation of opportunities.

- It commits all actors and empowers all stakeholders so that there is no stone left to achieve the well defined vision.
- Strategic Intent calls for continual development of all the stakeholders so that the purpose identified is well achieved.
- While framing strategic intent, all the concurrent scenarios are looked into and suitable course of action is taken.
- Strategic intent should ensure that all the activities, investments and efforts are aligned properly.
- It should signal relentless commitment to winning and establishing competitive standing.
- Strategic intent facilitates growth and expansion of an organization by providing proper direction of work for taking positions intended to achieve goal.
- Strategic intent clear commitment of the employees toward their goal. As a result, employees' role and rewards are pre-decided. This makes them self driven and confident toward their work and goal.
- When organisations depend upon their employees for the success of the organisation and shows faith & commitment on them. Thus, it motivates them to friction free work which is essential for smooth accomplishment of organizational goals.
- Strategic intent develops sense of autonomy, responsibility and accountability along with their duties. Somehow, this develops sense of innovation among them to do their job.
- Strategic intent management seems to be very active and focuses on the essence of winning. It has to make to clear indication of their business's direction thus they defined problems are associated with this.
- Strategic Intent promotes risk taking as they don't restrict their thought to past and present but brainstorm and also interested to try something new for their business.
- Strategic Intent calls for a resilient approach and it is important to have backup plans available to them if one fails get ready with another one. In simple words we can say that they have ability to bounce back in adverse situations.
- Strategic Intent promotes creativity and calls for an out of box thinking so that an effective strategic intent is established.

8. Developing Strategic Mindset

Strategic thinking is the ability of the managers to think about, complexities, and implications of a situation; anticipate possibilities; and plan what to do. It is an extremely effective and precious instrument for the organization. Not in organizational context but in personal life as well to arrive at a better decision. It's all about the critical set of skills where it allows us to choose best course of

action. It is an attempt to develop a best guess about the future. In other words, strategic thinking is the skill of analyzing and conceiving important ideas, decisions, strategies and plans. It is the most valuable skill for success in business. Strategic thinking generates the creative act of synthesizing experiences into a novel strategy. Strategic Thinking is about *synthesis*. It involves *intuition* and *creativity*. The outcome of strategic thinking is *an integrated perspective of the enterprise*, a not-too-precisely articulated vision of direction. Now a day everyone is required to have critical skills to become a better decision maker. Following critical skills are to be requiring for critical thinker:

- 1: Strategic thinkers must have the logical and creative ability. This talent helps them in build up confidence and put into practice.
- 2: Strategic thinkers should have the ability to conceptualize the picture of the organization as whole which must be clearly with business vision. They must have both the skills such as thinking with a calculated purpose and visualizing the picture of organization. These skills are complimenting with each other.
- 3: They must have the ability to design strategic action plan along objective broken down into different parts among employees in the organization.
- 4: They must be having flexibility into their plans. Because all the time same plans are not going to make them survive in adverse situations. They should be proactive rather than reactive and have an ability to anticipate risk.
- 5: Strategic thinkers must be adaptive because they should listen and understand the situations and observe it. They should provide them strategic information to guide them in difficult situations.
- 6: They should learn from their bad experiences as well so that they may able to think better on strategic issues.
- 7: Strategic thinkers should consider the time constraints as well. Because sometimes lack of time they had rush to conclusions and judgments rather critical analyzing it. It should be avoided and always ready to better perform in such type's situation.
- 8: Along with time need arise those strategic thinkers to be patient and great ideas and thoughts require a time to put into practice.

It is important for the organizations to build up a strategic architecture that enables the firm to establish objectives and competence building. Further the strategic architecture will help the firm to develop a road map for the future on which the t core competencies are to be build. The strategic architecture also creates a managerial culture, team work, a capacity to change, and a willingness to share resources, and to think long term. Further it brings in consistency of resource allocation and administrative infrastructure.

9. Summary

In this module we discussed the importance of strategic intent in the overall strategic management process. It is said that well begun is half done, in this spirit, the concept of strategic intent has been developed which sets the long term goal for any organization to achieve. Strategic intent is internally focused and defines what will be to produced and marketed, utilizing the firms' internal core competencies. Strategic Intent has three attributes sense of direction, sense of discovery and sense of destiny. Expression of strategic intent is to help individuals and organizations share the common intention to survive and continue or extend themselves through time and space. Strategic intent is beyond fit. We also discussed about various characteristics of strategic intent. Developing a strategic mindset allows firm to grow and change pragmatically. Strategic mindset can lead to overemphasis on existing resources and present opportunities. The strategic intent notion helps managers focus on creating new capabilities to exploit future opportunities.

ITEM DESCRIPTION OF MODULE	
Subject Name	MANAGEMENT
Paper Name	STRATEGIC MANAGEMENT
Module Name/ Title	ENVIRONMENTAL FACTOR ANALYSIS
Module Id	6
Pre-requisites	Basic understanding of Management and its functions
Objectives	Understand the concept of business environment, its characteristics, Differentiate between internal and external environment, Analyse the different classifications of environment influencing the industry as well as strategy.
Keywords	Environment, Business Environment, Internal Environment, External Environment

QUADRANT - I

Module 1 : Environmental Factor Analysis
1. Learning Outcomes
2. Concept of Business Environment
3. Characteristics of Environment
4. Components of Business Environment
5. Problem in Understanding the Environment Influences
6. Significance/ Need of the Study of Business Environment
7. Summary

1. Learning Outcomes

After studying this module, you shall be able to

1. Understand the concept of business environment
2. Learn about its characteristics
3. Differentiate between internal and external environment
4. Analyse the different classifications of environment influencing the industry as well as strategy
5. Understanding the need to study the Business Environment

2. Concept of Business Environment

Environment generally refers to the objects, surroundings, circumstances and the whole situation which affect someone or something existence. However, in context of business, environment refers to the factors which have a bearing on the working and functioning of business. It consists of all those forces both internal and external that affect the working of a business. It includes to the conditions, forces, events and situations within which business enterprises have to operate. Business and its environment are closely related and the effective of interaction of the two leads a business to success. An organisation can survive and grow only when it is able to keep pace with the changing environment.

DEFINITION

“Business Environment is the total of all things external to firms and individuals, which affect their organization and operations”. – *Wheeler*

“Environment factors of constraints are largely if not totally external and beyond the control of individual industrial enterprises and their arrangements. These are essentially the ‘givers’ within which firms and their managements must operate in a specific country and they vary, often greatly from country to country”. – *Barry M. Richman and Melvyn Copen*

“The environment includes 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, technical, supplier, competitors, and government”. – *Glueck and Jauch*

3. Characteristics of Environment

A) Environment is Complex – The business environment essentially includes many of factors, and is a combination of many factors like political, economic, legal, social, cultural, technological etc. These factors affect the business in many ways. Therefore, the influence that they exercise on business cannot be recognised independently.

B) Environment is Dynamic – Environment is a mixture of many factors which are constantly changing. It is only because of these changes in the factors of environment that makes environment dynamic. The environmental factors changes with passage of time. The plans and policies of business also have to be changed to keep pace with changing environment.

C) Environment affects different firms differently – It is not necessary that any particular change in environment should affect all businesses in a similar manner. One business may welcome a change in environment, while some other business may feel adverse effect of the same change. Therefore, environment may affect different business units in different manner.

D) Environment has both short-term and long-term impact – Every change in environment has both short-term and long-term impact on business. The changed environment affects the profitability, productivity and development of business in both short-term and long-term.

E) Unlimited effect of external environmental factors – External factors of business environment are uncontrollable. These factors have very deep effect on business. Sometimes the effect of these factors is so deep that it may take the business to closure e.g. decision of government to ban tobacco will compel such businesses to wind-up its operations.

F) Uncertain – The external environment is very uncertain. There can be sudden change in it at any time. Because of its uncertain nature, its study and analysis is difficult.

G) Interdependent components – Various components of business environment are interdependent of each other. Different components of environment affect each other. For example, economic environment affects social environment and is also affected by it.

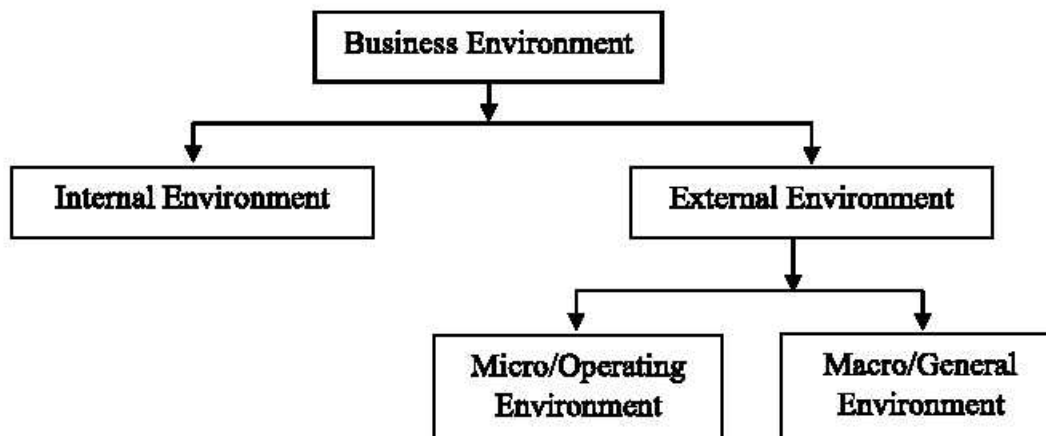
H) Includes both internal and external environment – Business environment includes both internal and external environments. Internal environment relates to environment within the organisation which is controllable. External environment is outside the organisation which is uncontrollable. Business organisations have to change its activities along with changes in external environment.

4. Components of Business Environment

An organisation functions in the business environment which can be further divided into two components –

A) The Internal environment (Related with the factors internal to an organisation, which are considered as controllable)

B) The External environment (Related with the factors external to an organisation, and are uncontrollable)



INTERNAL ENVIRONMENT –

A number of elements which exist inside an organisation are termed as its internal environment. These factors act as strengths for an organisation and may also become a reason of weaknesses of the organisation. These internal factors have an impact on the organisational decisions and strategy. The following are some of the internal factors of the internal environment:

1. **Management Philosophy and value system** – The values and ideologies of the promoters and founders of the organisation affect the selection of business, working of the organisations, principles and policies adopted, its working culture. These values, when shared and followed across the organisations facilitate the success.
2. **Mission and Objectives** – The mission of a business enterprise expresses its vision in words, while its objectives are the actionable and measurable steps to achieve the mission. The mission and objectives guide the business philosophy, policy, priorities and its business domain.
3. **Management Structure and Nature** – Business decisions are also influenced by the structure of organisation, board of directors' composition, organisational hierarchy, extent of professionalization of management etc.
4. **Internal Power Relationship** – Top management's support to the lower levels of management, workers, shareholders and BODs also impacts the decision-making and working of the organisation.
5. **Human Resources** – The success of the organisation depends on the quality of people it has. The skills, quality, morale, commitment and attitude of the human resources may acts as a source of strength or weakness for the organisation.
6. **Company Image and Brand Equity** – The reputation and image of the company is critical for raising capital and finances, making joint ventures and other alliances. Brand equity also plays a relevant role in sale and purchase contracts, new product launches etc.

In addition to the above, few other elements internal to business enterprise influence the decision making. These are –

- **Physical Assets and facilities** owned by an enterprise have an impact on its effective working. These include production Capacity, technology, and logistics etc.
- **R & D and technological capabilities**, enable the enterprise to innovate and come up with competitive offers in the market.
- **Financial Factors** consists of financial policies, position, capital structure of the business, as all the other important business strategies and decisions are dependent on financial resources possessed by the enterprise.
- **Marketing resources** directly influence the efficiency of marketing activities of the business, for instance, distribution network, structure of marketing function, skills and quality of people in marketing function etc. the marketing resources also facilitate the business in brand extensions and product developments etc.

EXTERNAL ENVIRONMENT

The external environment relates to all the factors which exist outside the business enterprise i.e. are external to the business. Further, the external environment offers opportunities and also creates threats for the business. These include factors such as economic, socio- cultural, legal, demographic etc. These factors are beyond the control the company.

The external environment consists of two types of environment, viz. micro environment and macro environment.

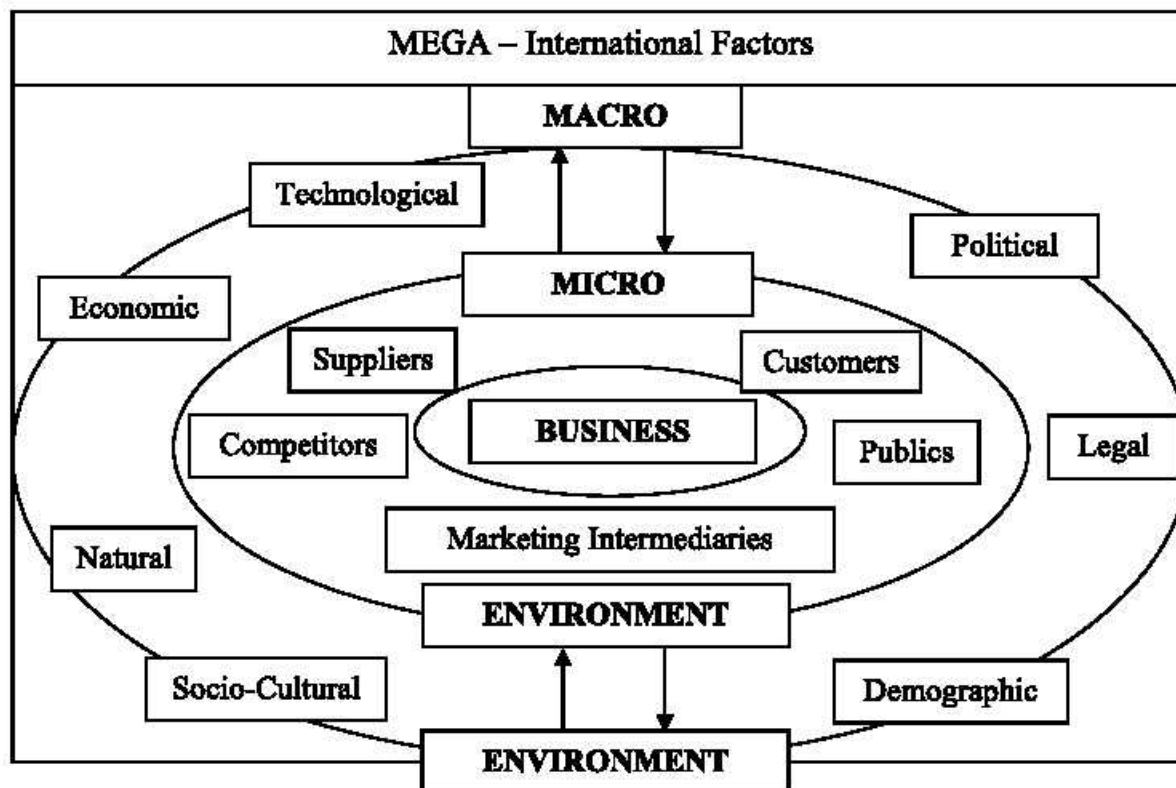
Micro Environment/ Operating Environment –

The Micro environment includes a number of factors which exist in the company's immediate environment and have a bearing on the company's performance. These can be discussed as –

- **Suppliers** – includes people who those who provide various inputs to the organisation like raw materials, machinery, labour etc.

- **Marketing Intermediaries** – Intermediaries help a company in promoting, selling and distributing its goods to final buyers.
- **Competitors** – All the business organisations which sell similar product in the market and also those enterprises with whom the organisation has to compete for the discretionary income of the consumers.
- **Customers** – The purpose of every business's existence is serving the needs of its customers, thus keeping a track of customers needs is critical for the business success.
- **Publics** – Any group of people who have an actual or potential interest in or impact on an organization's ability to achieve its interests, like Media, NGOs etc.

The micro environment is also known as **task environment** and **operating environment**.



Macro Environment/ General Environment –

The Macro or general environment consists of factors in the general environment like –

- 1) **Demographic** – Demographic environment studies human population with reference to its size, density, literacy rate, sex-ratio, age composition etc. The demand for goods and services, quantity and quality of production, distribution etc., all are affected by demography. For instance – a rapidly growing population indicates growing demand for many products.
- 2) **Economic** – A business firm closely interact with its economic environment. Economic environment is generally related to those external forces, which have direct economic effect upon business. Economic environment is a sum total of
 - a. Economic conditions in the market
 - b. Economic policies of the government
 - c. Economic system of the country.
 - a. Economic conditions – It includes nature of economy, the stage in economic development, national income, per capita income etc. These operate in the market and influence the demand and supply of goods and services.
 - b. Economic policies – Economic policies means policies formulated by the government to shape the economy of the country. These include monetary and fiscal policies, export-import policy, industrial policy, licensing policy, budgetary policy etc. The economic policies of the government affect the business. This impact may be positive or negative e.g. liberation of the economy has adversely affected the small scale industry in India.
 - c. Economic systems – Economic systems means the classification of economies on the basis of role of the government in the functioning of the economy. Economic system can be classified as
 - Capitalist Economy – There exists least government control in regulating the working of a market e.g. U.S.A.

- **Socialist Economy** – The government has major control over all activities e.g. China.
 - **Mixed Economy** – It combines the features of both capitalist and socialist economy where both private and public sector play an equally important role e.g. India.
- 3) **Natural** – Business firms use natural resources like water, land, iron, crude oil etc. All business units are directly or indirectly dependent upon natural environment. The geographical and ecological factors viz. natural resources, weather and climatic conditions, topographic factors, location aspects in the global context, port facilities, etc. are all relevant to business. Therefore, business firms are responsible for ecological imbalance. So they should take necessary measures to control pollution. Business operations have caused considerable changes in ecological balance and natural environment of the country. The applications of modern technology in industry leads to rapid economic growth at a huge social cost as measured by the deterioration of physical environment i.e. air pollution, water pollution, noise pollution etc. So business enterprises have to calculate net social cost of its venture.
- 4) **Technological** – Technology enables the application of theories and knowledge into practice. Technological advancements make it possible to improve the quality of products, increase the output and decrease the cost of product. But the fast changing technologies may also make products and plants obsolete in shorter time frames creating problems for the enterprises. Technological changes are rapid and to keep pace with it, businessmen need to be alert and flexible in order to quickly incorporate them in their business organization so as to survive and succeed in the competitive business world.
- 5) **Political** – Political and Government environment are closely related with the economic system and policy. Political environment is the influence which the political institutions namely the legislature, the executive and the judiciary exert in developing and controlling business activities. Business decisions are greatly influenced by the developments in the political environment. A change in the government brings about a change in attitude, preference, objectives etc. Business firms need to keep a track of all political events,

anticipate changes in government policies and frame production and marketing strategies accordingly.

- 6) **Socio – Cultural** – Socio – cultural fabric is an important environment factor that should be analyzed while formulating the business strategies. Every society has a culture of its own. Culture includes knowledge, belief, art, morals, laws, customs and other capabilities and habits acquired by an individual as a member of society. Cultural values are passed on from one generation to another. Culture thus determines the types of goods and services a business should produce. While attempting to succeed, the business organisations cannot ignore the traditions, value system, taboos, tastes, and preferences of a society. The purchase and consumption patterns of customers, their beliefs, customs, preferences, education, all these factors have an impact on the business. Thus, business should realize the cultural differences and bring out products accordingly.
- 7) **Legal Environment / Regulatory Environment** – Legal environment includes laws, which define and protect the fundamental rights individuals and organizations. It creates a framework of rules and regulations within which business units have to operate. Business firm must have up to date and complete knowledge of the laws governing production and distribution of goods and services. Some of the important laws are Indian Companies Act, 1956, The Consumer Protection Act, 1986, The MRTP Act, 1969, The Essential commodities Act, 1955 etc.

Mega Environment –

Mega environment mainly consist of **International Environment** which is very important from the point of certain categories of business. For example –

A. Import and Export dependency –

- Industries which directly depend on Imports or exports
- Import – Competing Industries

- A boom in the export market, changes in govt. EXIM policy may encourage export oriented industries.
- A liberalization of imports may also help some industries which use imported items, but will also have an adverse effect on the competing industries.

B. World trade linkage – Oil price hikes have seriously impacted many economies, which has further lead to an increase in the cost of production and prices of products such as fertilizers, synthetic fabrics, etc. Such development affects the demand, consumption and investment pattern.

The international environment is an outcome of political and economic conditions in the international market. Business firms engaged in the foreign trade are more affected by the changes in the international environment factors like war, civil disturbances, political instability, changes in trade policies in other countries with which India has trading links do affect Indian exporters and importers. Therefore, business firms, which cater to foreign trade, must constantly monitor implications of international environment on their business. The components of international environment are

- Import and Export policy of a country.
- Rules and regulations laid down by International Institutions like IMF, World Bank etc.
- The policies of trading blocs like SAARC, EEC, ASEAN etc.
- Foreign exchange regulations like tariffs, quotas.
- Trade cycle like boom, recession at world level

5. Significance/ Need of the Study of Business Environment

It is essential for a business enterprise to keep itself aware of surrounding environment because the success of business depends to a great extent on its business environment. The study of business environment is relevant for organisations to –

- Frame policies

- Ensure optimum utilisation of resources
- Analyse competitors' strategies and formulate counter-measures
- Keep business dynamic and innovative
- Provide input for decision-making
- Find out the strengths of business
- Identify weaknesses of business
- Find out the opportunities available to business
- Identify threats posed to business
- Know the internal environment
- Understand market conditions
- Adjust with technological advancements
- Understand international events and their impact on business
- Understand economic policies of Government and their impact on business
- Understand political situation and its effect on business
- Foresee the impact of socio-cultural factor

6. Problem in Understanding the Environment Influences

The managers have to deal with various problems in varied situations with regards to the business environment –

- The issues relating to the business environment opens more challenges for managers, making decision-making more difficult. Managers, while making decisions have to conceive all the possible environmental influences, however, getting an overall picture of the whole business environment is a tedious task.
- The second problem faced by the managers is of uncertainty. While, the management and managers are expected to be well aware of the ever changing technologies, but in reality these changes are happening at the faster pace than ever before. Thus, it becomes difficult to predict all the changes and as a result few changes are either predictable or unpredictable

by the managers. Managers always are trying to develop better understanding of the events taking place in future in the external environment, in order to avoid uncertainty.

- The managers have to face complex and rigid problems relating the business environment. While attempting to resolve such problems, the managers have to take risks to work in accordance with the environment.

7. Summary

- Business and its environment are closely related and the effective of interaction of the two leads a business to success.
- Business environment is complex and principally is a combination of many factors like political, economic, legal, social, cultural, technological etc.
- Environment is dynamic, a mixture of many factors which are constantly changing.
- Any particular change in environment may not affect all businesses in a similar manner.
- Every change in environment has both short-term and long-term impact on business.
- Business environment includes both internal and external environments. Internal environment relates to environment within the organisation which is controllable. External environment is outside the organisation which is uncontrollable.
- The Internal environment (related with the factors internal to an organisation, which are considered as controllable) consists of factors which act as strengths and weaknesses for the business enterprise.
- The External environment (related with the factors external to an organisation, and are uncontrollable) includes all the possible opportunities and threats which exist in its external environment.
- The external environment consists of two types of environment, viz. micro environment and macro environment.
- The Micro environment includes a number of factors which exist in the company's immediate environment and have a bearing on the company's performance.

- The Macro or general environment consists of factors in the general environment like – demographic, natural, legal, political, cultural etc.
- Mega environment mainly consist of International Environment which is very important from the point of certain categories of business.
- The success of business depends to a great extent on its business environment.
- Strategic managers have to face different circumstance in their business like diversity of environmental changes, uncertainty, complex and rigid nature of problems.

ITEM	DESCRIPTION OF MODULE
Subject Name	MANAGEMENT
Paper Name	STRATEGIC MANAGEMENT
Module Name/ Title	ENVIRONMENTAL SCANNING AND APPROACHES
Module Id	7
Pre-requisites	Understanding of business environment and its components
Objectives	Understanding environmental scanning, the methods and techniques for environmental scanning, SWOT Analysis, PESTLE Analysis
Keywords	Environmental Scanning, Business Environment Scanning, SWOT Analysis, PESTLE Analysis

QUADRANT - I

Module 1 : Environmental Scanning and Approaches
1. Learning Outcomes
2. Meaning of Environmental Scanning and Factors to be considered for Environmental Scanning
3. Need for Environmental Scanning
4. Approaches to Environmental Scanning
5. Sources of Information for Environmental Scanning
6. Methods and Techniques Used for Environmental Scanning
7. SWOT Analysis
8. PESTLE Analysis
9. Pitfalls in Environmental Scanning
10. Summary

1. Learning Outcomes

After studying this module, you shall be able to

1. Understand the concept of environmental scanning
2. Know different factors to be considered for environmental scanning
3. Understand the need for environmental scanning
4. Study various approaches to environmental scanning
5. Learn about the sources of information for environmental scanning
6. Analyse the methods and techniques for environmental scanning
7. Understand SWOT Analysis
8. Learn about PESTLE Analysis

2. Meaning of Environmental Scanning and Factors to be considered for Environmental Scanning

Environmental Scanning relates to examining and understanding the environment in which a business unit exists, in order to facilitate strategic decision making. It refers to studying both internal as well as external environment and analysing its impact on the business opportunities. It also includes making prior judgements about the risks and uncertainties that the business may have to encounter in near future.

Hunger pointed out that Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long – term health.

Azhar Kazmi, quoted in his book – “Business Policy and Strategic Management” that – “The process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.”

The businesses function in an environment which is ever changing as the environment is known to be dynamic; therefore the scanning of the environment has to be a fast and regular process.

The environmental scanning cannot be a onetime action in a business; in fact it is constantly watching the external environment and micro-scoping of internal environment.

Environmental Scanning provides a broader perspective to the management and planning department to formulate plans and strategies. In other words, it is the process which helps organisations to observe the environment in which they function in order to identify the opportunities and threats impacting their business.

Factors to be consider for environmental scanning –

1. **Events** are relevant and specific incidents which take place in the different environmental factors.
2. **Trends** are the general courses of action along which the events take place.
3. **Issues** are the current matters that may arise as a result of the events and trends.
4. **Expectations** are the demands and requirements of the concerned groups in view of the trends and issues.

Example: Gas leakage accident at Bhopal in Dec. 1984

Event	The accident of gas leakage
Trend	The authorities and Organizations to be conscious about safety from hazardous exposure to chemicals
Issue	A rising concern about environmental pollution
Expectation	To legislate changes in rules and regulations pertaining to safety measures and stricter enforcement through various mechanism

(Source – Kazmi, 2010. *Strategic Management and Business Policy*, 3rd Edition)

The environmental scanning process enables an organisation to analyse the influence which various situations and changes in the environment exert on its strategic management process. Since the environment facing any organization is complex and its scanning is absolutely

essential, strategists (who, as individuals or in groups – internal or external; are concerned with and play a role in strategic management) have to deal cautiously with the process of environmental scanning.

Objectives –

- To make efforts to deal with the important issues impacting the business and avoid wasting time and effort on irrelevant factors.
- To enable this it is important to devise an approach, or a combination of approaches to environmental scanning.

3. Need for Environmental Scanning

Environmental Scanning is essential because of following reasons –

- 1) **Prime Influence** – Environment impacts the effectiveness of business strategies majorly. The strategic planning can be undertaken without taking environment into account as any change in the environmental factors affects the business decisions. In addition, the successful implementation of strategies is also dependent on the environment.
- 2) **A tool to anticipate Changes** – Environmental scanning is an effective tool for predicting the changes that may happen in the environmental factors in near future. It not only makes an organisation aware of its business surroundings but also prepares it to face the challenges in future.
- 3) **Time for adjustment** – Environment scanning gives time to an organisation to adjust according to the changing environment. As businesses may have to come across sudden changes in the environment, environmental scanning helps the organisation in adapting to the changes by predicting them before hand.
- 4) **Early Warning system** – The scanning process, if done properly, may predict the adverse changes in the business environment and help the organisation in developing a defence mechanism to counter the adverse changes.

Approaches to Environmental Scanning

As suggested by Kubr, three approaches can be to organise the information for the process of environmental scanning

1. **Systematic Approach** – Gathering information for environmental scanning which have a direct impact on organizations activities, Govt. policy statements relating to the business and industry, keeping a track of alterations and taking the same into account. The information so collected necessarily needs to be updated to the strategic management team for strategic decision-making and also for making changes in the operational activities.
2. **Ad Hoc Approach** – In this approach, organisations periodically conduct special projects and evaluate existing strategies and also to formulate new strategies. Sometimes special surveys and studies are also undertaken in order to address the environmental issues.
3. **Processed – form Approach** – Some organisations may use secondary data which is processed by Govt. or private agencies; this is often referred to as processed form approach.

Since environmental scanning is absolutely necessary for strategy formulation of any organization, whatever approaches is adapted, DATA Collection and Processing systematically is ultimate for Strategic Management Process.

4. Sources of Information for Environmental Scanning

Strategists use different information sources depending on their needs for environmental scanning. The sources of information could be formal or informal, written as well as verbal and external or internal.

1. External Sources –

- a) **Documentary or secondary sources of information** like publications. These could be newspaper, magazines, journals, books, trade and industry association newsletter, Govt. Publications, annual reports of competitions etc., information from

- b) Media sources like audio, visual, audio-visual media (radio, television, internet)
- c) External Agencies like customers, marketing intermediaries, suppliers, trade associations, Govt. agencies and so on.

2. Internal Sources –

- a) Company files and documents, MIS, databases, company employees.
- b) Formal analysis and studies undertaken by organisations with the help of employees, market research agencies, consultants and educational institutions etc.

Some of the important sources of information used in Indian context can be –

1. International Publications

- a) Data published by Intergovernmental and international agencies like UN, UNCTAD, UNESCO, WTO, IMF, OECD, etc.
- b) International private data agencies like Fitch, Moody's, Standard & Poor, etc.

11. World Wide Web, Online databases and systems

- a) Search engines.
- b) Online databases of govt and private data agencies.

111. Government Publications

- a) Government information sources such as Census of India report; five-year plan reports etc. provide important inputs for planning purpose.
- b) Periodic reports like economic surveys, annual surveys etc. provide current data.
- c) Occasional reports brought out by statutory agencies such as guidelines to industries, export-import policies etc. which are relevant for business and industry.
- d) Reference books and encyclopaedias.

1V. Institutional Publications

- a) Information on economic indices published by Centre of Monitoring India Economy (CMIE).
- b) Publications of market research agencies like NCAER etc.

- c) Publications of trade and industry federations such as CII, FICCI, ASSOCHAM, NASSCOM, ATMA etc.
- d) Annual company reports having data relating to balance sheet and profit and loss account.

V. Periodicals and Newspapers

V1. Industrial Espionage agencies

Private agencies provide information and reports on competitors, which may be essential for strategic planning.

5. Methods and Techniques Used for Environmental Scanning

There are wide range of methods and techniques available for environmental scanning. Strategists may choose one which suit their needs in terms of the –

- Quantity
- Quality
- Availability
- Time lines
- Application/ Relevance
- Expenditure on getting environmental information

Many authors have given various methods and techniques which can be used for environmental scanning. Le Bell and Krasner have outlined 9 groups of techniques:

1. Unstructured expert opinion
2. Structured expert opinion
3. Single – variable extrapolation
4. Theoretical – limit envelopes
5. Dynamic modes
6. Mapping

7. Multivariable interaction analysis
8. Structured in expert speculation
9. Unstructured in expert speculation

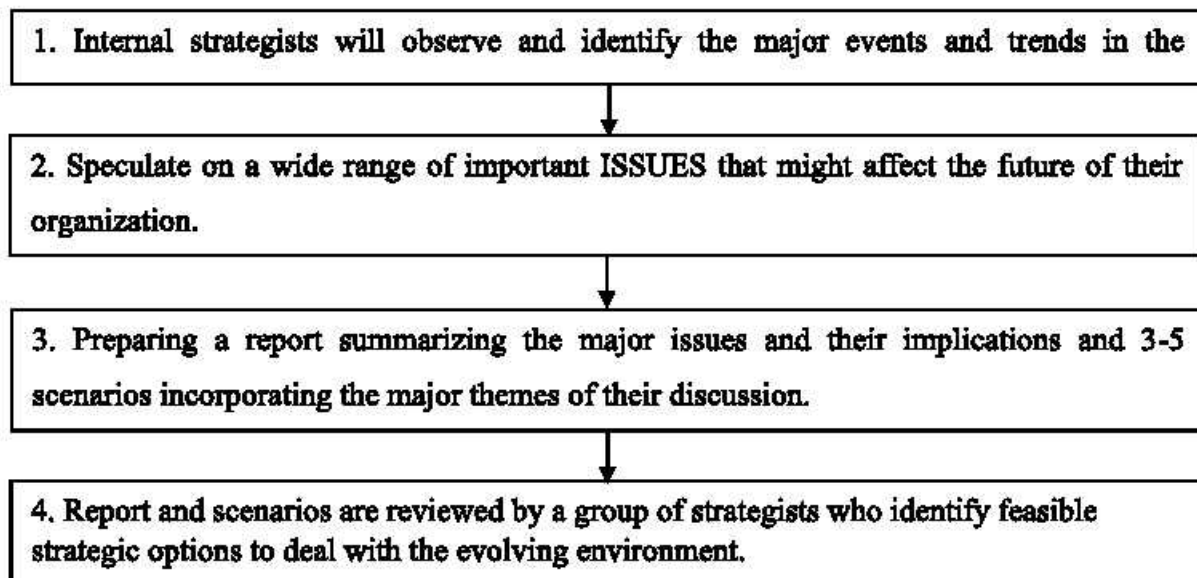
But the most popular of these are –

- 1) **Structured/ Unstructured expert opinion** – The opinions of experts in field of business, in related industry, working in similar type of markets can be used for the purpose of environmental scanning. These people have expertise knowledge about the business as they are well aware of the current trends and may also be valuable in predicting future trends of the business e.g. a person who wants to set up a restaurant may seek opinion of expert in the same business in order to know the prospects of the business. The opinions can be gathered through a structured survey and also through informal talk with the experts. These opinions may help in giving a clear picture of the business environment and also the future trends.
- 2) **Extrapolation** – The statistical technique of extrapolation helps to calculate the future trends from the data of current trends; for instance, a company may use the data of sales of past 10 years to predict the future sale trends.
- 3) **Estimate** – This technique considers the best and worst scenarios the business may have to witness as a result of the changes in its environment. These cases are further used to predict more possibilities and probabilities of opportunities and threats which may occur in near future.
- 4) **Mapping** – Mapping is a tool that tracks the environmental factors to identify that which factors are changing and how much change is there in each of them. Mapping also tries to uncover the rate and trends of change taking place in each factor, as all the factors do not change simultaneously. While, some factors change frequently others remain constant for some time. Thus, mapping defines the direction of changes taking place in environmental factors and also the level of change.
- 5) **Modelling** – In modelling various statistical tools like regression analysis or probability tables etc. are used for future prediction.

6) **Chaos Theory** – Chaos theory by Edward Lorenz and Michael Feigenbaum, uses mathematical models, known as chaotic models, to interpret the process of non – linear and dynamic system.

The phenomenon of Chaos is observed in a wide variety of processes – biological, sociological, economic, and meteorological. The applications of Chaos theory in management may range from predicting market behaviour, financial forecasting and anticipating competitive strategies.

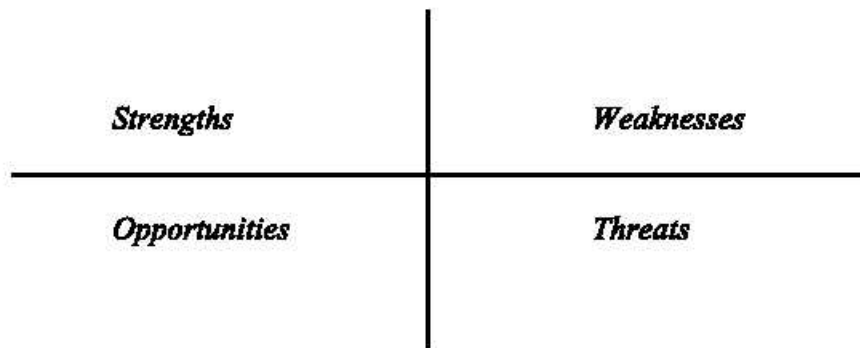
7) **QUEST Technique** – Quick environmental scanning techniques is a process which analyses various scenarios after scanning the environment and then come out with different strategic options available. The process involves four steps which are –



After the environmental scanning process is complete, the strategists start to appraise the environment - called environmental appraisal. It is structured by the preparation of the environmental threats and opportunities profile (ETOP), which involves breaking up the environment in various segments or sectors and predicting the influence of each segment on the business.

6. SWOT Analysis

SWOT, is an instrumental framework in value based management and strategy formulation to give in-depth information about strengths, weaknesses, opportunities and threats for a particular company / organization. SWOT analysis or environmental analysis is a process which enables an organisation to examine its related environment to find out the existing opportunities and threats that may affect its business. It is a process of studying the environment before taking decisions and formulating strategies.



Possible strengths are –

- Name recognition
- Proprietary technology
- Cost advantages
- Skilled employees
- Loyal customers etc.

And weakness is a company's lack of ability or a situation that acts as a disadvantage for it in comparison to its counterparts. Weakness is an inherent limitation or shortcoming of an organisation, which can lead it to strategic disadvantage; however, weaknesses are areas which are capable of improvement. Possible weaknesses are –

- Poor market image
- Limited finance

- Lack of efficient human resources
- Obsolete facilities
- Internal operating problems
- Poor marketing skills etc.

An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position.

A threat is an unfavourable condition in the business environment that may adversely affect the business and cause damage to the organization. Threats are anything from the environment that can adversely affect its performance or achievement of its goals. Threats can be external or internal, external threats could be inflation, new legislation, or a new competitor in your market while internal threats could include a skill or staff shortage within your organisation.

The relationships in a SWOT analysis are generally' represented by a 2x2 matrix, wherein the 'Strength' and 'Opportunities' are both positive considerations while 'Weakness' and 'Threats' are both negative considerations.

The matrix identifies the strength, weaknesses, threats and opportunities of a business firm. This formation can be used by the company in many ways in evolving its options for the future. In general, the company should attempt to –

- Build its strength
- Reverse its weakness
- Maximize its response to opportunities
- Overcome to its threats

The final results of an analysis could be listed in the matrix in given below –

The SWOT Matrix –

<i>FACTORS</i>	<i>POSITIVE</i>	<i>NEGATIVE</i>
<i>INTERNAL FACTORS</i>	<i>Strengths</i> ▪ Patents ▪ Strong brand names ▪ Good Reputation ▪ Cost advantages from proprietary know how ▪ Exclusive access to high grade natural resources ▪ Favourable access to distribution networks	<i>Weaknesses</i> ▪ Lack of potent protection ▪ A weak brand name ▪ Poor reputation among customers ▪ High cost structure ▪ Lack of access to the best natural resources ▪ Lack of access to key distribution channels
<i>EXTERNAL FACTORS</i>	<i>Opportunities</i> ▪ An unfulfilled customer need ▪ Arrival of new technologies ▪ Loosening of regulations ▪ Removal of international trade barriers	<i>Threats</i> ▪ Shifts in consumer tastes away from the firm's products ▪ Emergence of substitute products ▪ New regulations ▪ Increased trade business

ROLE AND IMPORTANCE OF SWOT ANALYSIS

A. Identify strengths – The internal environment analysis identifies the strengths of an organisation. The internal environment includes the resources of the organisation - physical,

financial and human resources for instance – when a company has superior technology in comparison to its counterparts, it becomes strength for the company.

B. Identify weaknesses – SWOT analysis also identifies the areas where a company needs improvement and which puts it at a disadvantage in comparison to its competitors. The analysis helps a company to spot such weaknesses and take corrective actions, for instance – having lesser financial resources can be a weakness and in order to work on this issue the company may have to explore for avenues to raise additional funds.

C. Identify opportunities – The external environment may have to offer many new opportunities for businesses and SWOT analysis helps a company in recognising them.

D. Identify threats – With many opportunities, the external environment also leads a company to various threats from competitors, govt. policies, etc. Early identification of such threats helps a company to counter them in future. For instance, the govt. may change the taxation policies which may further affect the costing for the firms; therefore, business firm must take necessary steps to reduce the effect of such changes.

E. Effective planning – Environmental analysis also helps a firm in planning its future actions and facilitates quick decision-making. The planning exercise must take into account the internal and external environment and the SWOT analysis enables a firm to make well defined plans.

F. Facilitates Organising Resources – Environmental analysis helps an organisation to predict the future demand of their products which enables it to organise its resources accordingly. The organisation can plan the requirement of resources to handle the activities of the market.

G. Face Competition – The environmental analysis helps a firm to identify the strengths and weaknesses of its competitors, which further enables it to counter the strengths of the competitors and also exploit the competitors' weaknesses in its favour.

H. Flexibility in Operations – As the environment keeps changing, the environmental analysis enables a firm to adjust its operations accordingly.

7. PESTLE Analysis

Environmental Scanning is an important component when the business is in Competition.

The PESTLE Matrix –

<i>Political</i> • Current legislation • Future legislation • Regulatory bodies and processes • Government policies • Government term and changes • Trade policies	<i>Economic</i> • Economic situation and trends • Taxations to products. • Market and Trade cycle • Specific Industry factor • Customer • Interest and exchange rates
<i>Social</i> • Life style change • Demographic • Cons. Attitudes and opinion • Brand, competitive tech. Image • Consumer buying pattern • Ethnic / Religious factors	<i>Technological</i> • Replacement • Technical solutions • Maturity of Technique • Manufacturing maturity and capacity • Innovation potential • Technical access, licensing, patents
<i>Legal</i> • International Law • Employment law • Competition law • Health and safety law • Regional legislation law	<i>Environmental</i> • Ecological / Environmental issues • Environmental Impact • Environmental legislation • Energy consumption • Waste disposal

PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences of an organization or policy in the past, and how they might do so in future. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

- Like the SWOT analysis, the PESTLE analysis is also simple, quick, and uses four key perspectives. PESTLE analysis, has its origins in the PEST analysis, which involves identifying the political, economic, socio-cultural and technological influences on an organization.
- The PESTLE analysis is used to provide a context for the organisation's / individual's role in relation to the external environment (mainly macro and mega environment).
- Depending on which elements are included it can also be referred to as STEP, STEEP, PESTEL, PESTLE or LEPEST.
- Recently it was even further extended to STEEPLE and STEELED, including education and demographics.
- PESTLE is useful before SWOT - not generally the other way round as it helps to identify SWOT factors.

8. Pitfalls in Environmental Scanning

Few pitfalls faced while using environmental scanning can be –

- Increased focus of planners on relevant environment of the business organisation may sometimes lead to avoidance of the events taking place in the general business environment that may affect the business.
- Environmental scanning may lead to increased information inflow for the organisation creating an information overload which may further delay timely actions, thus leading to paralysis by analysis.

- The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this.
- Environmental scanning function should not be integrated too closely with operational and functional activities of the organisation.
- Environmental should not be too far from realities of the organisation, making it impersonal, staff function.

After the scanning process is complete, the strategists have to give structure to the huge information available. They have to filter the information in such a manner that a clear picture of opportunities and threats operating in different sectors emerges and can be utilised by the organisational benefits.

9. Summary

- Environmental scanning refers to studying both internal as well as external environment and analysing its impact on the business opportunities.
- Environmental Scanning provides a broader perspective to the management and planning department to formulate plans and strategies.
- The environmental scanning process enables an organisation to analyse the influence which various situations and changes in the environment exert on its strategic management process.
- Environmental Scanning is essential because environment has a major affect on the effectiveness of business strategies, helps to anticipate the changes, gives time to the company to get adjust to the changed environment and gives advance warning or danger signals of the adverse changes in environment.
- Environmental Scanning can be done by following different approaches viz. systematic approach, ad-hoc approach and processed-form approach.
- Environmental scanning requires information to be analysed and the sources of information may be formal or informal, written as well as verbal and external or internal.

- A wide range of methods and techniques can be adopted for environmental scanning. Strategists may choose one caters to their requirements on factors like quantity, quality, availability, time lines, relevance and cost of environmental information.
- SWOT analysis is a systematic approach to find the strengths, weaknesses opportunities and threats relating to an organisation and its environment.
- In the SWOT analysis, 'SW' stands for strengths and weaknesses while 'OT' stands for opportunities and threats. Strengths and weaknesses are internal to an organisation whereas the external environment creates opportunities and threats for the business. SWOT analysis helps an organisation to find out its positive and negative points.
- PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences of an organization or policy in the past, and how they might do so in future.
- PESTLE analysis encourages management into proactive and structured thinking in its decision making.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Competitive and Industry Analysis
Module Id	Module No.- 08
Pre- Requisites	Business Environment
Objectives	To understand the competitive forces of competitive environment
Keywords	General Environment, Competitive Environment, Bargaining Power, Industry Analysis

QUADRANT-I

Module-08 Competitive and Industry Analysis
1. Learning Outcome
2. Introduction
3. Competitive Environment
4. Porter's Five Force Framework 4.1 Threat of New Entrants 4.2 Bargaining Power of Suppliers 4.3 Bargaining Power of Buyers 4.4 Threat of Substitute Products 4.5 Competitive Rivalry
5. Summary

1. Learning Outcome

After completing this module the students will be able to understand:

- ❖ General Environment
- ❖ External Environment
- ❖ Competitive Environment
- ❖ Concept of Strategic Groups
- ❖ Porter's Five Forces Framework

2. Introduction

The environment in which the business operates has a greater influence on its performance. The success or failure of any organisation's strategies is based on the fundamental understanding of its external environment. The external environment of an organisation consists of both a general environment and competitive environment (Figure 1). The general environment is often referred to as the macro-environment and includes factors such as political, economic, social and technological. It should be noted that any change in the general environment has the potential to influence the organisation's competitive environment and will also have an effect that transcend beyond the firms or specific industries. For example, Hitkari Potteries, a popular bone-china crockery brand till 2000 slowly lost ground to competitors like La Opala and Corelle. This happened because the firm failed to scan the general environment for signs of change i.e. the social change. The societal change underway was the change in the lifestyle of potential consumers. With more and more numbers of women joining the workforce, the ladies were facing shortage of time for their household chores. Therefore, to strike a balance between their professional, personal and family lives, these modern working women were looking for the crockery

that was convenient to use, unbreakable, chip resistant and microwave safe. Hitkari failed to notice this social change in the general business environment and had to face stiff competition from companies like La Opala and Corelle that introduced ceramic crockery that could meet the emergent needs of the consumers (Exhibit 1). Therefore, it is important that the organisations scan the general environment and identify factors that have the ability to influence or fundamentally change the industry within which they compete.



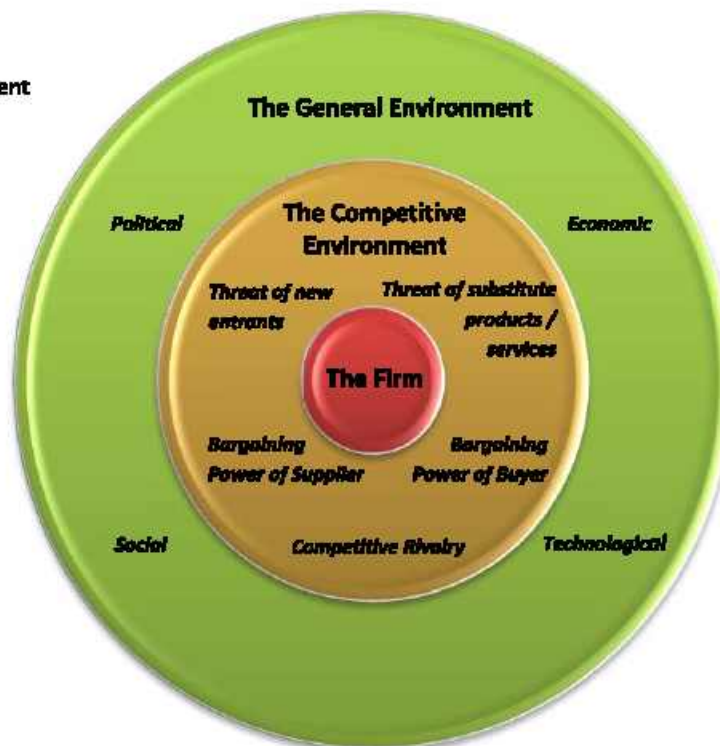
Exhibit 1: La Opala advertisement highlighting features such as Microwave Safe, Chip Resistance etc.

3. Competitive Environment

The competitive environment refers to the dynamic system in which an organisation competes and operates. This system is generally referred to as an industry or a strategic group. Where, an industry is defined as a group of firms producing the same product or products that are close substitutes, while, strategic groups are the sub-groups (small group of firms) within an industry that have similar characteristics and compete on similar basis. The competition between firms within a strategic group is greater than the companies that fall outside the said strategic group. For example, all the companies manufacturing the cell phones collectively represent the mobile industry. Whereas, the companies that manufacture smartphones (Android as operating system) are termed as strategic group as they compete on similar technological platform when compared with the rest of the firms that manufacture first generation cell phones (Symbian as operating system). These groups have very little in common and therefore, pay little attention to each other when planning for competitive moves. But the companies that manufacture smartphones (Windows, iOS as operating system), however, have a great deal of commonality with the

manufactures of smartphones (Android as operating system). Consequently, the firms within this group are strong rivals. However, there may be many different characteristics on to which the strategic groups can be distinguished from each other, i.e. product quality, geographical coverage, service levels etc. Hence, the concept of strategic groups is helpful for the organisations to know more about their direct rivals and the basis on which the competitive rivalry is likely to take place within the groups. Therefore, it becomes imperative for the organisation to have an in-depth understanding of industry's competitive character as a part of external analysis and to help them shape their future strategies.

Figure: 1
The firm and its external environment



4. Porter's Five Forces Framework



Exhibit 2: Michael Porter

The five forces framework is developed by Michael Porter (Exhibit 2) and is the most widely used analytical tool for assessing the competitive environment. The five forces analysis is undertaken from the perspective of both an incumbent (already operating in industry) organisation and a new entrant organisation. The intensity of competition within the industry is of utmost concern for any organisation. This framework helps the organisations to determine this intensity of rivalry by examining the interaction of five competitive forces. It is therefore, the combined strength of these five forces that helps the organisation to determine the industry attractiveness and eventually the profit potential within a given industry. The five forces

are (1) threat of new entrant, (2) bargaining power of buyers, (3) bargaining power of suppliers, (4) threat of substitute products or services, (5) intensity of rivalry among firms in an industry. Onto the evaluation of the strength of these forces, a high force can be looked upon as a threat as it reduces profitability whereas, a low force would mean an opportunity that allows a firm to earn more profits. Figure 2 depicts Porter's five forces model of industry rivalry. A description of each of these five forces is discussed in details in the following section.

4.1 Threat of New Entrants

Any industry that has the potential for growth and is perceived to be profitable tends to attract new entrants. These new entrants are the firms that are interested in investment to avail the opportunities that lies ahead within the industry. If new firms are able to come into an industry, the existing firms have to either share ceratin portion of the growing sales with a large number of competing firms or have to part off with some of it own market share. Either way, the existing firms have to face declining sales volumes and revenue, ultimately leading to fall in incumbents' profits.

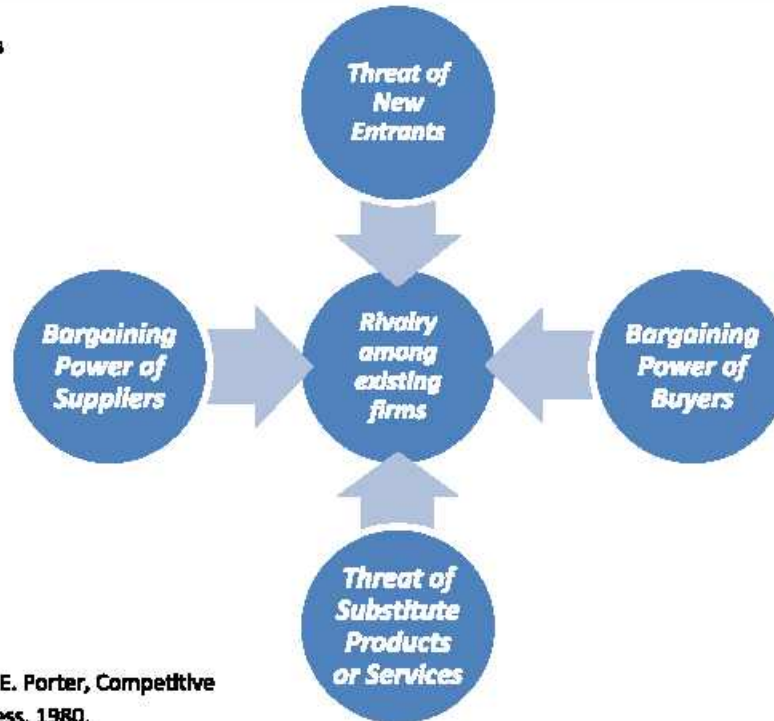
The possibility that a firm enters from outside into an industry basically dependent on two factors. The first being the barriers to entry and second, being the expected retaliation (strong reaction) from the existing firms. A high entry barrier implies that there would be lesser likelihood for new firms to make an entry into the industry at the first instance or will be abstained from establishing themselves before they may pose competition to the existing firms. Therefore, the higher entry barriers keeps the prospective entrants at a distance from an industry. Some of the possible entry barriers are:

1. **Brand benefits:** Buyers are often attached to established brands and to break through these well placed brands becomes a challenge for the new comers. The new entrants have to struggle and redefine their strategies so as to bring in a change in the mindset of the consumers. For example, Johnson & Johnson (J&J) has ruled the market for last 60 years in the babycare segment. Companies like Marico, Dabur, Wipro, Himalaya have tried their hand at babycare, but with little success. This is primarily because as far as baby is concerned, the mothers do not want to risk experimenting with new brands in the market. They want products which are completely trusted and safe. J&J products have thus established itself as a most trusted brand over the generations (Exhibit 3).



Exhibit 3: Johnson's commitment to safety (Source: www.johnsonababy.in)

Figure: 2
Five Forces Analysis



Source:
Adapted from M.E. Porter, Competitive Strategy, Free Press, 1980.

2. **Access to Distribution Channel:** Most existing companies in FMCG and automobile industry are found to have a strong distribution channel which is very difficult for a new entrant to penetrate. For example, Lay's potato chips by Pepsico India have a well established distribution channel that has made its products available to the consumers at an arm's length. This has not only posed a challenge to product like Bingo by ITC (a conglomerate) but has also refrained the local players from establishing themselves in the industry. In the same way, Suzuki-Maruti in the automobile industry has established a vast network of dealers and services centre across the length and breadth of the country making it the most affordable car in India (Exhibit 4). Such deeply entrenched distribution network act as a barrier to entry for the new entrants.



Exhibit 4: Maruti's dealer network

(Source: <https://www.outlookbusiness.com/the-big-story/lead-story/the-big-small-wonder-3039>)

3. **Government Policy:** Government policies may also act as an entry barrier. Exhibit 5, showcase that how the 5/20 rule by the government has restrained the Indian aviation companies from flying

in international skies and making the new companies lose to the opportunity before the existing airlines in aviation industry.

4. **Switching Costs:** Switching costs are a particularly important consideration. Switching costs are the expenses (financial or psychological) that a customer incurs when he/she switches from one seller's product to another. In an industry where the switching cost is high, it becomes difficult for a new entrant to establish or survive because the customers are not readily willing to switch. These costs may be because of advance technology adopted by the existing firm and the level of convenience that a customer experiences in owning a particular product, or may be the strong brand association.

Exhibit 5: The 5/20 rule - Indian Aviation Industry



The Indian government introduced the 5/20 rule for the civil aviation industry in 2004. The rule barred the domestic carriers from flying in international skies until they had at least five years of domestic flying experience and a fleet of minimum 20 airplanes. According to the industry insiders, Mr. Naresh Goyal, Chairman of Jet Airways (one of the oldest private airlines in India) was the man behind the lobbying for the rule so as to prevent its competitors from flying abroad and restricting them from capturing the India's international routes.

In 2007-08, when the no-frills airlines like IndiGo, Go Air, and Spice Jet were busy consolidating their position at home, the 05/20 rule failed to provide any cushion to the domestic airlines to remain competitive. As a result of this policy, many of the airline companies that had business in India were unable to extend their flights to international destinations. Moreover, due to the resultant policy the domestic airlines were too deprived from availing the opportunity of refuelling their aircrafts outside India at times when domestic aviation turbine fuel (ATF) prices were exorbitant.

If one has to believe the industry sources, the Kingfisher airlines acquired Air Deccan, primarily because the latter had years of domestic flying experience that eventually empowered Kingfisher to gain the permission to go international. The permission to fly abroad was the solo incentive for Kingfisher though the two airlines had all together different types of fleet, organisational culture and ethos resulting to more challenges for kingfisher than any synergy. With the merger in place Kingfisher went international, burned cash like never before and finally became a debt trapped airline. The 05/20 rule acted as a barrier to entry for the domestic airline from going international meanwhile, the foreign airline availed this opportunity and captured majority of India's international routes.

Source: '5/20: A rule that needs to be changed' *Business Standard*, 18 May 2016

5. **Product Differentiation:** Corporation like 3M (Exhibit 6) that is known as the global innovation company had differentiated its products in the marketplace and created high entry barriers through its high levels of innovation. The people at 3M capture the spark of new ideas and transform them into thousands of ingenious products and practical applications that help make people's lives better. 3M's office business is home to some of the world's best-known brands like Post-it, Scotch etc.



Exhibit 6: 3M Product Innovation (Source: <http://www.3m.com>)

6. **Economies of Scale:** The firms that operate at a larger scale tend to get benefits of lower production cost because of economies of scale. Over the years, an already established firm in an industry might have attained that scale of production but a new entrant normally would have to start its operation from a smaller scale. This in turn leads to relatively higher cost of production for the new firm and adversely affects its competitive position in the industry.



(Source: <https://www.efilecabinet.com/the-economics-of-document-management-systems-how-dms-applies-to-economics-of-scale/>)

7. **Capital Requirement:** High capital requirements may prevent the new entrants from making investments in an industry. For example, developing telecom infrastructure in rural India requires high capital investment as it involves greater logistical risks and also extend the time taken to roll out telecom services. The lack of trained personnel in the rural area to operate and maintain the cellular infrastructure, especially passive infrastructure such as towers, is also seen as a hurdle for extending telecom services to the under penetrated rural areas.

4.2 Bargaining Power of Suppliers

Sourcing in any industry is amongst one of the most essential activities of a business. Organizations have a large dependence on the suppliers and latter has the ability to influence their profitability. The supplier's decisions on prices, quality of products & services, payment and delivery terms are the various factors that influences buyer's profit potential and in turn determines the profit trends of an industry. Therefore, in the following given situations, a supplier or supplier group is said to be powerful:

1. **Importance of the Supplier's Product to Buyer:** When the supplier's products are an important and integrate part of buyer's manufacturing process and its product quality, the bargaining power of suppliers will be high. Taking an example of automobile industry in India, Sona Koyo Steering Systems Limited (Exhibit 7) is the largest manufacturer of steering systems for the passenger car and utility vehicle market. Its customers largely include all major vehicle manufacturers in India such as Maruti Suzuki, Toyota, Hyundai, Tata Motors, Mahindra & Mahindra, General Motors and Mahindra-Renault. Steering being a specialist component for the automobile industry and Sona Koyo being the manufacturer of high quality precision steering, enables Sona Koyo to hold a high command as a supplier in the industry.

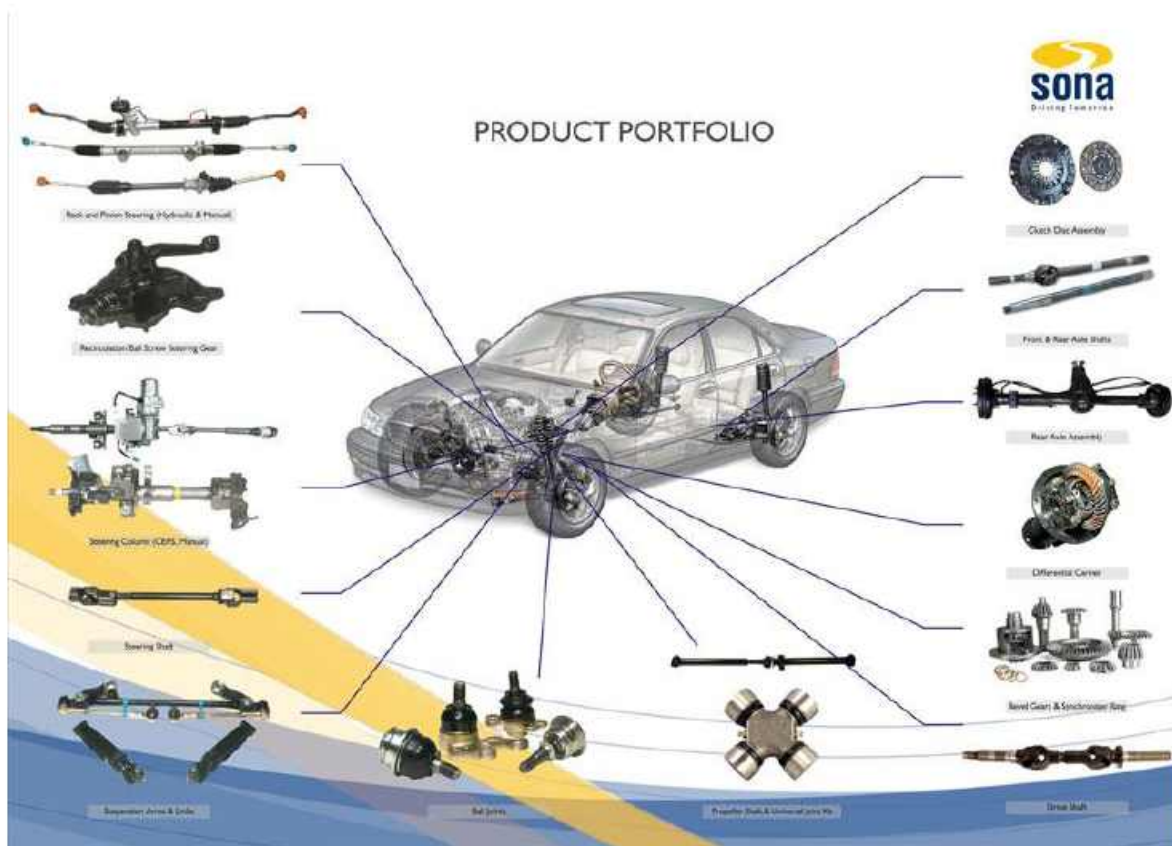


Exhibit 7: Sona Koyo Steering Systems Ltd.

(Source: http://sonagroup.com/index.php?option=com_content&view=article&id=153&Itemid=342)

2. **Greater Concentration among Supplier:** A highly concentrated industry is one which is largely dominated by few large firms. Such few firms hold greater control to influence the industry as the larger share of industry's output vest in their hands. This gives the supplier or supplier group greater power over those who do business with them. Petroleum industry is one such suitable example.
3. **Importance of the Buyer to Supplier Group:** In case the purchasing industry buys only a small portions of the supplier group's product than the importance of the buyer to supplier group will be less (for example: the tyre industry, the sales of bicycle tyres is relatively more important as compared to automobile tyres).
4. **Threat of Forward Integration by Suppliers:** A situation where the suppliers are capable of moving up the value chain and may think of doing a business that their buyers are already into; puts the buyers in a disadvantageous situation. A recent example may be of Ranbaxy Laboratories which has decided to move from manufacturing of bulk drugs & formulations to retailing of drugs through its own chain of retail stores and Fortis Hospital pharmacies.
5. **High Switching Cost for Buyers:** In this case the costs to the buyer of switching supplier is high because of suppliers' advantageous position or by the nature of supplies itself.

4.3 Bargaining Power of Buyers

The buyer in an industry, individually or collectively is supposed to have a stronger bargaining power when they can force a reduction in the prices of the supply or demand a higher quality of product/service or is being able to seek more value for their purchase in any way. On the other hand, a low buyer bargaining power enables the supplier to pass the price increase to the buyer or make the buyer to accept products and services of low quality at a higher price. The bargaining power of buyer is increased in following circumstances.

1. **Standard or Undifferentiated Products:** When there is no differentiation in the supplies of products & services, the buyers pressurize the suppliers on price rather than the features of the products knowing that they can always find alternative suppliers.
2. **Greater Concentration in Buyer's Industry and Buying Volumes are High:** Where the number of buyers is few and the volume of purchase of any buyer is high, the buyer's business gains more importance to that of suppliers. For example, the cash & carry format retailers that enjoy aggregate demand, exert massive pressure on its suppliers' margin.
3. **Threat of Backward Integration by Buyers:** A situation opposite to forward integration which the suppliers attempt to do so as to have command over the buyers. Here, the buyers in order to hold their position stronger in the market may integrate their business backwards i.e. close to the source of raw material. This will mean that the buyers undertake the activities of manufacturing or distribution for which they have been dependent on suppliers till now. For example, a textile company may go in for backward integration by having its own tread production.

4. **Accurate Information of Suppliers' Cost Structure:** A customer who is more informed about the suppliers' cost structure is capable of negotiating with suppliers. Whenever such customers notice a decline in the suppliers cost they too would negotiate a proportionate decrease in the price. For example, in present times when the fuel prices are deregulated or market linked, the customer expects the prices of public transportation too to fall proportionately with any decline in the prices of crude oil in international markets.
5. **Customer's Price Sensitivity:** The utilitarian customers are the one who seek value and are generally price sensitive. In an industry where the purchases are largely dominated by such customers, the buyers tend to gain advantage in its bargaining power.

4.4 Threat of Substitute Products

A firm is not only exposed to competition from within but also from outside industry products. These products may be close substitutes of each other that apparently are different but satisfy the same set of customer needs. For example: as per a market research, it is estimated that parents buy baby care products for their babies till the time they are nine and a half months old. After which, they tend to use their personal care products on the children and this cross-usage of non baby brands (substitute product) has restricted the potential growth of products in baby care category.

Quoting another example of recent happening where the bread makers were charged of allegation about the presence of carcinogenic chemicals in their products. The firm offering the substitute product i.e. home appliance for making baked breads at home left no stone unturned to avail this opportunity. It posed a serious threat to the bread manufacturers. The Company, Glen, advertised its product (Exhibit 8) in the local newspaper (HT City, Chandigarh edition, 04 June 2016) to boost its sales. Through this advertisement the company offered the benefits (Fresh, Hygienic & Convenient) of baking the bread at home to the customers making it more attractive over the packed bread sold in the market.



Exhibit 8: Home appliance – an Automatic Bread Maker as substitute for packed bread.

However, the competition from the substitute products depends primarily on the following factors:

1. How attractively are the substitutes priced in the marketplace;
2. Whether the substitutes are able to provide the same level of quality and performance;
3. How straight forwardly the buyers can switch to substitutes.



(Source: <https://www.slideshare.net/116filminternship/how-should-a-company-choose-the-most-attractive-target-markets-49609884>)

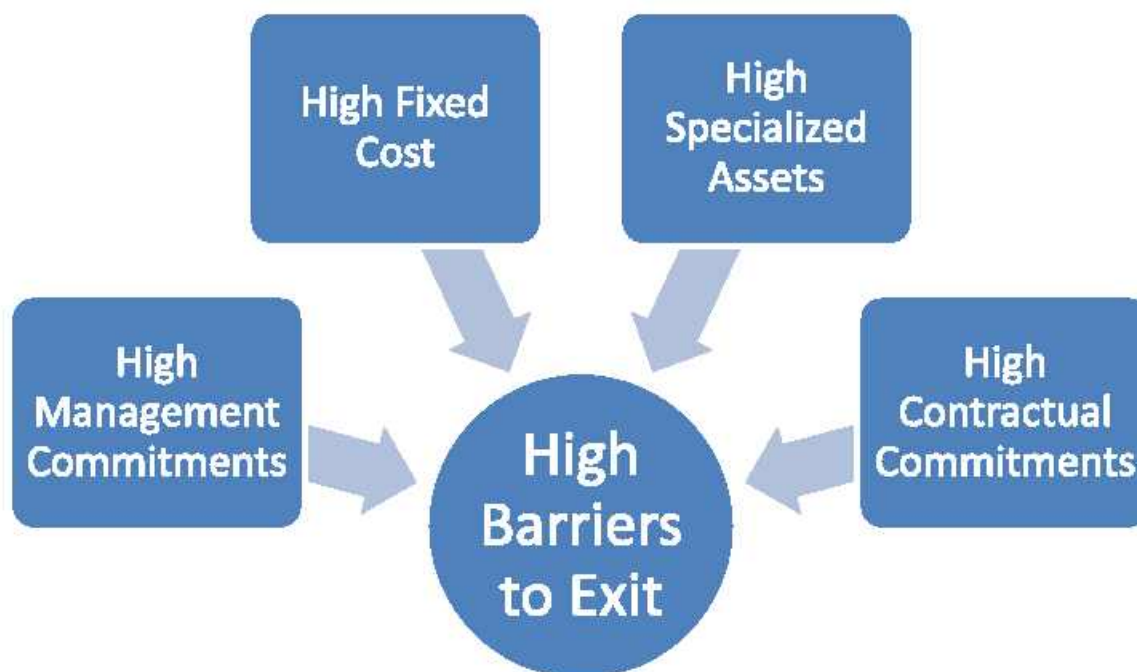
4.5 Competitive Rivalry

When the firms in the industry exhibit a high level of rivalry, the profitability of the industry may be affected. Such rivalry may take the form of incumbents competing aggressively on the basis of product/service price. In response to which price cuts are commonly assumed by the rivals and ultimately lowering the profits for all the firms in an industry. The following are the factors that affect competitive rivalry in an industry.

Competitive Rivalry

- Competitive Structure
- Industry Growth
- Exit Barrier

1. **Competitive Structure:** Competitive Structure refers to the size, number and diversity of the competitors in an industry. The different types of competitive structures have different implications for both incumbent and new firms. Where there are few competitors and all are of similar size, there is likely to be intense competition as each rival fights for dominance. On the other hand, where there are few large companies or just one company, the intensity of competition many range from state of neglect to fierce. Like in telecom, the firms have collaborated with each other to share the burden of huge investment by having a common tower infrastructure. In such cases, firms may also adopt a policy that is mutually beneficial to the firms in the industry. While, in some other industries there might be prevalence of cut throat competition by ways of pricing, delivery, advertising, after-sales service etc.
2. **Industry Growth:** When the industry growth is sluggish and shows no symptoms of recovery, in those situations the intensity of rivalry within the industry may increase.
3. **Exit Barrier:** Exit barriers refer to economic, strategic and emotional factors that limit the firms to exit from its business or industry even in times of low or negative returns. Economic factors could be high investments committed to plant and machinery that has no alternative usage, deterioration of demand conditions resulting to excess capacity, high fixed exit cost. Strategic factors could be value chain integrations or the linkages of different businesses of a firm, such as, a firm may have been its own buyer or supplier or its different businesses may have been sharing the common pool of resources. While the emotional factors could be the sentiments of the management attached to a business or their commitment towards the employees or other stakeholders like distributor, supplier etc.



5. Summary

It becomes imperative for the managers to understand the immediate competitive environment alongside the general environment as it largely influences the business growth potential of an organization. Moreover, for highly diversified companies, the most fundamental issue in corporate strategy is to identify the industry or line of business in which the company should compete.

Porter's five force framework helps to identify and analyze the five competitive forces that outlines an industry and explains why different industries are able to sustain different levels of profitability. The overall attractiveness of the industry does not imply that every firm in the industry will enjoy the same profitability. With the help of this model, the firms are able to determine their strengths and on the other side try to overcome their weaknesses to achieve a profit above the industry average.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Cooperative Strategies
Module Id	16
Pre- Requisites	Basic Knowledge of Business Environment
Objectives	To understand cooperative expansion strategies.
Keywords	Expansion strategies, Cooperative Strategies, Mergers and acquisitions, Takeovers.

Module 16: Cooperative Strategies
1.1 Learning Objectives
1.2 Introduction
1.3 Corporate Level Strategy
1.3 a Corporate level strategy involves:
1.3 b Different types of corporate level strategies are:
1.4 Cooperative Expansion Strategy
1.4 a There are different ways of expansion
1.5 Strategic Alliances
1.5 a <i>Strategic Alliances Types</i>
1.5 b Reasons for Strategic Alliances
1.6 Diversification
1.6 a Diversification is of three types –
1.6 a I. Unrelated Diversification
1.6 a II Related diversification
1.6 a. iii Conglomerate diversification

1.6 b Reasons For Diversification
1.7 Mergers and Acquisition
1.7 a Acquisition
1.7 b Benefits of Acquisition over Internal Development
1.7 c Drawbacks of Acquisition over Internal Development
1.7 d Differences between Acquisitions and Mergers
1.8 Takeovers
1.8 a Friendly takeover
1.8 b Hostile takeover
1.8 c Reverse takeovers
1.8 d Backflip takeover
1.9 Summary

1.1 Learning Objectives

Following are the learning objectives of the lesson

1. To understand the difference between functional level, business level and corporate level strategies.
2. To understand different types of corporate level strategies.
3. To understand cooperative expansion strategies.

1.2 Introduction

Strategy is a game plan to target a market, conduct operations, satisfy customers and achieve organizational objectives.

It lays down organizations' desired goals, direction and destination. Strategy can never be perfect; it is flexible. There are no second best choices in strategies. Strategy is partially proactive and partially reactive.

Proactive actions may include improvement of company's market position and achieving higher growth rate. And reactive actions are important because to know the fresh market conditions and the developments which have not taken place till yet. Strategies are formulated at three different levels:

1. Corporate level strategy
2. Business level strategy
3. Functional level strategy



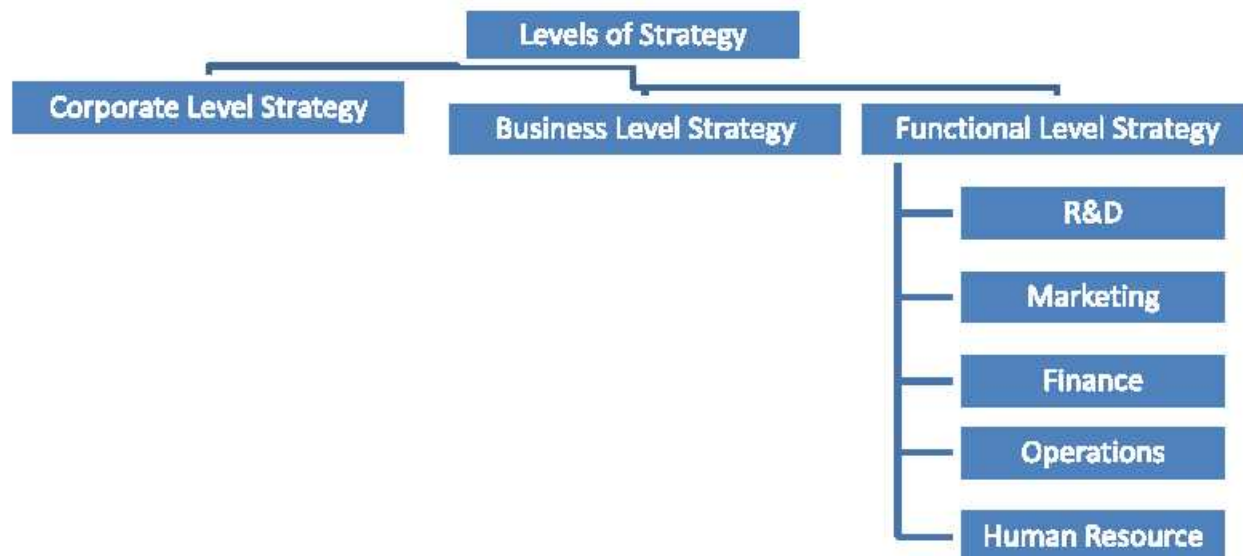
i. Corporate level strategy looks for the development of whole of the organization, beginning with mission, goals, to determining the business plan, resources and finally implementing different strategies in order to achieve a desired goal.

Example: Godrej which deals with wide range of businesses like soaps, furniture, edible oil, Information Technology, real estate.

ii. Business Level strategy deals with translation of goals to form individual businesses.



iii. **Functional Level strategy deals with specific business functions or operations like human resources, product development, customer service etc**



1.3 Corporate Level Strategy

Corporate strategy is strategy which refers to decisions concerning expansion or retrenchment from an industry and also about how the management of a multi-business enterprise can achieve synergies. Three issues addressed are:

It helps a company decide where a company should compete, how should it compete and what route would it need to take to achieve the profitability objective i.e. cost leadership or product differentiation.

A company through its various strategies should maintain strategic consistency across its strategic business units and make possible cooperation amongst these units in order to not only create value for the stakeholders in these business units but also to maintain a market identity even with a diversified portfolio.



1.3 a Corporate level strategy involves:

- **Reach-** It defines company goals, types of business in which company should get involved.
- **Activities and relationships-** It helps in developing a relation by sharing and coordinating with the staff. It helps in investing business units in different units to harmonize different business activities.
- **Management practises-** Corporates decide how business units are managed by direct corporate intervention or by less government agencies.



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1.3 b Different types of corporate level strategies are:

1. Stability Strategies:

It involves 3 strategies which are

- No change Strategies
- Pause/proceed with caution strategies
- Profit strategies

2. Cooperative Expansion Strategies

It involves 5 strategies these are

- Integration
- Diversification
- Cooperation
- Internationalization

3. Defensive/ Retrenchment Strategies

It involves 3 types of investments

- Turnaround
- Divestment
- Liquidation

4. Combination Strategies

It involves 3 types of strategies

- **Simultaneous**
- **Sequential**
- **Combination of both**
-

1.4 Cooperative Expansion Strategy

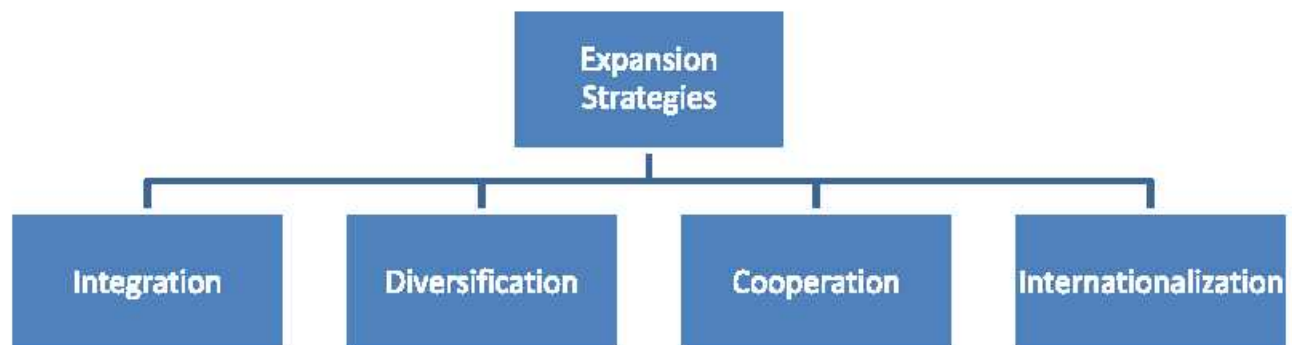
Every enterprise wants to expand to avoid risk drowning. Expansion provides ample of opportunities to the enterprise and is important for it. This is possible after achieving fundamentals of expansion. Expansion strategies are made in such a way that they help enterprise to maintain a competitive edge in international market. Hence for successful competition, survival and to flourish, an enterprise has to pursue an expansion strategy. Expansion is an important strategic option that allow the company to fulfill its long term growth objectives. It also help in pursuing significant growth as opposed to slow growth in stability strategy.

A cooperative strategy is the attempt by a company is to try and achieve its objectives of expansion but with cooperation through other players either within the same industry or from complimentary or non related industry. The objective of cooperative strategy is to expand by cooperating and working with others rather than working against others. The cooperative strategy allows synergistic use of resources of all the organizations. A cooperative strategy like strategic alliances can offer a company a chance to expand even if does not have a comprehensive portfolio of assets by choosing a partner who does. For example Ellily Lilly and Ranbaxy formed a strategic alliance to compliment each other's portfolios and objectives. The cooperative strategies also help companies explore new markets at a fraction of the risk.

For achieving long term objectives the expansion strategy provides the blueprint required to grow and also allow them to sustain their competitive advantage even in the complex stages of market and product evolution. Expansion strategy helps a company achieve economies of scale, which reduces operating costs and helps in improving earnings. Though main focus of the lesson is strategic alliances the lesson does discuss the other expansion strategies briefly.

1.4 a There are different ways of expansion of an enterprise in global market these are

- **Integration (Mergers and Acquisitions)**
- **Diversification**
- **Cooperation (strategic alliances)**
- **Internationalization**



1.5 Strategic Alliances

A strategic alliance is defined as a collaboration between the companies or incumbents of an industry or from different industries whereby they agree to share their resources and capabilities in pursuit of sustained competitive advantage and above average rate of return. These are also referred to as cooperative strategies where two or more companies decide to pool in their resources and capabilities to exploit a market opportunity. The companies in this case decide to work with each other to gain competitive advantage rather than work against each other. For example a strategic alliance was forged between two pharmaceutical giants i.e. Eli Lilly and Ranbaxy, which was used to enter India by Eli Lilly and by Ranbaxy to gain knowledge about foreign markets. Similarly strategic alliance between Bharti and Walmart was a move to cooperative strategy.

A global company is involved in multiple strategic alliances to complement the needs of different markets and countries it is present in. For example IBM has formed alliances with Sun Microsystems, SAP, Lenovo, and Cisco, among others. These strategic alliances help IBM deal with threats from different companies and add on to the portfolio its strengths. The objective of each specific strategic alliance is unique and specific.

It is important to note that strategic alliances are not a uni-directional relationship. The basis of this relationship is the fact that both the parties, who are involved in this relationship, bring something unique to the table. This uniqueness adds to the competitive advantage that the strategic alliance can exploit over the period of time. It is very important in the strategic alliance that all the partners are actively solving problems, are being dependable, and are again and again finding ways to combine their resources and capabilities to create value to gain sustained competitive advantage and above-average returns.

1.5 a Three Types of Strategic Alliances

The academic text refers to 3 types of strategic alliances which have been discussed in this section of the lesson i.e. joint ventures, equity strategic alliances, and nonequity strategic alliances.

a. A **joint venture**: a joint venture is defined as an alliance between two organizations or companies where the organizations chose to lose their individual identity and form new and independent identity. This new identity which is formed from two or more partners, can boast of a resource and capability pool which consists of best of both the partnering companies. These ventures help companies establish associations which help them pass tactical knowledge about value addition to partners so as to gain competitive advantage and above average rate of return.

b. An **equity strategic alliance**. This type of alliance is defined as an alliance where partner companies have unequal shares in the new a venture created. The unique characteristics of the new venture are that it is created by combining resources and capabilities of the partnering firms. For example, Citigroup Inc. has formed a strategic alliance with Shanghai Pudong Development Bank Co.

c. A **nonequity strategic alliance** is defined as a alliance where partnering companies agree to share and leverage their resources and capabilities to gain competitive advantage in the target market. The Main difference between an equity strategic alliance and a non-equity strategic alliance is that in a non equity strategic alliance that the partnering companies do not set up a separate independent company and so don't take equity positions.



Joint ventures

A joint venture strategy is a strategy in which two or more company pool up their resources for accomplishing a specific task. This task helps in achieving a new project or provides company with different entity. Each member of joint venture is associated with all the expenses and revenue of the company. Joint venture is seen as a tool of international expansion. International joint venture enables companies to use resources and capabilities of each other which help in achieving economies of scale for bringing new product or service in market faster, more efficiently, more reliably and more cheaply than what they could do. Joint ventures have partners and these partners have certain position in the eyes of local and international markets. Before commencing of a joint venture the companies check the following following variables –size of company, business field and activity, abroad investments, structure and ownership strategy of company and many other variables.

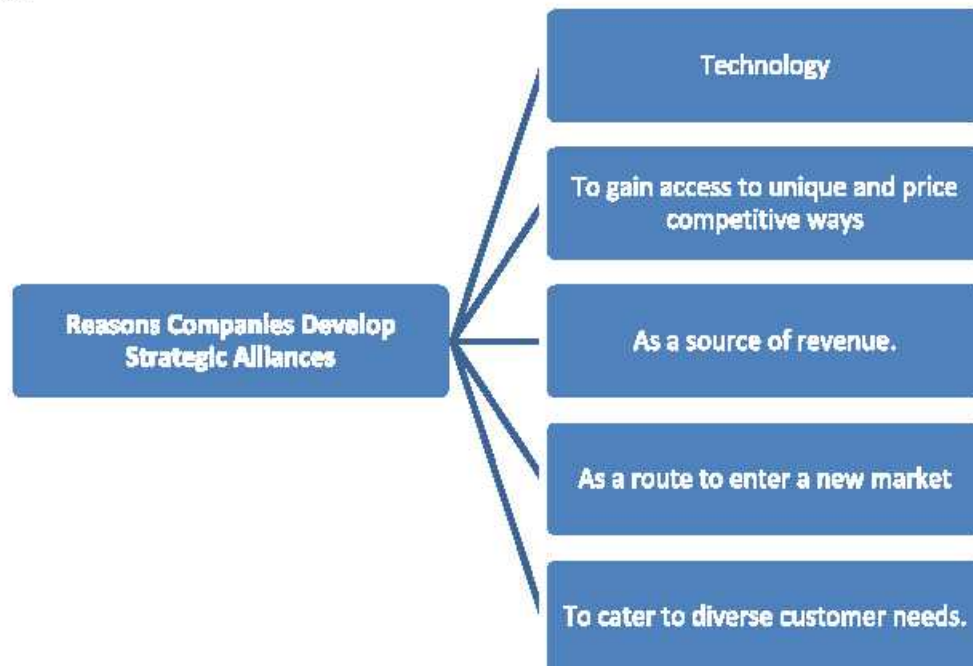
In joint ventures when two companies come in contract they lay the foundation of a third company which means $1+1=3$. The companies share profit and risk equally. The best example of joint venture is Sony Ericsson. Sony was the leading brand in electronics in India and Ericsson was the leading mobile brand of America. Both the companies joined hands to create a third company called Sony Ericsson to provide services in India. Another example of joint venture is Nokia and Microsoft.

1.5 b Reasons Companies Develop Strategic Alliances

A company can develop strategic alliances for varied reasons. Some of them have been listed below

1. Technology has become the basis of competition and at times because of patent or limitation in terms of resources and capabilities companies cannot gain access to these technologies. However, access is important to gaining market success and it is in these scenarios companies contemplate alliances.
2. Many a times companies enter strategic alliances to gain access to unique and price competitive ways of adding value to the market offering. The competition these days is determined by not only understanding the customer needs but also how quickly one can get that need satisfied i.e. cater to the market. Many a times companies find short cuts to the development process by opting for alliances or division of process across partners.
3. As a source of revenue.
4. As a route to enter a new market where a sole entry is not possible or allowed for example china.

5. Many times companies enter strategic alliances to cater to diverse customer needs and they don't want to loose the customer to competitor so they partner. For example in airline industry not every airline can cater to every route and therefore they partner and form alliances.

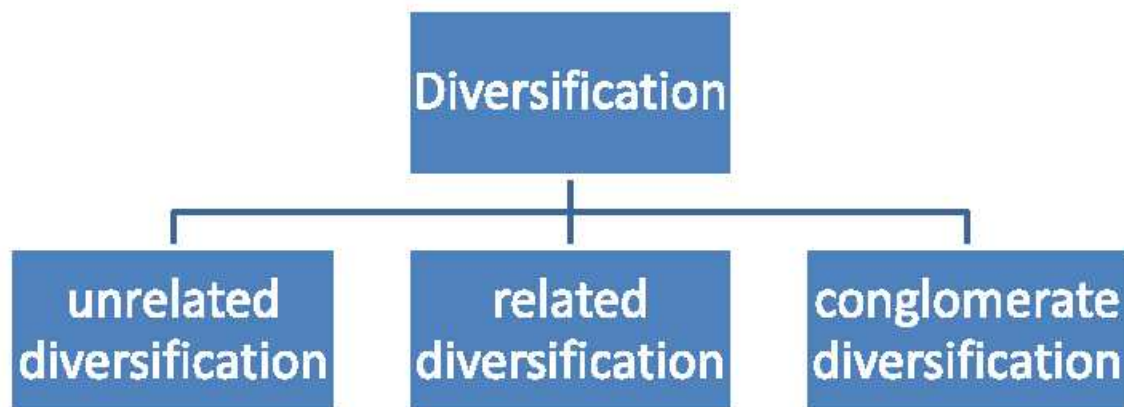


1.6 Diversification

Diversification is a type of portfolio management in which investor reduces the risk of volatility by investing in various products of company which have very low correlation with each other. The advantage of diversification is that when in a company one product is earning a high profit and other is running in losses it balances or outweighs the negative investment.

1.6 a Diversification is of three types –

- Unrelated diversification
- Related diversification
- Conglomerate diversification



1.6 a i. Unrelated Diversification: *Unrelated-diversified (or highly diversified)* companies do not share resources or linkages. Companies that pursue u examples-

- TATA Group – it have diversified its business from steel to hotels, tatamotors , TCS etc.
- AMWAY –it is a beauty and home care products have entered into jewellery.

1.6 a ii Related diversification: A related-diversified company has been defined as the one in which at least 30 percent of its revenues are earned from sources outside of the dominant business. example

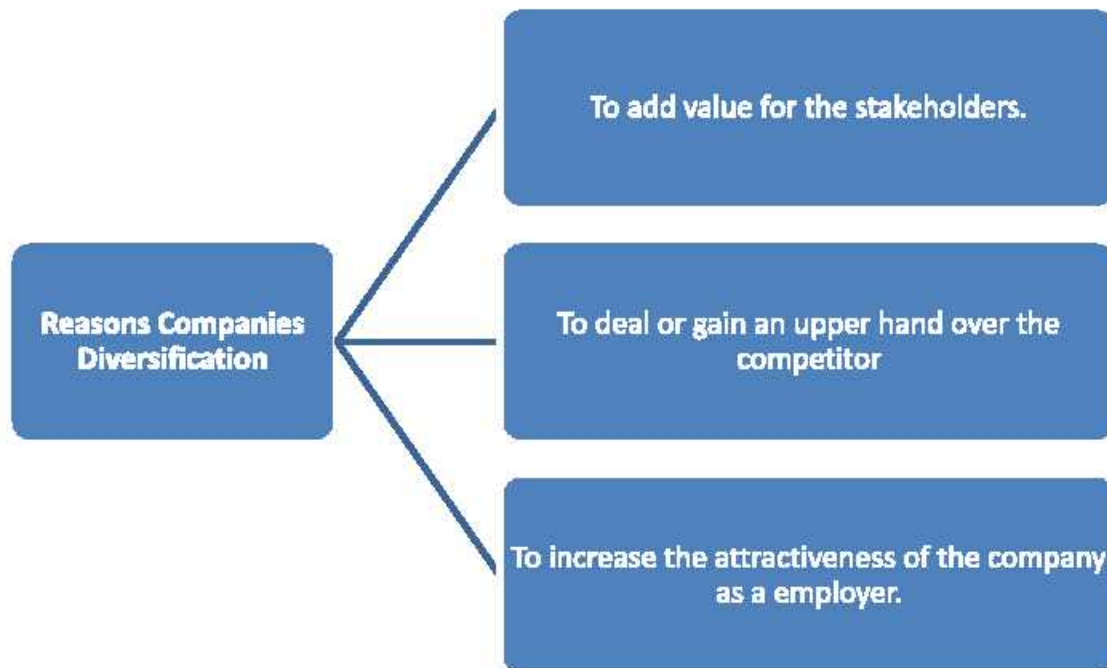
- Nestle – for assistance to tomato sauce and ketchup they have introduced maggi.

1.6 a. iii Conglomerate diversification example –

- General electronics – it have diversified its business in electronics , financial services , health care etc.
- TATA group – tata group of hotels produces their own amenities, are also in communication.

1.6 b REASONS FOR DIVERSIFICATION

Companies opt to adopt diversification strategies to add value for the stakeholders. However, more specifically the main purpose of adopting these strategies is to deal or gain an upper hand over the competitor and his market power, to reduce the employment risk by concentrating on product line and also to increase the attractiveness of the company as a employer. It has been established that more diversified is the portfolio of a firm, larger is the size and more is the compensation which enables the firm to attract better talent.



1.7 Mergers and Acquisition

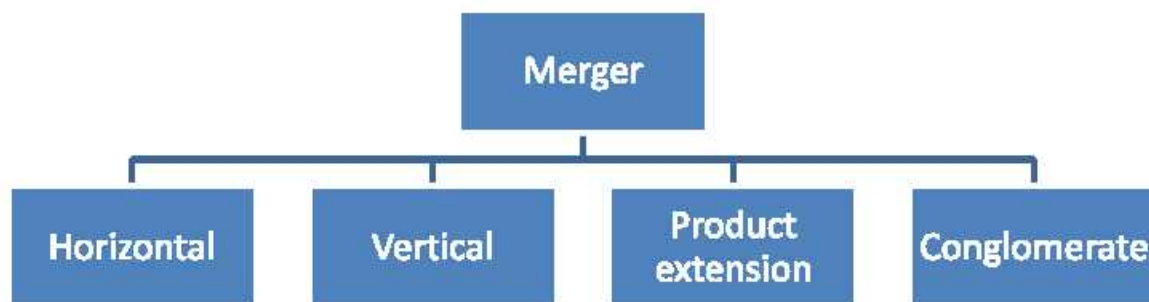
If two companies combine their value would more as a single unit rather than different unit. Mergers and acquisitions are done by company to increase their market share and to survive in competitive markets. Mergers and acquisition are two different things. Merger is when two different companies join hands to create a new venture. For example – Lipton tea and Brooke bond. Whereas acquisition refers to overtaking of one entity by other. For example – TATA group acquired Corus 2006 the deal size was \$12.98 billion.

Legally speaking in merger two companies come in an agreement for the formation of a third company and in acquisition one company takes over all the operational aspects of other company.

Varieties of merger

- Horizontal merger – two companies with delivering same product and are in direct competition. Example Coke and Pepsi.

- **Vertical merger** – two companies which are producing products of one finished product. Example – automobile company joining hands with part supplier.
- **Market extension merger** – two companies selling same products in different markets. Example -Eagle Bancshares
- **Product extension merger** – two companies selling different but related products in the same market. Example – Mobillink telecom by broadband.
- **Conglomerate merger** – in this there are two companies that does not any common product line. Example – Walt Disney and American Broadcasting.



1.7 a Acquisition

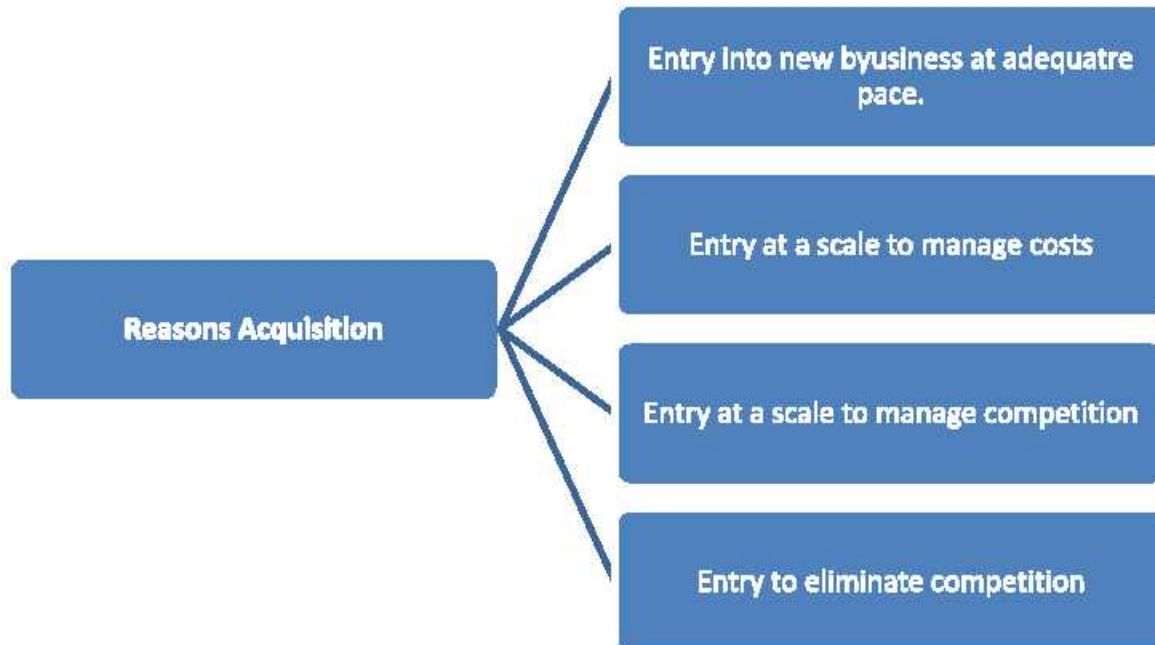
As we have discussed earlier acquisition refers to overtaking the company and its operational aspects of the company. For example, Flipkart and Myntra, a big acquisition in Indian history. Flipkart acquired Myntra at a whopping amount of Rs. 2000 crore deal according to the insider details.

Another example of acquisition is Tata Tea taking over Tetley Tea making it world's second largest tea marketer and which was double of what Tata tea was for a 271 lakh pound through leverage buyout.

1.7 b Benefits of Acquisition over Internal Development

One of the key advantages of acquisition over other methods of expansion is pace of development. Acquisitions ensure that a company enters a new business with adequate size;

and attains viable competitive strength. In this strategy the acquiring company is guaranteed of entering at minimum efficient scale for cost purposes and is provided access to complementary assets and resources. In addition, entry by acquisition may foster a less competitive environment – by eliminating a competitor.



1.7 c Drawbacks of Acquisition over Internal Development

Acquisitions are often more expensive than internal development; they are unlikely to generate sufficient return on capital to justify the premium cost; and the acquiring company may inherit several unnecessary adjunct businesses. The internal development process allows for many points at which the project can be assessed and reevaluated so the company can pull the plug. Acquisitions are typically all or nothing propositions. There is also a potential problem of organizational conflict—the eruption of cultural clashes that can impede the integration of two companies.

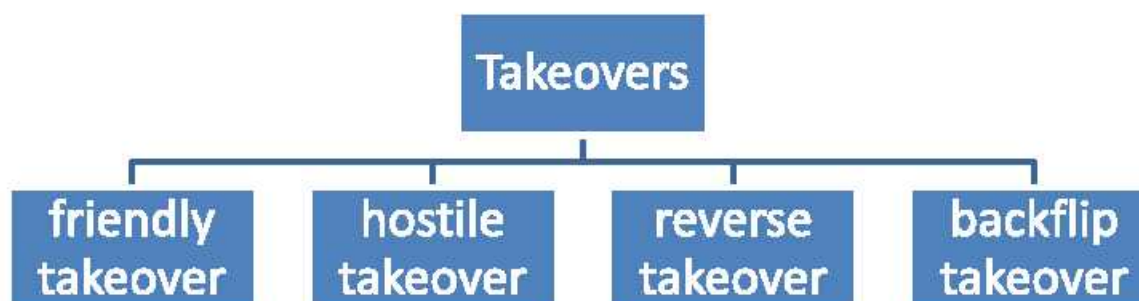
1.7 d Differences between Acquisitions and Mergers

The term acquisition means that a transfer of ownership has taken place; that is, one company bought another. A merger is the consolidation or combination of one company with another. Mergers are typically between companies of relatively equal size and influence that fuse together to form one new larger firm. There are three categories of motives for M&As: managerial self interest, hubris, and synergy.

1.8 Takeovers

Takeovers generally refers to purchase of one company by other. Whereas in UK takeovers are termed as acquisition of a public company whose shares are listed in the stock exchange. Takeovers are of different kinds these can be –

- Friendly takeover
- Hostile takeover
- Reverse takeover
- Backflip takeover



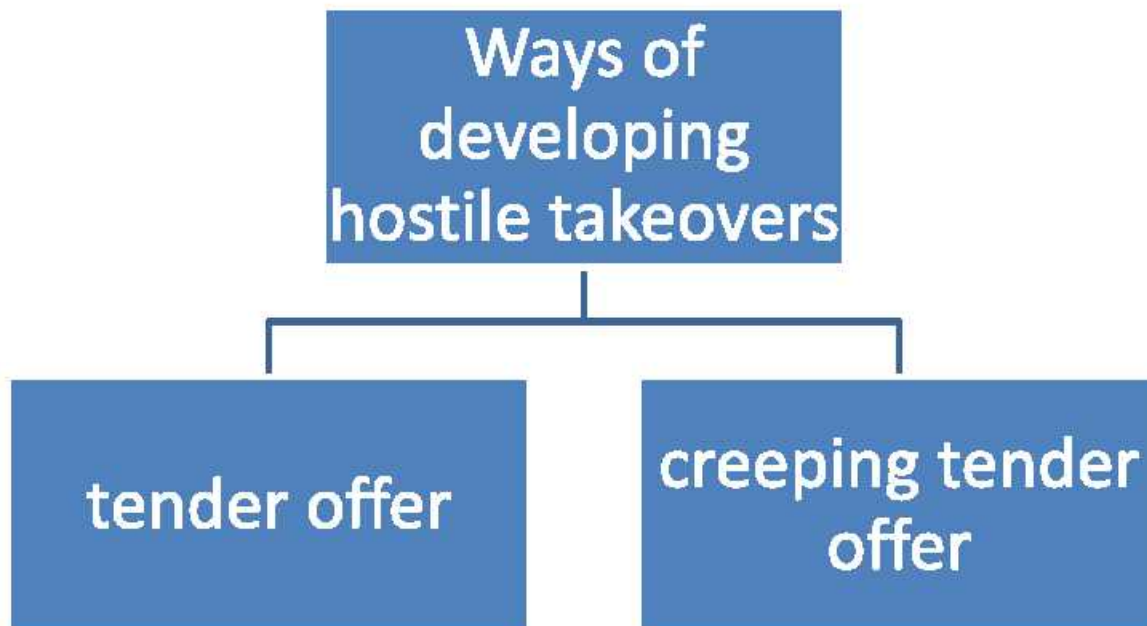
1.8 a Friendly takeover

A friendly takeover is a takeover in which the acquisition is approved by the management. In this before a bid is made by the bidder the deal is usually first informed to management and if the management thinks that through this deal the shareholder are getting benefited or through its rejections they suffer losses. In private company the shareholders and the board are usually the same people or connected with one another, so private takeover are friendly. For example – Johnson and Johnson friendly takeover of Dutch Vaccine maker Crucell. The deal accounted to 1.75 billion euros.

1.8 b Hostile takeover

In a hostile takeover the bidder can takeover the company whether their management are willing or not willing to sell the company. Hostile takeover happens when the board rejects the offer made by the bidder. There are various ways to develop a hostile takeover

- Tender offer – when an acquiring company makes a public offer at a fixed price which is above the market price.
- Creeping tender offer – in this the bidder quietly buys enough stock of the company in the open market which allow to change in the management.



An example of hostile takeover is Oracle over People soft. After a battle of 18 months the oracle company takeover the people soft company.

1.8 c Reverse takeovers

A reverse takeover is the one in which the public company is acquired by the private company so that private company can bypass the complex process of going public. In this generally the private players buy the share of the public company and then merge it with their company. For example MTN, an African based telecommunication company, is planning for reverse takeover of Reliance communication. Through this deal, the company value would reach up to 70 billion with 120 lakh users.

1.8 d Backflip takeover

It is a type of takeover in which the acquiring company turns himself into the subsidiary of the purchased company. This happens when a larger but less known company acquire a struggling company. For example the takeover of Bank of America by the National Bank, but it adopted the name of Bank of America.

1.9 Summary

Strategy is a game plan to target a market, conduct operations, satisfy customers and achieve organizational objectives. It lays down organizations' desired goals, direction and destination. Strategy can never be perfect; it is flexible. There are no second best choices in strategies. Strategy is partially proactive and partially reactive. Corporate level strategy looks for the development of whole of the organization, beginning with mission, goals, to determining the business plan, resources and finally implementing different strategies in order to achieve a desired goal. Corporate level strategies are those strategies which are concerned with the strategic decision making in the company. These strategies are made by high governing bodies of the firm. One of the main corporate level strategies is to decide the means of expansion into new areas. Current lessons discusses cooperative strategy as a option to expand the corporate portfolio.



Quadrant 1

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Business level strategies
Module Id	18
Pre- Requisites	Understanding about the Company form of Organization
Objectives	To understand the concept of corporate governance
Keywords	Business level strategies, cost leadership. Product differentiation, porters generic strategies

Module 18: Business level strategies
1.1 Learning Objectives
1.2 Introduction
1.3 Business Level Strategy
1.4 The Purpose Of A Business-Level Strategy
1.4 A Whom To Serve?
1.4 B Defining The What:
1.4 C Defining The How
1.5 Generic Strategies:
1.5 A . Cost Leadership
1.5b. . Differentiation
1.5 D Focused Differentiation
1.5 E Integrated Low Cost And Differentiation Strategy
1.5 F Economic Drivers Of Strategic Positioning
1.6 Summary

1.1 Learning Objectives

Following are learning objectives of the lesson

1. Define business-level strategy.
2. Discuss the relationship between customers and business-level strategies in terms of *who, what, and how*.
3. Explain the differences among business-level strategies.
4. Explain two most popular constructs for business level strategies.

1.2 Introduction

Strategic Management is the process of strategic decision-making that sets the long-term direction for the organization. The main objective of strategic management is to achieve sustainable competitive advantage and above average rate of return. The detailed process of strategic management has been discussed in earlier lessons but the steps can be aggregated into three clusters i.e.



Strategic Management is the process of designing a coherent, coordinated, integrated and unified strategy that sets the degree to which a firm globalizes its strategic behaviors in different countries through standardization of offerings, configuration and coordination of activities in different countries, and the integration of competitive moves across countries.

In order to carry out strategy process in an Organization, it is carried out at various levels of management i.e. top level management, middle level management and first level management. These three levels of strategies are referred to as corporate level strategies, business level strategies and functional level strategies.



In brief these are

i. Corporate level strategy looks for the development of whole of the organization, beginning with mission, goals, to determining the business plan, resources and finally implementing different strategies in order to achieve a desired goal.

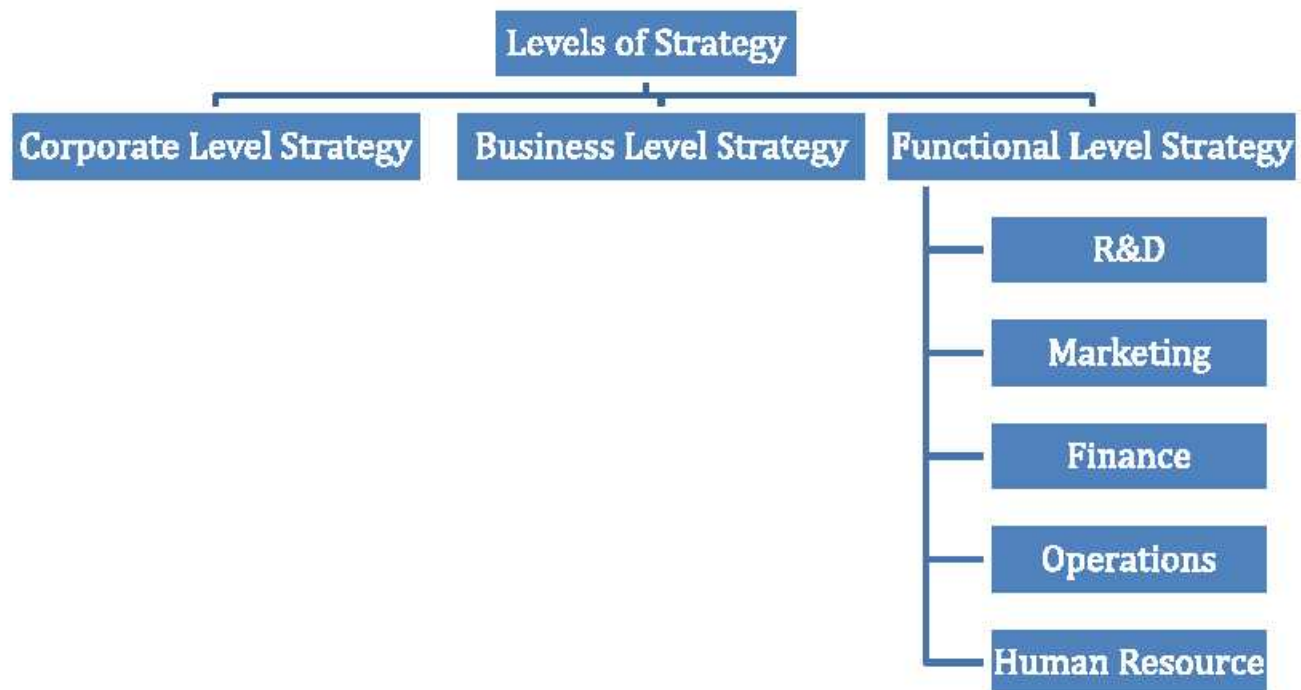
Example: Godrej which deals with wide range of businesses like soaps, furniture, edible oil, Information Technology, real estate.



II. Business Level strategy deals with translation of goals to form individual businesses. For example big bazaar follows a cost leadership strategy while Pantaloon follows a product differentiation strategy.



iii. **Functional Level strategy deals with specific business functions or operations like human resources, product development, customer service etc**



1.3 Business level strategy

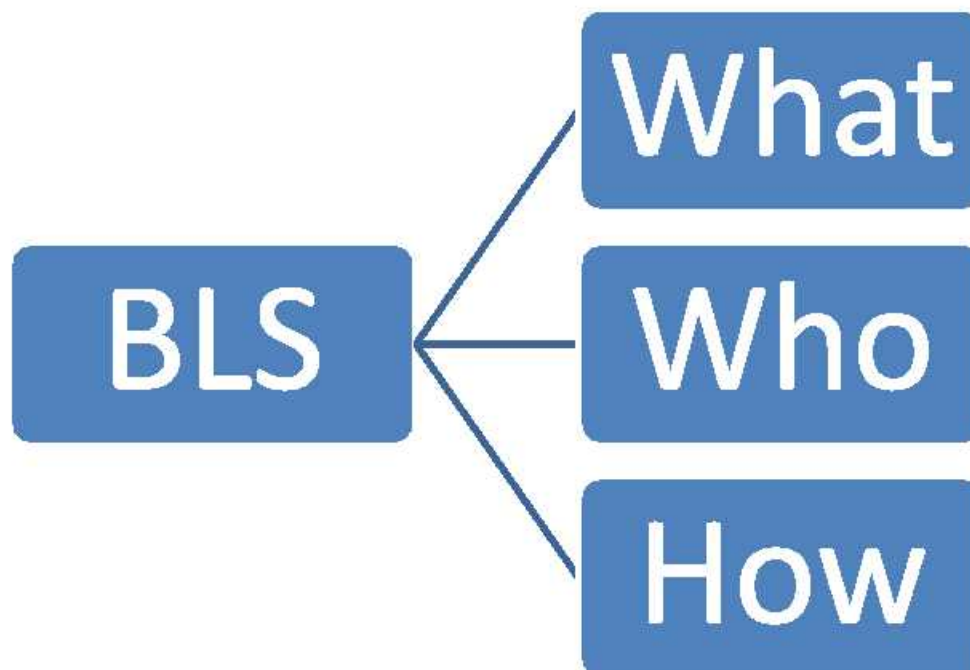
Business level strategies are strategies which are made at the middle level management for a specific Strategic business unit. These are by a SBU keeping in mind the external environment and internal environment of the SBU to achieve sustained competitive advantage and above average returns. In simplest terms these are strategies which are formulated within the premise of a company's vision and mission statement to deal with opportunities and threats being faced by the business unit while obtaining sustained competitive advantage and above average rate of return.

Strategic positioning refers to the ways managers place their SBU relative to other incumbents in the industry. Therefore, a business level strategy is all about competitive interactions and how a company deals with those interactions. Competitive actions can generate a wide range of competitive responses. Competitive interaction theory suggests that a SBU or a company's managers predict reactions to its actions and determine the best course of action given competitors' likely reactions. Business-level strategy refers to the plan of action that strategic managers adopt for using a company's resources and distinctive competencies to gain a competitive advantage over its rivals in a market or industry.

These business level strategies deal are usually based on core competencies of a firm and are concerned with identifying the customers' needs and satisfying them to best of their

ability. Business-level strategy is related with the basis on which a SBU decides to compete with its competitors and in its industry and also how it decides to position itself in the market. It is important to note here that we are referring to a business unit and every brand or a business unit could have different business level strategy but belong to a same conglomerate. For example Ariel is a product of P&G which follows product leadership while Tide is the product of same conglomerate which is more inclined towards cost leadership.

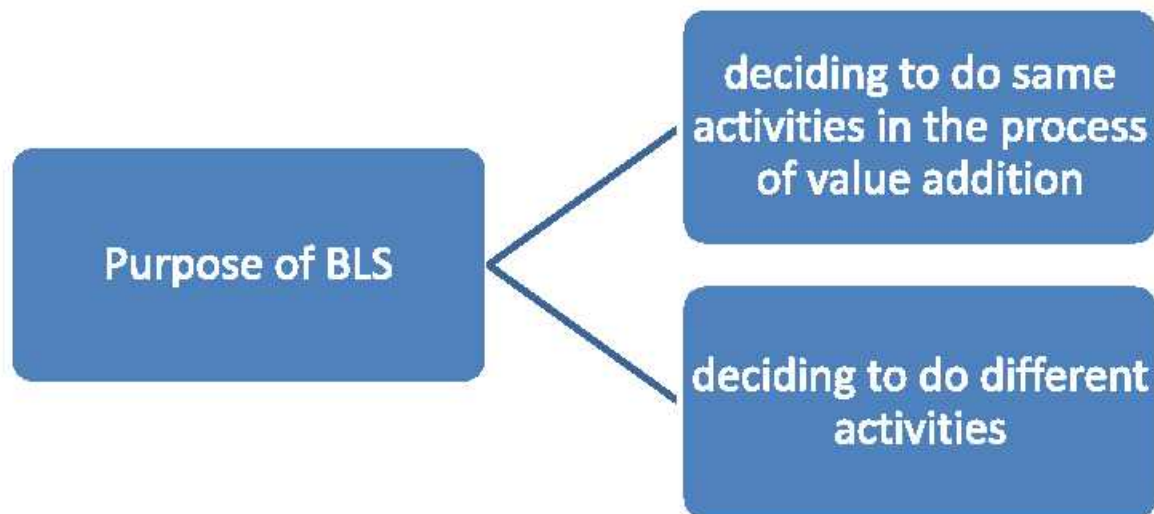
Therefore, business level strategy is all about "what", "who" and "how" i.e . what is being satisfied, who is being satisfied and how are they being satisfied. The what refers to the definition of the customer needs, who refers to the market segmentation and targeting strategies and basis of the company and how refers to the companies decision regarding what distinctive competencies to target to differentiate itself from the competitors or other incumbents in the industry.



1.4 The Purpose of A Business-Level Strategy

There are two basis of distinctiveness in business level strategies.

1. deciding to do same activities in the process of value addition (value chain analysis) as everyone else in the industry but do them differently – cost leadership.
2. deciding to do different activities – product leadership.



New competitors with new business models create disruptive change — strategies that are both different from and in conflict with those of incumbents. These disruptions have several common characteristics: these firms emphasize different product attributes; they start as rather low margin businesses; these firms can grow into significant companies taking market share; and new firms' business models cannot be easily imitated in the short run.

Deciding to perform activities differently or to perform different activities than competitors is the essence of business-level strategy. Therefore, the company's business-level strategy is a deliberate choice about how it will execute the value chain's primary and support activities in ways that create exclusive value.

Fit among activities is a key to the sustainability of competitive advantage for all firms. As Michael Porter observes, "strategic fit among many activities is fundamental not only to competitive advantage, but also to the sustainability of that advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features. Positions built on systems of activities are far more sustainable than those built on individual activities."¹

Three dimensions of Business Level Strategy - what who and how

As discussed above Business Level Strategies are strategies which define the sequence of actions employed by a SBU to add value to product and services, and to attain sustained competitive advantage by utilizing core competencies. Business-level strategies pertain to the way a company positions itself in an industry with respect to its rivals. The consumers are the basis or core-focus of a company's business-level strategies. There are three dimensions to

¹ Porter, M. E. (2008). *Competitive advantage: Creating and sustaining superior performance*. Simon and Schuster.

Business level strategies. Without considering these the business cannot even start to design the business level strategies- who the customers of the SBU are, what needs of the customers are the SBU or the product or service being offered is covering and how are those customer needs being satisfied i.e. the basis of value addition.



1.4 a Who to serve?

This refers to the market segmentation and targeting strategies being adopted by the SBU. **Market Segmentation:** segmentation is a process of organizing customer into groups with similar kind of properties, product preference or expectations.

Segments are done on the basis of customers,(a) demographic factor.(b) psychographic factor,(c) past purchase behavior (d) desired benefits from product/ services. It is used to identify the target customers, and provide supporting information for marketing key elements such as positioning to achieve certain marketing key objectives. Various tools are used to determine market segment like factor analysis, cluster analysis and Discriminant analysis. Current lessons talks about these dimensions. **Market segmentation** is dividing a larger market into smaller groups based on shared characteristics and then the marketers can develop a message that is much more powerful in reaching that group. Market segmentation is done by businesses to develop an ideal set of characteristics for who, ultimately, their customers are.

Businesses cannot target their products at everyone in their marketing efforts because their products don't mean the same thing to all people. The purpose of market segmentation is to develop a target market which is a group of people most likely to purchase the product being offered by the company and then focusing on that particular group. There are a number of different ways in which we can segment a market.

1.4 b Defining the What: *Which goods and/or services do potential consumers ultimately need?*

This refers to identifying the needs of the customers. The ability to successfully envisage and satisfy future consumer needs is crucial to the company's success. This stage of business level strategies refers to understanding customer needs which nothing but desires that can be satisfied by attributes of a product. This stage refers to understanding the offering a company is entering in the market with in order to satisfy the needs of the targeted customers.

1.4 c Defining the How: *How can we satisfy the consumers' needs?*

Firms must determine the unique combination of resources and capabilities that make up its core competencies, and further utilize them to fulfill consumer needs by executing strategies aimed at creating value. In past couple of years the dimensions of product value have been defined to Invoice Performance, Features, Conformance with specifications, Reliability, Durability, Serviceability, Fit and finish. Perceived quality can be defined as the customer perception of the overall quality or superiority of a product with respect to its intended purpose, relative to alternatives (Jain 1990)². However, the quality of the product is greatly influenced by type of product. There are multiple configurations used to define type of products. Researchers have used either time or effort spent by the consumer on purchasing the product, or type of consumer or end use of the product as a basis to categorize the product a company is dealing in.

On basis of time and effort spent on purchasing the product by the consumer the product may be categorized as convenience, shopping or specialty product. Convenience being the category of products in which consumers spend minimum time in seeking out of exploring a product wise specialty product means that the consumer would go to any lengths to find what they want. In convenience goods price and ease of availability is a decisive factor while for specialty goods customization is the only factor.

On basis of type of consumer products may be categorized as industrial goods or consumer goods. Industrial goods are products which are purchased as raw materials for value addition while consumer goods are products which are purchased for household consumption.

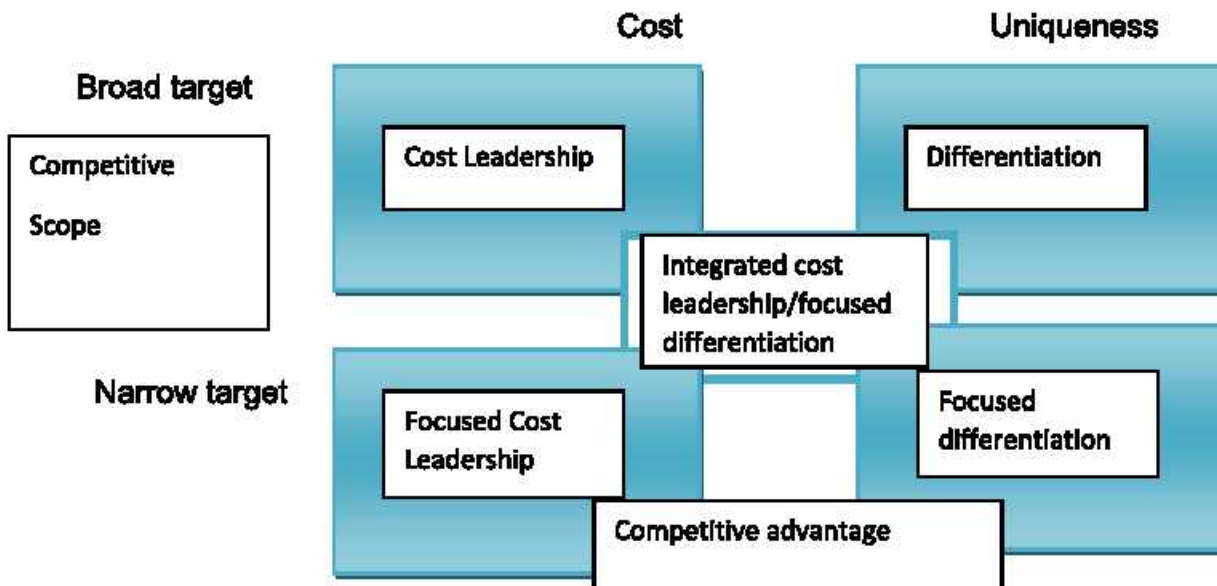
The type of product determines the product mix as well as the trade-off a company does between standardization and adaptation of the product mix.

² Jain, S. C. (1990). International marketing management. Boston: PWS-Kent Publishing Company.

Therefore, a Business level strategy is all about what, who and how. One of the most popular models of Business level strategies is the Porters generic strategies model.

1.5 Generic Strategies:

The first model for business level strategies was given by Michael Porter's and is also referred to as generic strategy model. The purpose of strategic positioning is to reduce the effects of rivalry and thereby improve profitability. Managers use the model to stake out a position for their SBU relative to its rivals in ways that reduce the effects of intense rivalry on profitability.



Porter's generic strategies identify four strategic positions to deal with the incumbents and competitive intensity or rivalry —low-cost, differentiation, focused cost leadership and focused differentiation. Selecting an intended generic strategic position gives the firm a head start and guidance on making specific choices. Business level strategy includes mainly four generic strategies which can be used to give competitive edge to a firm over its rivals. Companies have two options to compete i.e. either in whole target market or a focused market. There is also an additional fifth strategy at business level i.e. integrated strategy. However, two key factors affect the economic logic of competitive advantage: having a lower cost structure than competitors and having a product or service that customers perceive as

differentiated from other products in the industry. A firm, then, can gain an advantage over rivals in one of two ways:

1. Produce an essentially equivalent product at a lower cost than its rivals.
2. Produce a differentiated (unique) product and charge higher prices to more than offset the added costs of differentiation.

1.5 a . Cost Leadership

In this strategy, price is the basis of competition. Every firm determines price of its offering on the basis of its internal efficiency. The process are set so that the SBU can have a reasonable margin one that will allow the SBU to gain above average profit and the comparative lower price will allow the customer to purchase the products of the company. This strategy is mostly used when the products and services offered by company are standardized and generic goods that have a wide customer base so that the company can offer at lowest price while still making above average profit. For implementing cost leadership company should make continuous efforts to reduce the cost of it's per unit products. It can be understood as even if all rivals mark up same price of their product, cost leader will have maximum profit because it's cost is minimum. In order to achieve this the managers of a SBU have to make sure that every activity in its value chain is working with a philosophy of reducing the cost and increasing efficiency.

In case of price war like situation the competitors who have high price are usually the ones who are driven out of the market or forced to reduce the prices. Companies can follow cost leadership by reducing costs in all activities of its value chain such as inbound logistics R&D, marketing and process innovation etc.

For Examples -

Wal-Mart

Wal-Mart Stores Inc. has everyday low prices and it has adopted the low cost leadership strategy to attract more and more customers. The concept of everyday low price is to provide goods at low price in regular basis; the motive behind this is not just sales. The main reason behind the Wal-Mart's success in implementing low cost leadership strategy is its efficient supply chain management and procuring goods in cheaper rates. The raw material procurement is done from less expensive domestic suppliers or from cheap foreign countries in term of labor and other products. This method allows the company to charge lower prices to its customers while still making good profit.

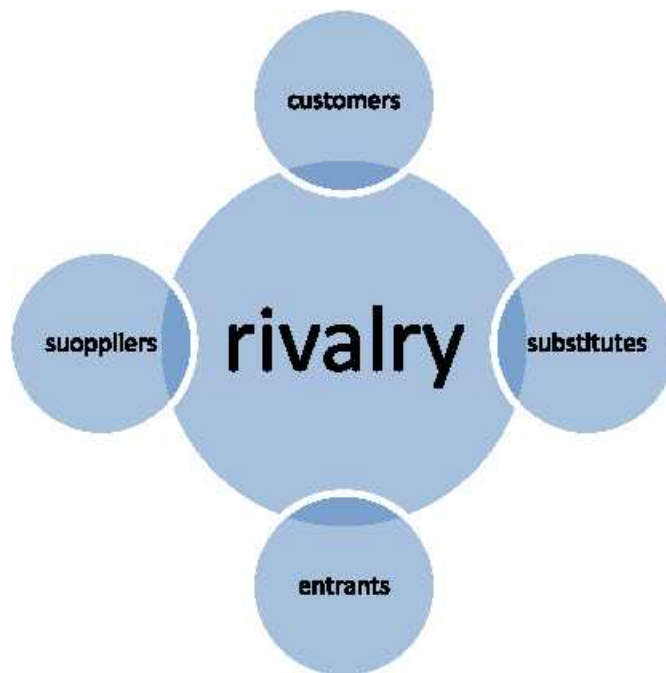
Porter's five forces analysis-

We can define porter's five forces in favor of low cost leadership firms.

- Rivalry – Competitors mostly do not want situation of price war, because the low cost leaders will gain profits even in price war situation while the competitors compete by

letting their profits go away. Rivalry is on basis of cost of production but the attempt is to keep away from price war.

- **Customers** –Bargaining power of customers is low as cost is less .i.e. the strategy helps a SBU gain the bargaining power back from the customers.
- **Suppliers** – Firms with cost leadership strategy can be profited from supplier side and transferring this benefit in form of less price to customers.
- **Entrants** – Low cost leader firms create high entry barriers for the new entrants by keeping the prices low.
- **Substitutes** – Low cost companies attract the customers to purchase its products and not to switch on the substitute products which might be expensive.

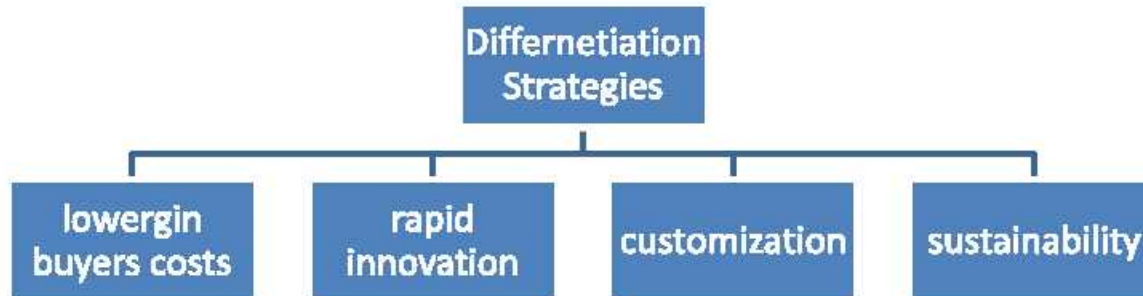


1.5b. . Differentiation

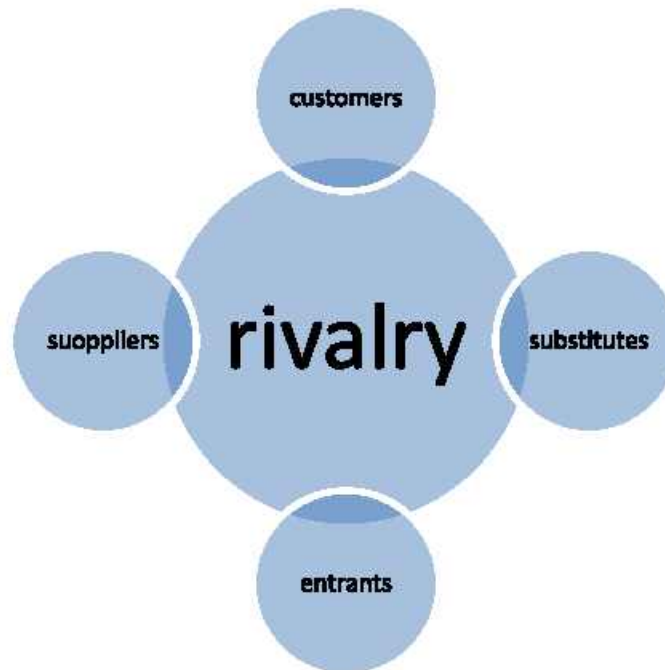
Product differentiation is a generic strategy for business level decisions in which company produce its products in different way whether it be different designs, different technology, unique services so that it can stand out from its competitors. Value is provided to customers by providing those unique features In company's products and not charging the lowest price. Differentiation can be achieved through high quality, features, high customer service, image management.

Companies can differentiate its products by:

- **Lowering buyers' costs** –it can be achieved by providing high quality products, providing enough after sale services
- **Rapid and continuous Innovation in products and services offered.**



- **Fulfilling buyer's need in a better way by customizing its products.**
- **Sustainability** –Generating high entrance barriers for new entrants by making image of being unique so that creating high switching costs for customers by its uniqueness and differentiation of products offered to them.



Examples of differentiation

Apple

Apple has developed itself into a prominent electronics company that offers everything ranging from personal electronics to televisions. As innovation and unique designing is a key feature of Apple's products, it also differentiates its products via unique marketing and advertising techniques.

2. Rolex as a prestige and luxury brand watches.

3. Domino Pizza claiming that "home delivery in 30 minutes or free"

1.5 c Focused Low Cost

This strategy is adopted by companies which offers its products at low cost but sells its products only in a small market or niche market. For example electrician & technician services provider only provides Panjab university campus at lower cost. The companies that are following this strategy may not compete with whole of the industry for lowest price but competitors within same market place.

1. Giant

The goal of Giant is to keep retail prices low in some small target area. Even the company make some claim that "if any other company giving the lower price than us, customers can pay with the lowest.

2. Redbox

The company places vending machines outside its physical and retail stores to give DVD on rent for very less amount of money and this is for a small target market of vicinity area.

1.5 d Focused differentiation

In this strategy firms does not only compete on the basis of differentiation but they also select a small segment or niche of the market to sell the good and service. A niche is a market where the size of the market potential is so small that other firms do not view it as a lucrative market to enter.

Example: Kazzo toys

This toy company targets to those customers who not only want unique products but also want to have unique services provided with the toys. This strategy gives a niche market which wants to have unique products.

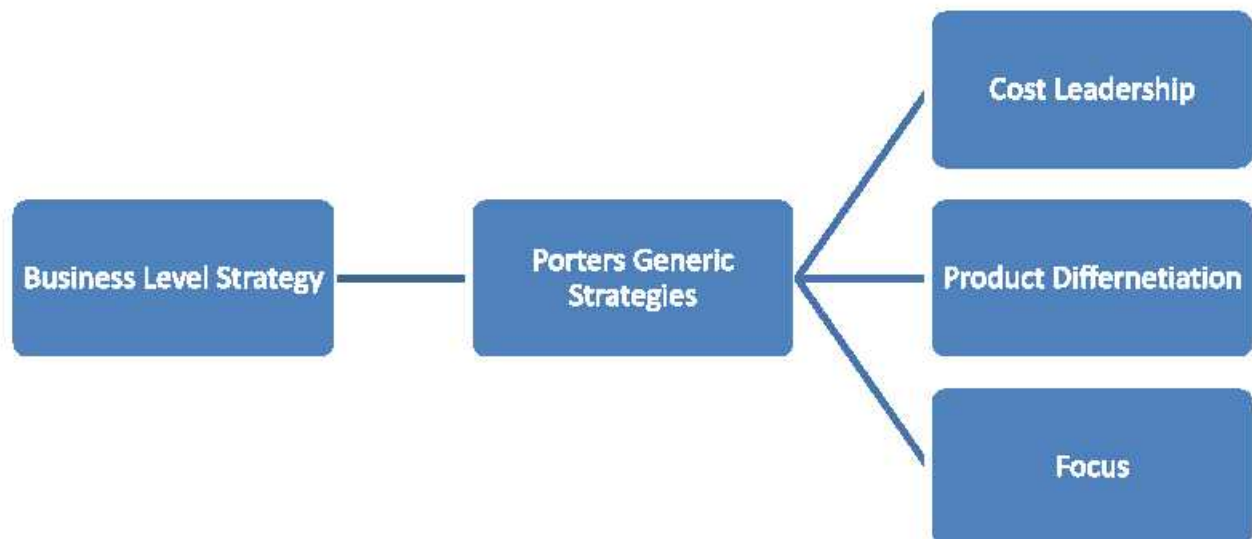
1.5 e Integrated low cost and differentiation strategy

This strategy is a combination of providing both low price and differentiated goods to customers, but the firm choosing this strategy should be careful enough so that it would not stuck in between that means not being capable of lowering the cost and not bringing the differentiation in product.

Example: ZARA

Zara adopted both low cost and product differentiation strategy, as Zara is not constrained to limited age groups but it offers every age group a variety of fashionable clothes. Zara targets young and stylish people who want to follow the trend and fashion.

Firms that attempted to exploit both low-cost and differentiation strategies were often described as "stuck in the middle" – meaning they aimed to do both but did neither very well. Some firms are eventually able to achieve an integrated position. Integrated positions are achieved when elements of one position support a strong standing in the other. The tradeoffs required to achieve superior level on one dimension make it hard to succeed on the other.



1.5 F Economic Drivers Of Strategic Positioning

Choices in strategic positioning are influenced by economic logic. It is important to identify the different economic drivers that encourage strategic positions and foster their success to understand the logic behind different strategic positions.

I. Drivers of low cost advantages

Firms have different production costs. These include economies of scale, learning, production technology, product design, and location advantages for sourcing inputs. A successful low-cost strategy means that a firm is proficient at exploiting some of these drivers.

II. Economies of scale

Economies of scale exist during a given period of time if the average total cost for a unit of production is lower at higher levels of output. Economies of scale result from a variety of efficiencies: spreading fixed costs over greater volume, specializing in a specific production process, practicing superior inventory management, exercising purchasing power, spending more effectively on advertising or R&D.

iii. Diseconomies of Scale

Size does not automatically ensure economies of scale. Diseconomies of scale occur when average total cost increases at higher levels of output and can result from bureaucracy, high labor costs, inefficient operations, and inflexibility.

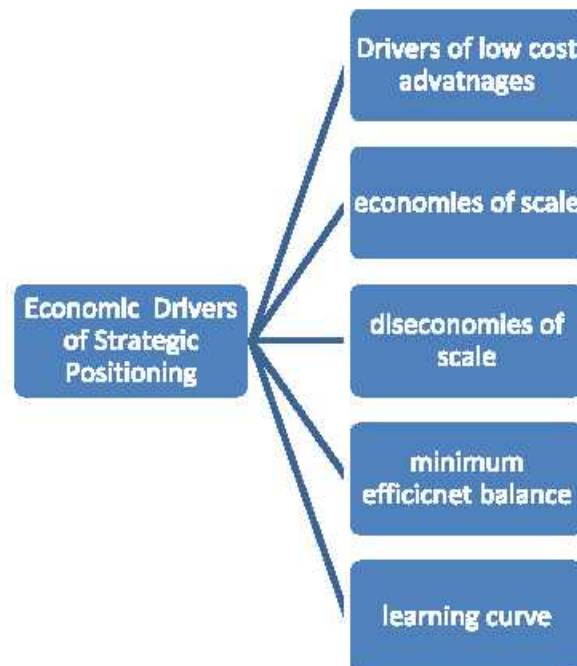
iv. Minimum Efficient Scale

Costs may decline at some ranges of production but increase at others. Total average cost can be represented by a U-shaped curve that has a minimum point. The output level that delivers the lowest possible costs is the minimum efficient scale (MES). Operating below or above MES leads to a cost disadvantage. MES is the smallest scale necessary to achieve maximum economies of scale.

MES & Technology MES is a function of technology. With some technologies, MES is reached only at relatively low levels of production, and although there's no scale advantage at higher levels, neither is there any disadvantage.

v. The Learning Curve

Incremental production costs decline at a constant rate as production experience is gained. The steeper the learning curve, the more rapidly costs decline. Two firms of the same scale may have significantly different operating costs due to the learning curve.



1.7 Summary

Business Level Strategies define the sequence of actions employed to impart value to consumers, and to attain a long-term, sustained competitive advantage by utilizing core competencies, or individual service or product markets. Business-level strategies pertain to the way a company positions itself in an industry with respect to its rivals, and to Porter's five forces of industry competition. Deciding to perform activities differently or to perform different activities than competitors is the essence of business-level strategy. Therefore, the company's business-level strategy is a deliberate choice about how it will execute the value chain's primary and support activities in ways that create exclusive value. The consumers are

the basis or core-focus of a company's business-level strategies. It aims to answer the questions- who are we serving, what needs do we need to meet, and how will those needs be satisfied.

Porter's generic strategies identify four positions—low-cost, differentiation, focused cost leadership and focused differentiation. Porter's generic strategies are referred to as strategic positions. Selecting an intended generic strategic position gives the firm a head start and guidance on making specific choices regarding the five elements of the strategy diamond. Miles and Snow³ have shaped a veritable trove of business-level strategies. As opposed to the focus of a corporate-level strategy, which is, namely, on choices related to what businesses the firm should be in, a business-level strategy is related to how the firm competes in a selected industry .



³ Miles, R. E., & Snow, C. C. (2001). *Fit, failure & the hall of fame*. Free Press.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Strategic Analysis
Module Id	19
Pre- Requisites	Basic Knowledge of Business Environment
Objectives	1. Explain the concept of strategic analysis. 2. To understand the various tools of strategic analysis.
Keywords	Strategic analysis, SWOT, TOWS, BCG, GE, Hambrick Model

Module 19: Strategic Analysis
1.1 Learning Objectives
1.2 Introduction
1.3 Strategic Analysis
1.3a Industry analysis
1.3b Company analysis
1.3c Matching the internal and external environment indicators
1. 4 Tools for strategic analysis
1. 4a SWOT
1. 4b TOWS
1. 4c Hambrick Model: Strategy Diamond
1. 4d BCG matrix
1. 4e General Electrics Stoplight Matrix
1. 4f Balance score card

1.2 Introduction

Strategic Management is the process of strategic decision-making that sets the long-term direction for the organization. The main objective of strategic management is to achieve sustainable competitive advantage. The steps involved in strategy process are:



A strategy involves various tasks and activities oriented towards organization objectives. The first and the foremost requirement of strategy planning is to define mission of an organization i.e. giving direction to the organization. The same is to intimated to the employees which defines the reason for the existence of organization. Tasks involves in corporate level strategic planning are:



The step of Strategic Analysis in Strategic Management process needs detailed study of both business environment for the development of strategy.

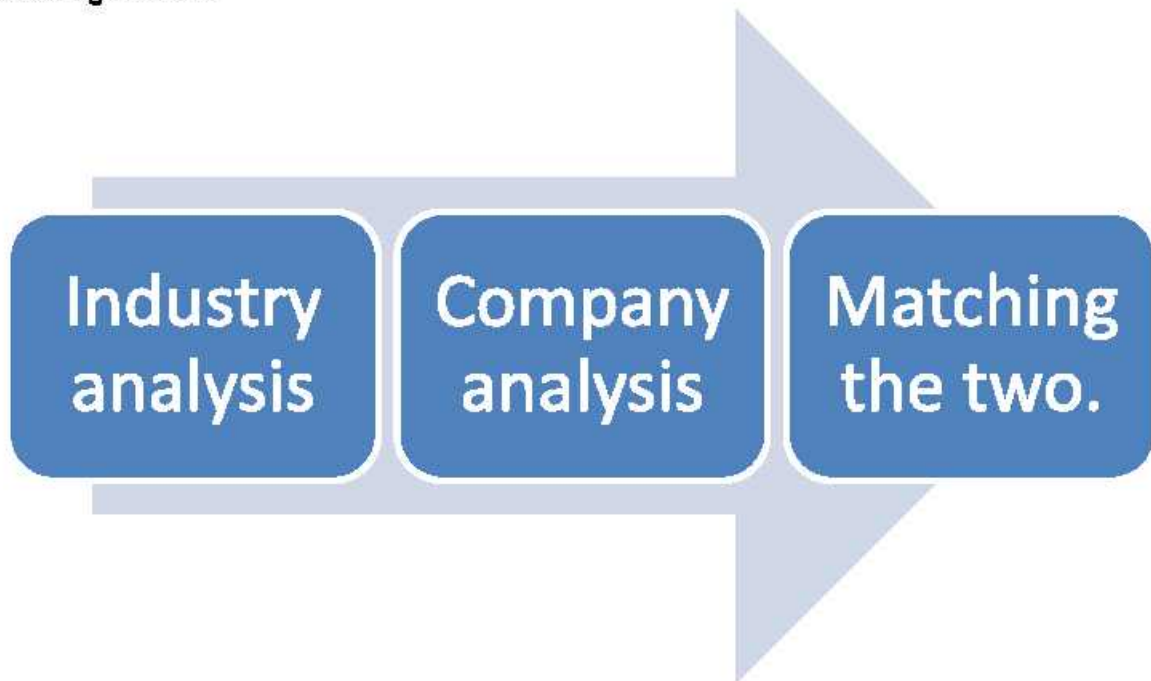
1.3 Strategic Analysis

Strategic analysis is defined by business world dictionary as the process of developing strategy for a business by researching the business and the environment in which it operates¹.

¹ Strategic analysis recovered on 24th Oct 2015 from <http://www.businessdictionary.com/definition/strategic-analysis.html>

There are three steps to strategic analysis

- 1. Industry analysis**
- 2. Company analysis**
- 3. Matching the two.**

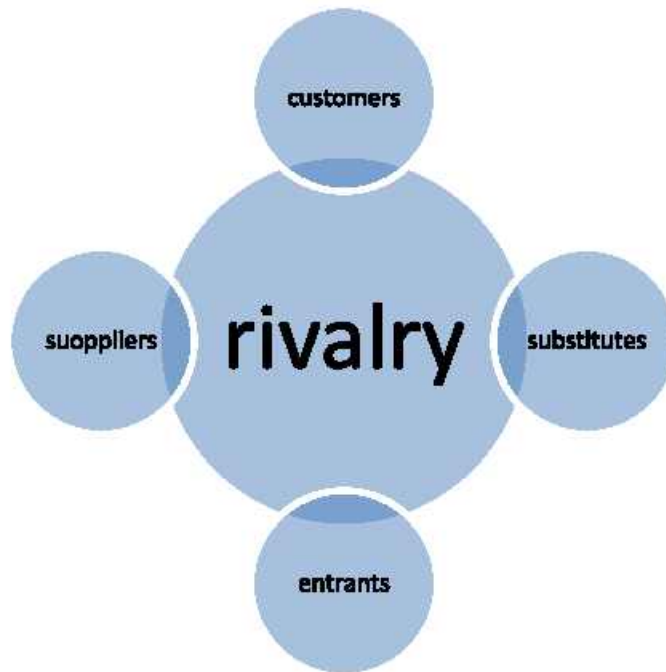


1.3 a Industry analysis

Two of the essential determinants of company's execution are the business environment, in which the company works and the country, in which it is located. Both of these elements are part of organizations' outside surroundings. An organization does well in light of the fact that their outside surroundings are greatly attractive. Others do ineffectively in light of the fact that their outside surroundings are hostile. When business environment allows market forces to work freely in those cases some companies make above normal profits. Above normal returns are possible due to imperfect competition - characterized by relatively few competitors, numerous suppliers and buyers, asymmetric information, heterogeneous products, and barriers to entry.

Industry analysis is a special tool that facilitates a company's complete understanding of position with respect to other companies that manufacture and produce same kind of products and services. Gaining the knowledge about other forces in an industry is an important aspect of effective strategic planning. Industry level analysis gives power to small business enterprises or companies to determine the threats and the opportunities faced by their businesses.

Tools like Porter's five forces analysis and industry life cycle analysis are used in this stage.

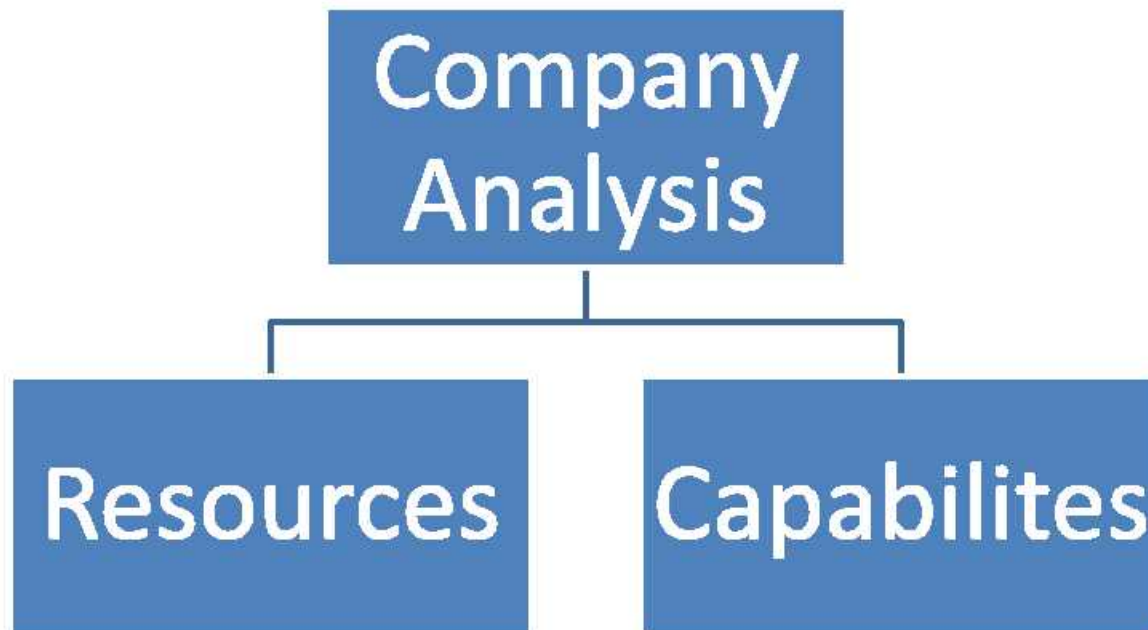


These have been discussed in detail in the earlier lessons.

1.3 b Company analysis

Company analysis or Internal appraisal is examining of internal environment of an organization to assess company's skills and resources. It identifies the strengths and weaknesses that effect the company's ability to achieve its goals. Internal appraisal is auditing of internal environment to identify strengths and weaknesses of an organization so as to match and control them to exploit the available opportunities in the industry. It identifies a company's capabilities and competencies in specific areas as well that can be used to grab the opportunities available in the industry. An organization competency defines the performance of an organization. It is a dynamic and on-going activity. Therefore, internal environment analysis is all about understanding how to use the company's resources and capabilities to add value.

Analysis of the company's internal environment requires that the analyst evaluates the firm's resources and capabilities managers have created. Understanding how to manipulate the company's resources and capabilities is a key outcome managers look for when analyzing the internal environment.



Therefore, internal environment of a company helps company create value by exploiting core competencies and meeting the standards of global competition. Value is measured by the product's performance and by its attributes for which customers are willing to pay. It is this value that is the foundation for earning above-average profits. Competitive advantages are often strongly related to the resources firms hold and how they are managed. Resources are the foundation for strategy and these can generate competitive advantages leading to wealth creation when they are bundled together uniquely².

The common tools for internal environment analysis are value chain analysis, ratio analysis, financial statement analysis etc. These have been discussed in the earlier lessons as well.

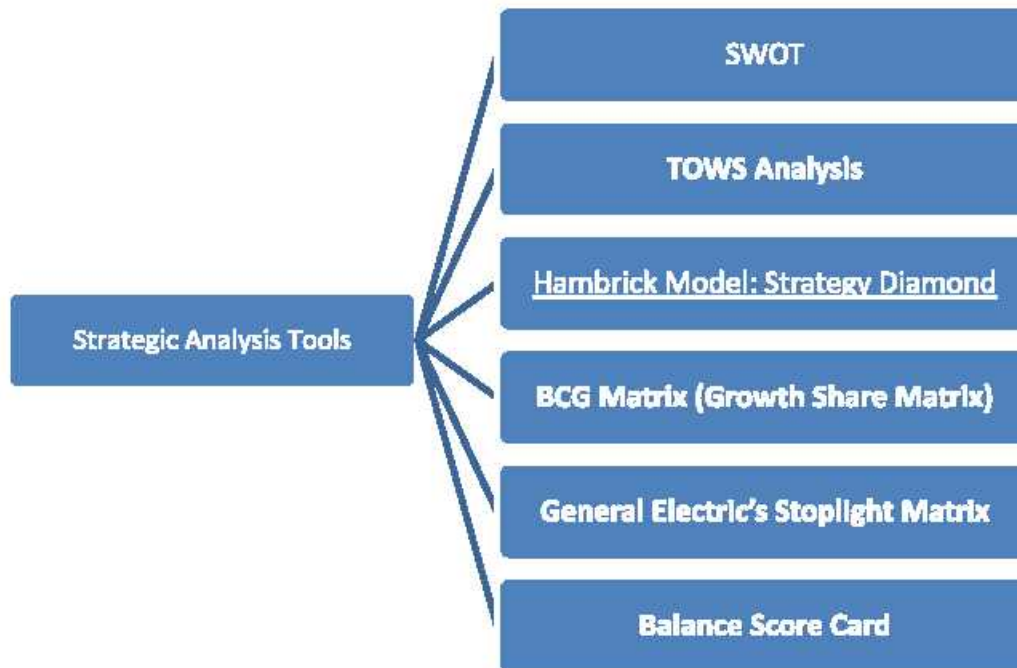
1.3 c Matching the Internal and external environment Indicators.

The last and the most important stage of strategic management is matching the external and internal environment indicators to formulate strategies for above average rate of return and sustained competitive advantage.

1.4 Tools of Strategic analysis

² Hitt, M., Ireland, R. D., & Hoskisson, R. (2012). *Strategic management cases: competitiveness and globalization*. Cengage Learning.

There are multiple tools and frameworks which can be used for strategic analysis. Some of the most common ones are discussed here. It is important to note that it does not mean the tools in stage 1 and 2 are not required.



These are tools which compliment the analysis done in stage 1 and 2 of the process.

1.4 a SWOT

SWOT analysis is a technique that deals with the internal and the external atmosphere of the business of a firm. It uses the simple information of the firm to recognize the both weaknesses and strengths of the business. It also aids the firm to identify the opportunities that may ascend and the threats which it is probable to face.

Framework of SWOT Analysis



Fig1. Framework of SWOT Analysis

SWOT factors are given below-

Strengths: Those qualities that aid us to achieve the organization's goal based on its mission and vision. These qualities are necessary for continued along with sustained success. Strengths can be based on resources, capabilities or core competencies of the firms.

Weaknesses: Those qualities which inhibit us from achieving the organization's goal based on its mission and vision. These qualities weaken the success and growth of the organizational. Weaknesses are the areas where the organization is lacking may be based on its resources, capabilities or core competencies.

Opportunities: Opportunities are result of externalities within which the organization functions. By capitalizing the opportunities in the environment an organisation can plan and implement strategies that allow it to develop into more profitable.

Threats: Threats are result of conditions in external environment which risk the dependability and profitability of the companies . When a threat arises, the stability and sustainability can be at risk.

SWOT Analysis deliver information that helps to match the weaknesses and strengths of an organization i.e. capabilities and resources and with the external competitive environment i.e. threats & opportunities.

1.4 b TOWS Analysis

Rauch (2007)³ said the analysis of SWOT is a usually used tool that scans weaknesses and strengths of a product or service industry from internal atmosphere and presents the threats and opportunities existing in external atmosphere. TOWS analysis is an analysis where the 2 * 2 matrix is used to analyze how strengths can be used to exploit on opportunities and to counter threats. Analysis of TOWS is an active technique of merging strengths present in internal atmosphere with threats and opportunities lying in external surroundings and weaknesses present in internal atmosphere with threats and opportunities lying in external surroundings and to make a strategy.

Based on this 4 categories of strategies are made under TOWS

SO strategies: strategies which are based on strengths of an organization to best utilize or exploit the opportunities which a company faces.

ST strategies: strategies which are based on strengths of an organization to best avoid the threats that a company faces.

WO strategies: To work on weaknesses which nullify or will be bottlenecks in a company exploiting a particularly lucrative opportunity. **WT strategies:** To work on weaknesses which increase the magnitude of threats that are faced the company.

	Strengths	Weaknesses
	•	•
Opportunities	SO Strategies •	WO Strategies •
Threats •	ST Strategies •	WT Strategies •

³ Rauch P (2007) SWOT analyses and SWOT strategy formulation for forest owner cooperations in Austria. Eur J For Res 126(3):413–420

1.4 c Hambrick Model: Strategy Diamond

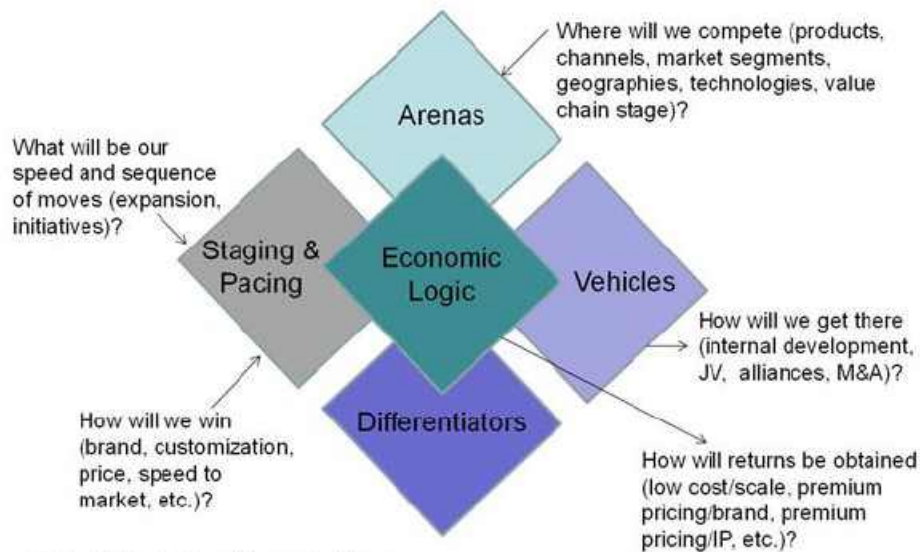
Strategy nowadays has become a blanket term which is often used everywhere and there are various frameworks also for analyzing strategic situations. The firm's objectives and mission stand apart and direct the strategy and not itself formulate the strategy. Similarly the internal environment fortifies and supports the strategy but does not form strategy itself.

A strategy has five elements, providing answers to five questions:

- * **Arenas:** where will we be active?
- * **Vehicles:** how will we get there?
- * **Differentiators:** how will we win in the marketplace?
- * **Staging:** what will be our speed and sequence of moves?
- * **Economic logic:** how will we obtain our returns?⁴

An analysis of all these five elements is required to frame a good strategy for sustained competitive advantage and above average rate of return.

The Strategy Diamond



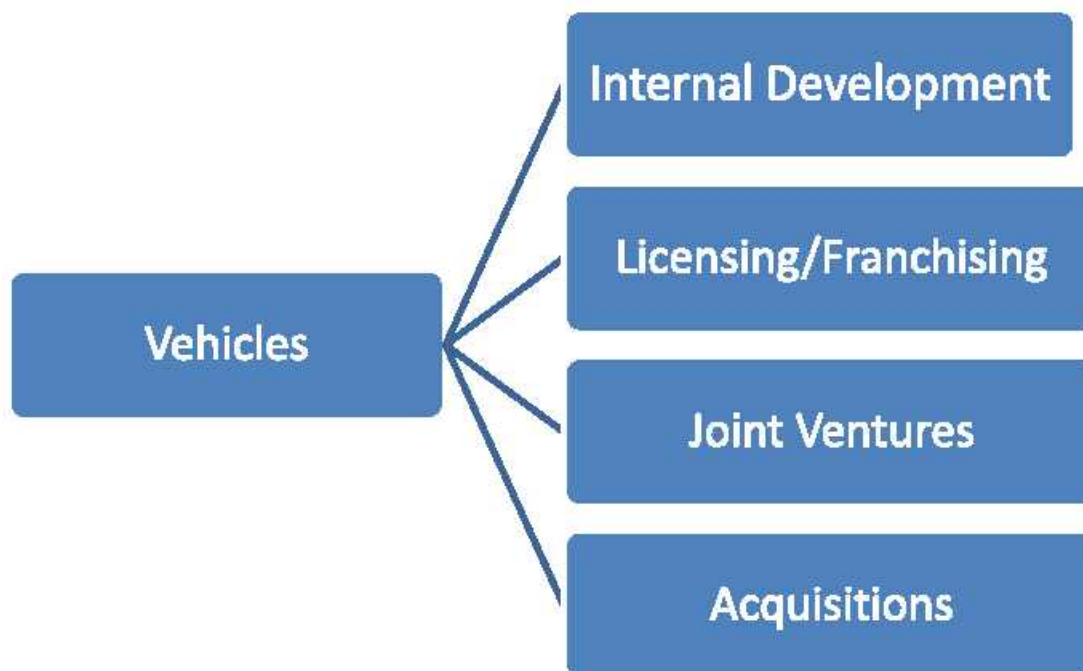
© Donald Hambrick and James Fredrickson

⁴Hambrick, D. C., & Fredrickson, J. W. (2001). Are you sure you have a strategy?. *The Academy of Management Executive*, 15(4), 48-59.

1) Arenas: This refers to the areas where the firm will be present and should include specific things like product categories, geographic areas, market segments and main technologies, as well as the value-adding stages (e.g., product design, servicing, manufacturing, distribution, selling) the business anticipates to implement.

2) Vehicles: After deciding the arenas, the strategists have to decide the means to get into specific arenas chosen like the geographic segment, product category etc. These vehicles are extremely important and should not be considered as an after decision implementation detail. The various vehicles available to a firm can be:-

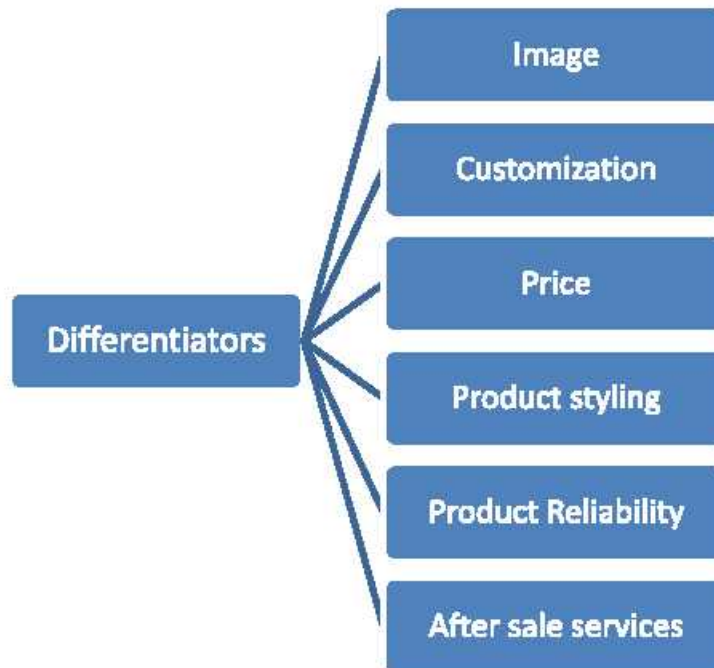
- Internal Development
- Licensing/Franchising
- Joint Ventures
- Acquisitions



3) Differentiators:

Along with the arenas and vehicles, a firm must also specify the way it will win in the marketplace and it will get the customers. The various differentiators can be:

- Image
- Customization
- Price
- Product styling
- Product Reliability
- After sale services



4) Staging:

After the above decisions the firm has to make a decision regarding the speed of execution and the sequence of key steps to be implemented. Such decisions about staging can be affected by a number of factors:

- Accessibility to various resources like funding, human resources etc.
- Urgency to implement the decision at hand.
- Credibility: Implementation of certain decisions can help firm gain credibility and attract stakeholders and resources necessary for further decision making.
- Pursuit of early wins that is identifying the key decisions which when executed can help firm attain an early advantage.

5) Economic Logic:

At the core of strategic decision making is how a firm will generate profits and also profits which are above the firm's cost of capital.

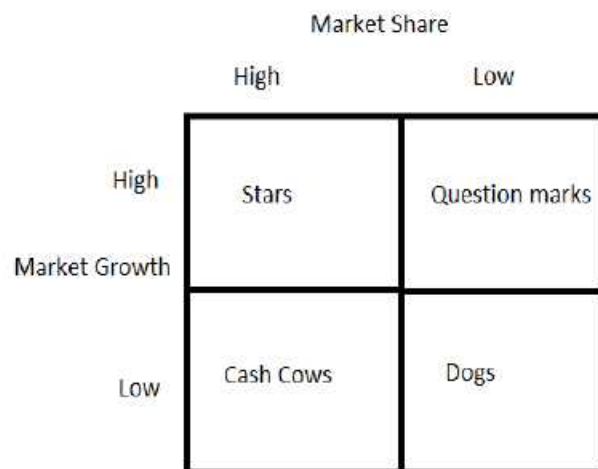
The various economic logic can be:-

- * Lower costs through scale advantages
- * Lower costs through replication and scope advantages
- * Premium price due to unparalleled service
- * Premium price due to proprietary product features

1.4 d BCG Matrix (Growth Share Matrix)

One of the first strategic analysis techniques to be developed was by Boston consulting group. The matrix later on came to be known as the BCG matrix. Diversification of a company usually means that a company ends up with multiple product lines and range of products that it deals in. For ease of management purposes, these range of products and product lines are grouped together to form something which is referred to as strategic business unit of a company. The main characteristic of an SBU, is that it is under the umbrella of a conglomerate and therefore there is mobility in terms of resources from one SBU to another. The common pool of resources means that there is always paucity of resources and unlimited demands in terms of the SBU requirements for what they want to achieve. The conglomerate has to divide the limited resources across the SBU in such a manner that good opportunities are exploited and strong threats are overcome and none of the SBUs suffer because of lack of resources. The BCG solves this problem on basis on matching between external and internal performance of a SBU.

The BCG Matrix graphically portrays differences among divisions (of a firm) in terms of relative market share position and industry growth rate. It is used to categorize various business in a firm's portfolio based on market share and market growth. It consists of 2x2 matrix with market share on horizontal axis and market growth on vertical axis. It has been developed to help in the process of strategic analysis and resource allocation.



STARS

This category of the SBUs refers to the SBUs which enjoy high market shares and a high growth. This means that the companies not only are doing very well in terms of profitability but the industry is also in growth stage of its life cycle. The business unit which are in this category of BCG usually have a very high rate of profitability and the company wants to keep exploiting that rate of profitability. Therefore, this category of BCG includes SBU in which a company is

motivated to invest into. Cash generated from these business units is reinvested into the business and further cash is also redirected from cash cows to stars. Usually the business units which fall in this particular category of BCG matrix are in growing stage of their product lifecycle. As demand decreases and additional investments need to be stop, and organization become cash cows.

Question marks

Similarly, this category of SBU is the one where the SBU is experiencing low market share but it is in an industry which is growing at a exponential rate . Therefore if a company can increase the strengths of this SBU and decrease the weaknesses of the SBU the probability that the SBU would be making huge profits become high. It is that this logic that the exporter and In BCG is named as question marks. This refers to SBU's which have a capacity of becoming either star performers or simply liabilities for the business.

Cash Cows

The third quadrant of BCG matrix refers to SBUs which have enjoyed exceptional success in the market. However, because of external environment reasons like availability of a stronger substitute product or changes in the customer Demand etc the product sales have started stagnating. However, the unit is it is still doing well in terms of profitability but the future of the SBU due to external reasons is grim. Therefore even if the business tries to invest in to these business units the demand is just not there. The customer loyalty that the SBU generated during its star phase is helping it make profits. Therefore, as a policy the profits generated from the business unit are redirected to stars and question marks type of SBUs. **Dogs**

The fourth and last quadrant is the one where the SBU is neither enjoying market share nor market growth i.e. the company's portfolio of weaknesses is more than that of its strengths and even if the company is able to turn it around the investment would be to no end because the industry is in declining phase of life cycle. Therefore, as their expected growth is very low, it is advisable to them to move out from that business.

1.4 e General Electric's Stoplight Matrix

Based on the fundamentals of portfolio analysis another matrix which helps in strategy formulation is referred to as general electric stoplight matrix. The General Electric Company Matrix helps to allocate resources and has two dimension Business Strength which tells how strong is firm compare to its competitors, other is Industry Attractiveness which tell attractiveness and potential of the Market. It is 3x3 matrix with Industry Attractiveness in Vertical axis and Strengths of Business in Horizontal axis. It is similar to BCG matrix, or can say upgraded version of BCG matrix

		Business Strength		
		Strong	Average	Weak
Attractiveness Industry	High	Invest	Invest	Hold
	Medium	Invest	Hold	Divest
	Low	Hold	Divest	Divest

This matrix gives idea or guide business to weather they have to invest, hold or divest depend upon the attractiveness and strength of businesses. Example when Attractiveness is high and Strength is strong then company needs to Invest and If attractiveness is low and strength is weak then company needs to divest.

1.4 f Balance Score Card

Researchers are of the opinion that if a business activity can be expressed in numbers then it can be improved and if you cannot measure it you cannot improve it. This thought was the basis of balance scorecard. Balance score says that "If companies were to improve the management of their intangible assets, they had to integrate the measurement of intangible assets into their management systems."⁵

It is a strategic analysis tool that is used in industry, government and any non-profit organization in the word to align business tasks to the vision and strategy adopted by the organization. Dr Robert Kaplan

⁵ Kaplan, R. S. (2008). Conceptual foundations of the balanced scorecard. *Handbooks of management accounting research*, 3, 1253-1269.

and Dr David Norton⁶ was the originator of the balance score card as a performance measurement framework which gives a more balanced view to the managers by adding strategic non-financial aspect to traditional financial metric.

The measurement in balance score card generally includes the following category of performance.

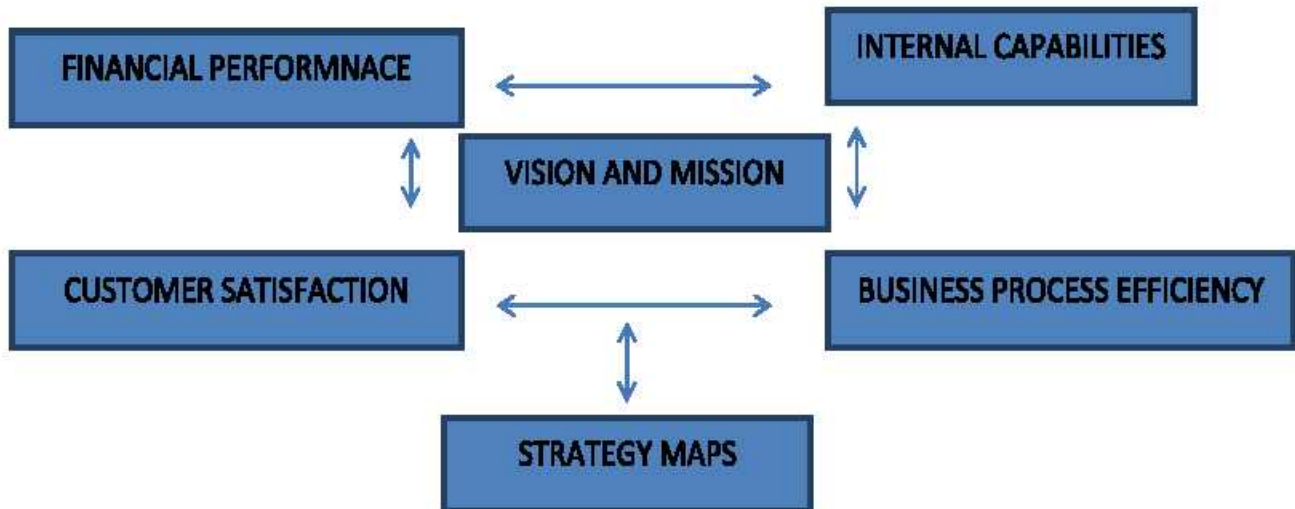
- Financial performance which deals with revenue, earnings, returns on capital, cash flow.
- Customer value performance which deals with the market share, customer satisfaction measures and customer loyalty.
- Internal business process performance which has productivity rates, quality measures and timeliness.
- Innovation performance which deals with percentage of revenue from new products, employee suggestions and rate of improvement index.
- Employee performance which consists of morale, knowledge, turnover and use of best demonstrated practices

In balance score card we see the organization in four ways

- The Learning & Growth Perspective
- The Business Process Perspective
- The Customer Perspective
- The Financial Perspective

And then we develop metrics, collect data and analyze that data.

⁶ Kaplan, R. S., & Norton, D. P. (1996). *The balanced scorecard: translating strategy into action*. Harvard Business Press.



Source: Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January-February 1996): 76.

- The Learning & Growth Perspective

The BSC retains financial metrics as the ultimate outcome measures for company success, but supplements these with metrics from three additional perspectives – customer, internal process, and learning and growth – that we proposed as the drivers for creating long-term shareholder value.⁷ This includes employee training and corporate cultural attitudes which relates to individual and corporate self-improvement.

- The Business Process Perspective

This deals with the processes of internal business. The metrics in this allows the manager to get the knowledge of the business, how it is going on, is the able to conform the requirements of the customer by their product and services which is their mission. These metrics should be designed with the knowledge of processes and unique mission.

- The Customer Perspective

⁷ Kaplan, R. S. (2008). Conceptual foundations of the balanced scorecard. *Handbooks of management accounting research*, 3, 1253-1269.

The customer focus and its satisfaction are very important in any business. Customer is the leading indicator. Customer satisfaction shows the processes of the business are doing well to meet the need of the customer, If the customer is not satisfied that shows the business need to improve to fulfill the needs of the customer. The metrics of the satisfaction should be developed by analyzing the customer and its needs

- **The Financial Perspective**

Funding data always remain the first priority of the manager and manager will do whatever possible to provide it. The addition financial related data should be added like risk assessment and cost-benefit data so that the emphasis on the financials of the organisation does not leads to the unbalance situation when seen with other perspectives.

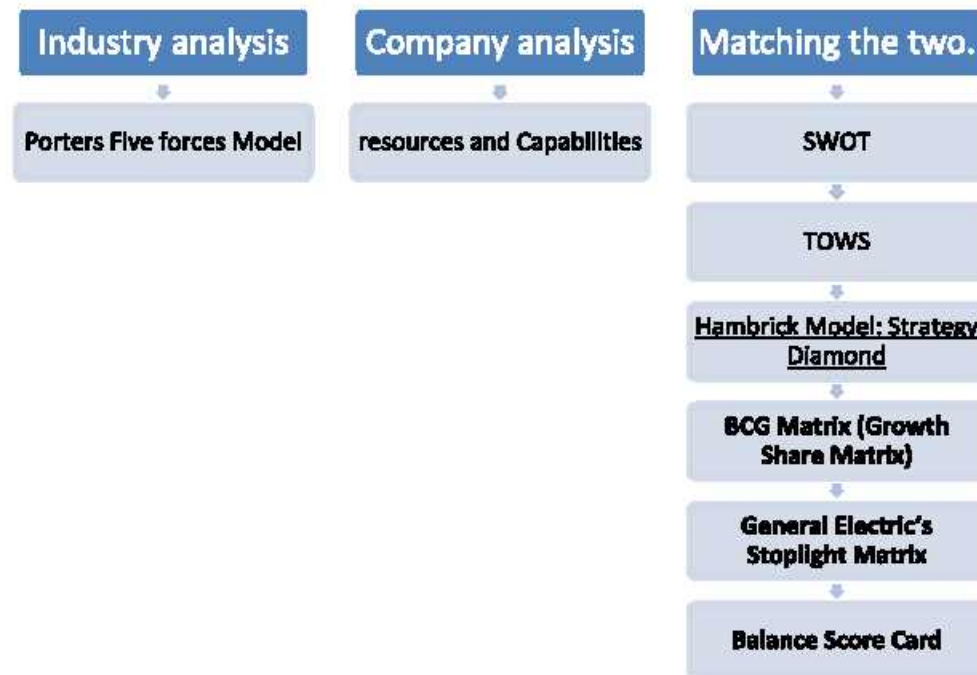
One of the important components of BSC is the strategy maps. Strategy Maps are a way of describing the causal relationships between strategic objectives. It is a simple causal chain of strategic objectives and the effects of meeting those objectives for example if employees are better trained in quality management tools it would reduce process cycle times and process defects; this would intrun lead to Improved processes and shorter customer lead times, Improved on-time delivery, and fewer defects experienced by customers; the quality improvements experienced by customers lead to higher satisfaction, retention, and spending, which drives, ultimately, higher revenues and margins i.e. the financial margins^a.

1.5 Summary

Strategic analysis is defined by business world dictionary as the process of developing strategy for a business by researching the business and the environment in which it operates. There are three steps to strategic analysis Industry analysis , Company analysis and Matching the two. Industry analysis is a special tool that facilitates a company's complete understanding of position with respect to other companies that manufacture and produce same kind of products and services. Gaining the knowledge about other forces in an industry is an important aspect of effective strategic planning. Company analysis or Internal appraisal is examining of internal environment of an organization to assess company's skills and resources. It identifies the strengths and weaknesses that effect the company's ability to achieve its goals. Internal appraisal is auditing of internal environment to identify strengths and weaknesses of an organization so as to match and control them to exploit the available opportunities in the industry. The last and the most important stage of strategic management is

^a Kaplan, R. S., & Norton, D. P. (1995). Putting the balanced scorecard to work. *Performance measurement, management, and appraisal sourcebook*, 66.

matching the external and internal environment indicators to formulate strategies for above average rate of return and sustained competitive advantage. There are multiple tools and frameworks which can be used for strategic analysis i.e .SWOT analysis, TOWS analysis, Hambrick model, Balance score card and the classic tools like BCG and GE matrices. The current lesson discusses all of these tools in detail.



Learning Objectives:

The Learning objectives of the module are to explore relationship between corporate culture and Strategies, to address the following questions:

1. What is the definition and Scope of Corporate Culture?
2. How does Corporate Culture affect the Strategic decisions of the firm?
3. To know the impact of competition on Corporate Culture.
4. To understand relationship between corporate culture and Competitive advantage.

1. Introduction

Managers perform the planning, organizing, directing, and controlling functions within the context of the organization's culture. The term 'Corporate Culture' can be explained as corporate DNA to communicate, coordinate focused to achieve organizational objectives keeping in view the norms and values of the organization. In simple words, *corporate culture* can act as an essential influential factor in analyzing organizations in various contexts. Its importance to establish competitive advantages or its impact on organizational performance. Success of organizations is not only determined by specific external conditions (viz. barriers to market entry, rivalry in the industry, and supplier and buyer power), rather it is being decided by company values. The broader scope of corporate culture is developed social controls among individuals of the organization. In order to ensure the corporate culture to become integrated part of corporate environment, organization needs to ensure culture function should blend with the ongoing activities of the business.

The relationship between organizational culture and business strategy is important to understand. The organizational culture creates powerful strategies and become its competitive advantages in current competitive environment, then makes organizations and companies successful.

1.1. Importance of Culture

Firm's culture is one of the important parts of the strategic thinking and it can impact on company's employees, customers, suppliers and other different targets. The owner of the company can create their own strategy on the alignment of unique organizational culture with a competitive space. It also involves how organizational culture affects its strategic decision, options and actions.

Following YouTube link explains the Need of Corporate Culture in a Business

<https://www.youtube.com/watch?v=gficoigz1xs>

The video highlights culture as a catalyst towards organizational productivity. It also depicts how companies can use it to gain a competitive advantage. (Source: strategy-business.com)

1.2. What is corporate culture?

Corporate culture refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions. Often, corporate culture is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires. A company's culture will be reflected in its dress code, business hours, office setup, employee benefits, turnover, hiring decisions, and treatment of clients, client satisfaction and every other aspect of operations.

Exhibit I : What Culture Is and Isn't

An organization's culture is complex. But it's not hard to describe. It's often explained as being "the way we do things around here"—what goes and what doesn't. 7 These behaviors reflect assumptions about people and how they think and act, as well as values and beliefs shared by members of an organization, whether or not they have been articulated. They are reinforced by artifacts—icons, stories, heroes and heroines, rites and rituals—that remind people what an organization stands for, such as IBM's famous "THINK" signs or Walmart's ubiquitous "ten-foot greeting." Stories about organizational heroes or "goats" provide added reinforcement. Finally, "the way we do things around here" is backed up by efforts to measure behaviors and take some kind of corrective action when the behaviors are unacceptable to other members of the organization. These assumptions, values,

beliefs, behaviors, artifacts, measurements, and actions determine how things get done in an organization. (Source: Haskett, 2011)

1.3 History of Corporate Culture

While awareness of corporate or organizational culture in businesses and other organizations such as universities emerged in the 1960s, the term “corporate culture” was developed in the early 1980s and widely known by the 1990s. Corporate culture was used at this time by managers, sociologists and other academics to describe the character of a company, not only through generalized beliefs and behaviors, but also through company-wide value systems, management strategies, employee communication and relations, work environment, attitude, and even company origin myths via charismatic CEOs, as well as visual symbols such as logos and trademarks.

By 2015, corporate culture was not only created by the founders, management and employees of a company, but also influenced by national cultures and traditions, economic trends, international trade, company size and products produced. A well-cited historical example of distinctions between corporate cultures is the traditional business practices of the Japanese, and the American individualistic and entrepreneurial corporate culture of the 1960s.

There are a variety of terms that relate to companies affected by multiple cultures, especially in the wake of globalization and the increased international interaction of today's business environment. As such, cross culture refers to “the interaction of people from different backgrounds in the business world”; culture shock refers to the confusion or anxiety people experience when conducting business in a society other than their own; and reverse culture shock is often experienced by people who spend lengthy times abroad for business and have difficulty readjusting upon their return. To create positive cross-culture experiences and facilitate a more cohesive and productive corporate culture, companies often devote in-depth resources to combating the occurrence of the above, including specialized training that improves cross-culture business interactions.

2. Definition

2.1. Organization Culture (Corporate Culture): Organization culture refers to the unique configuration of norms, beliefs, ways of behaving and so on that characterize the manner in which groups and individuals combine to get things done.

It also can define that the set of important assumptions that members of an organization share in common. There is other definition of the organizational culture involves assumptions, adaptations, perceptions and learning.

Exhibit II : Organization culture of Walt Disney

Walt's Disney has three layers of organization culture. First layer includes artifacts and creations, such as annual report, a newsletter, wall dividers between workers and furnishings. Second layer includes values, or the things that are important to people. The third layer is the basic assumptions that tell individuals how to perceive, think about and feel about work, performance goals, human relationships and the performance of colleagues. This becomes the three layer model of organizational culture.

2.2 Culture function: Culture functions are the function that exhibits cultural aspect of a group of people with similar interests, backgrounds, and beliefs together while shaping their views of the world. Culture strengthens bonds between people and can easily change and evolve by adding new trends or removing old traditions. Culture function incorporate variables including – Incentives and Integrity. Whereas, Incentives emerged as major strategic focus as culture component that complement with traditional control systems and the term Integrity define as holistic of the functions.

2.3. Cultural Values: Cultural values are the set of values the define firms' past and present standing. . Three common cultural characteristics are:

1. It should blend with the core philosophy of the business (social and commercial objectives of the firm)
2. Synchronization with business environment of the firm (reshaping business processes as per the business environment)
3. Cultivation of work culture across the levels of management

3. Elements of Corporate Culture

The following are the elements comes under corporate culture

Vision: An inspirational description of what an organization would like to achieve or accomplish in the mid-term or long-term future. It is intended to serves as a clear guide for choosing current and future courses of action.

1.1 **Value:** A company's values are the core of its culture. While a vision articulates a company's purpose, values offer a set of guidelines on the behaviors and mindsets needed to achieve that vision.

1.2 **Practices:** A method, procedure, process, or rule employed or followed by a company in the pursuit of its objectives

1.3 **People:** No company can build a coherent culture without people who either share its core values or possess the willingness and ability to embrace those values. That's why the greatest firms in the world also have some of the most stringent recruiting policies.

1.4 **Narrative/Leadership:** A company's leadership is composed of the top executives who oversee its operations and plot its strategies for the future

1.5 **Place:** The term place signifies the geographical location where the plant location, corporate office is located. Place is important from the perspective of operational and strategic decision making.

1.Vision: a). From a simple mission statement to a corporate manifesto, a company's vision is a powerful tool. b). Corporate culture Initiated/ started with a vision or mission statement. c) Good Vision Statement can help orient customers, suppliers, and other stakeholders. Example: Google's modern and infamous slogan: "Don't Be Evil" is a compelling corporate vision.	2.Values: a). Value offer a set of guidelines on the behaviors and mindsets needed to achieve the vision. b) Firm's values are the core of its culture. c) Embody the mentalities and perspectives necessary to achieve a company's vision. Example: McKinsey & Company, for example, has a clearly articulated set of values that are prominently communicated to all employees and involve the way that firm vows to serve clients, treat colleagues, and uphold professional standards.	3.Practices: a). 'Practical execution of values at work' to obtain results as per the firms' vision. b). "practices" are the tangible methods, guided by ethics, through which a company implements its values c). "Practice" incorporate focus on market orientation, establishing oneself as Knowledge based, highly result oriented value driven enterprise. Example: Netflix emphasizes the importance of knowledge-based, high-achieving employees
4. People: a) The overall culture of company is the reflection of the people involved in it b) No company can build a coherent culture without involving people who either share its core value Example: GE Includes people as the part of core value and willingness.	5.Narrative/ Leadership: a) Narrative is a core element of culture creation. b) The History of the organization can be unearth and craft into Narrative. Example: Coca-Cola, which dedicated an enormous resource to celebrating its heritage and culture.	6. Place: a) The "place" of business, such as the city of choice and also office design and architecture, is also one of the most cutting-edge adventures in contemporary corporate culture. Example: Pixar has simulated workplace where firm members interact with each other in informal, unplanned ways.

properties coming under organizational structure are Power and authority structure, pattern of information exchange and organizational roles.

1.5 Business Processes - A Business Process is a series of repeatable steps performed by stakeholders with a definite goal. A specific event in a chain of structured business activities. Examples of business processes include receiving orders, invoicing, shipping products, updating employee information, or setting a marketing budget.

1.6 HR Management and Compensation mechanism- Human Resource Management plays vital role in a business organization. Since, among four Ms, i.e Men, Material, Machine and Money, Men has been most important factor, it is impossible to imagine a business process without Men. Compensation Management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. *Overall strategic outlook of the organization* – Strategic outlook for a business firm includes vision statement, Corporate Governance and Competitive advantage of the firm.

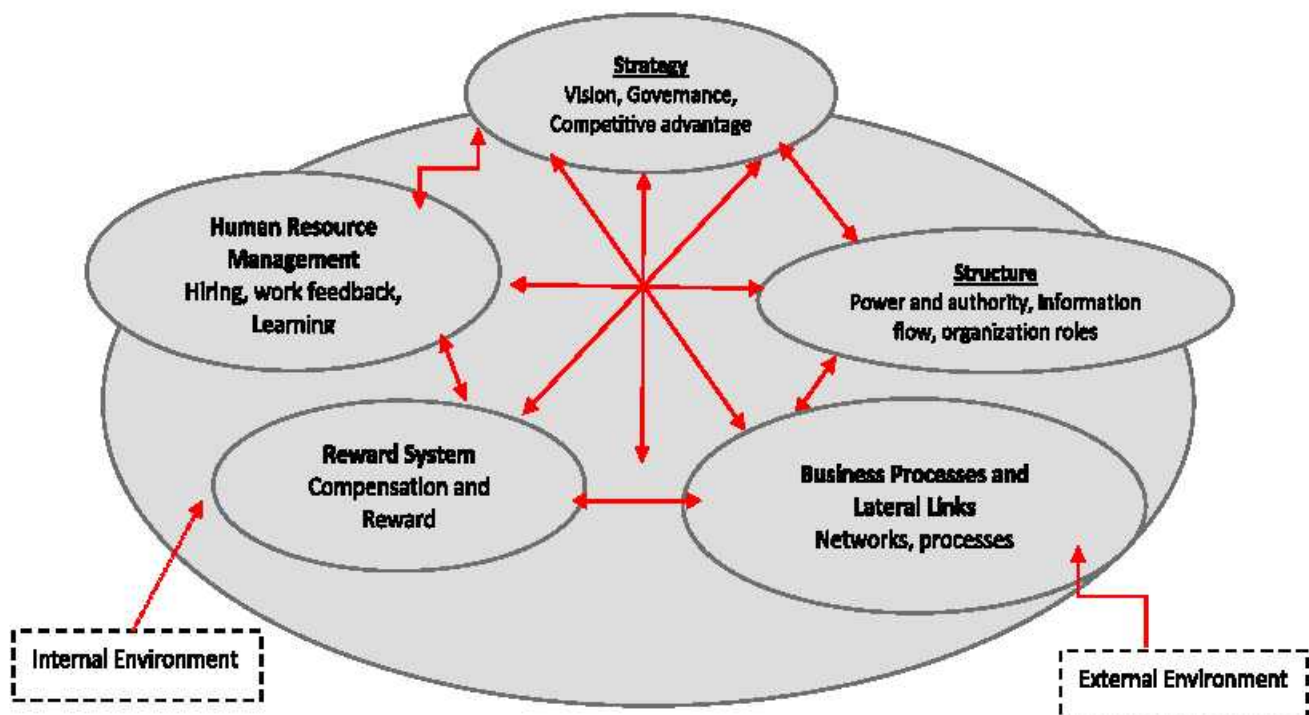


Figure 2 : Determinants of Corporate Culture

Figure 2 illustrate various determinants of Corporate Culture and their interlink age among themselves.

5. Why Culture matters?

It is very important to understand that 'why we should study culture and how culture influence the overall performance of employees and firm respectively'. Corporate culture, like personal character, is an amorphous quality that exerts a powerful influence. Therefore the Corporate culture could be boon or bane for organizations as they ponder strategic and human resource issues clearly, companies should analyze the leadership profiles of their own employees and assess their organizations' tolerance for divergent styles when considering mergers and acquisitions or Important external hires. Successful mergers between companies In which employees displayed similar leadership styles or where the cultures tolerated different ones.

5.1 Culture's role in organizational performance

Corporate Culture and strategy together decide the present and future performance of the organization. Figure 2-1 depicts how corporate culture can blind with the strategic dimension of the business. Various components of firm show one way of thinking about the relationship. Shared assumptions regarding such things as the "right" customers, competitors, and suppliers; communities to be served; the legal and regulatory environment; and people, work, motivation, & the social environment culture, strategy, and execution.

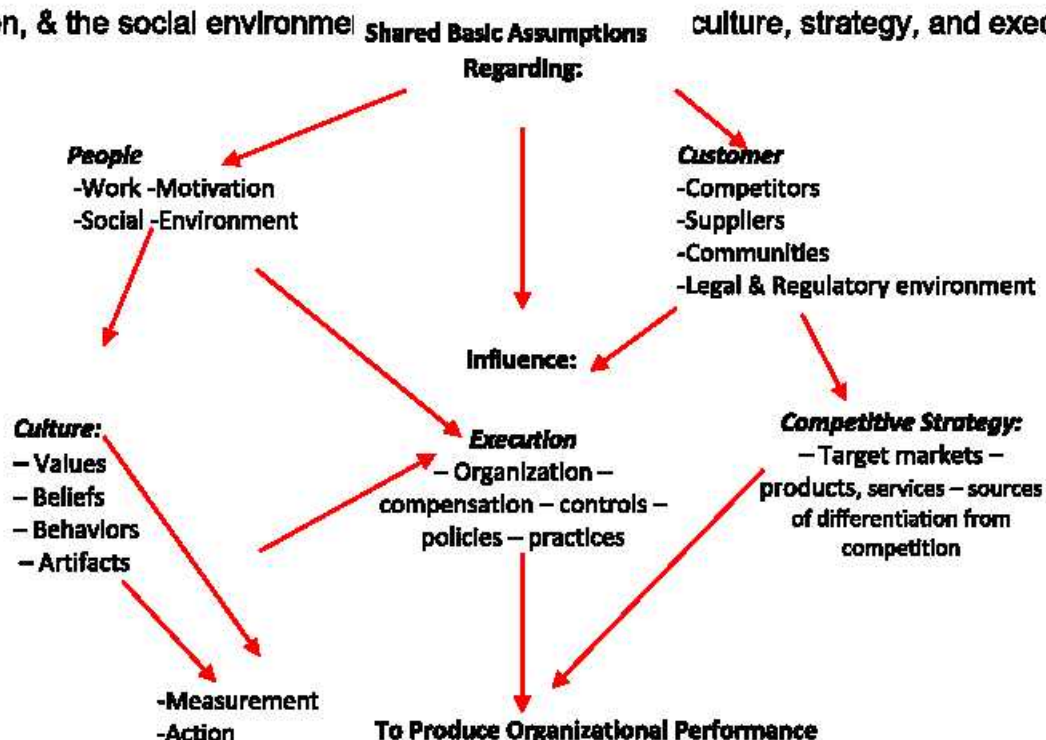


Figure 2-1: Culture's role in organizational performance (source: Heskett, 2011)

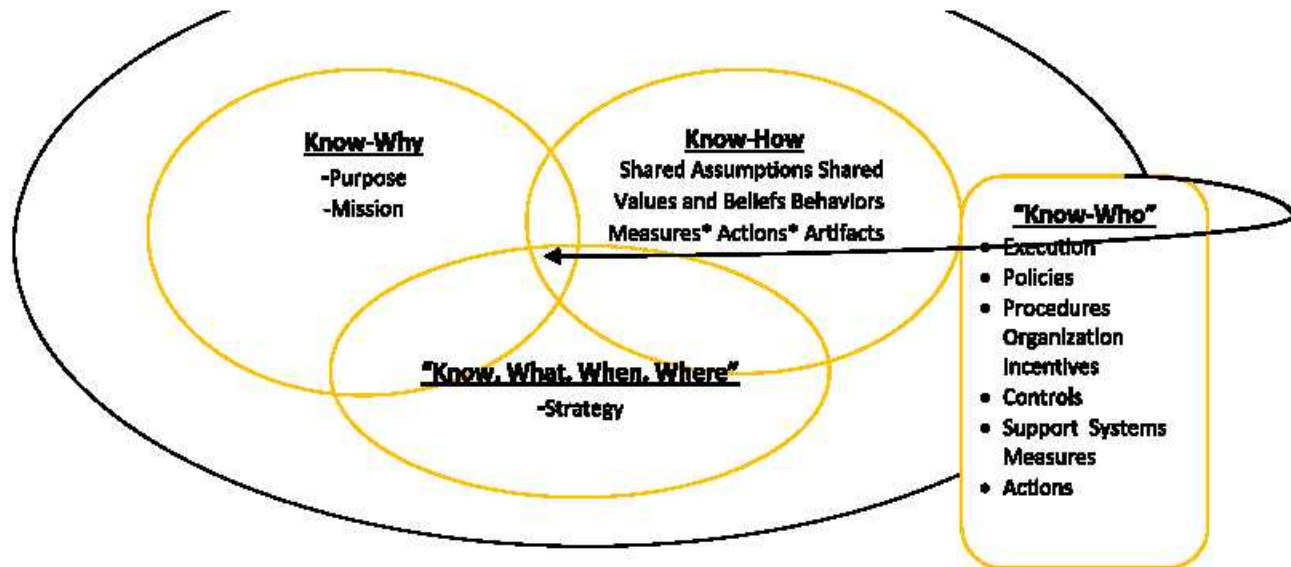


Figure 2-2 Culture as “know how” (source: Heskett, 2011)

That explains why these basic elements of management typically have more overlap than theory leads us to believe. Although extraordinary technologies or products may afford short-term success, the degree of alignment between elements of culture, strategy, and execution is a major factor in determining an organization’s long-term performance, as shown in Figure 2-2 .

5.2 Characteristics of Corporate Value

It is possible to change a company’s culture—or at least to prod it a bit in one direction or another. That is best achieved by continually hiring people who represent the direction in which you are headed. The set of characteristics (Table I) in a firm leads to reflect the corporate value of it.

Table I: A Description of the Corporate Values

Value	Description
Integrity	The organization does what it says it will do for members, and staff follow through on promises; what is promised in a membership is delivered.
Fitness	Staff is committed to their own fitness and the fitness of members; they value the role of fitness in people's lives, and know that it can make a difference.
Peak Attitude	Staff are upbeat and energized
Innovation	The organization has innovative fitness ideas, and staff tries to come up with new ways of doing things.
Communication	Information and education is easily accessible, and events, activities and classes are communicated clearly; member are listened to and heard in the organization.
Trust	Members can count on staff to look after them; members trust that staff has accurate information and knowledge, and they have confidence in staff ability.
Care	The organization cares about its members and about its staff, and staff care about members and about each other
Passion	Staff is passionate about their job, and is dedicated to serving members.
Performance	The organization has a long history of success, and is a leader in the industry

Strategic orientation can be categorized into six factors, namely, leading, future analytic, aggressive, defensive, adventurous, and conservative. These orientations can be described as follows: leading, always trying to innovate; future analytic, focusing on research for future activities; aggressive, undercutting competitors; defensive, maintaining careful control; adventurous, risk taking; and conservative, avoiding risk.

6. Impact of competition on Corporate Culture

Competitive business environment brings about changes in organizations and forces firms to seek the strategies that will best enable them to gain or sustain a competitive advantage in the marketplace. To continue growing, companies should adapt to environmental changes and manage their employees to act consistently in reacting to that change. Thus, corporate

strategies should balance external environmental realities with internal capabilities to maximize corporate value.

There is a co-linkage between (a) organizational culture and identity; (b) organizational strategy; (c) organizational design, structure, and processes; and (d) organizational behavior and performance. Existing theories support this linkage at the Organization level.

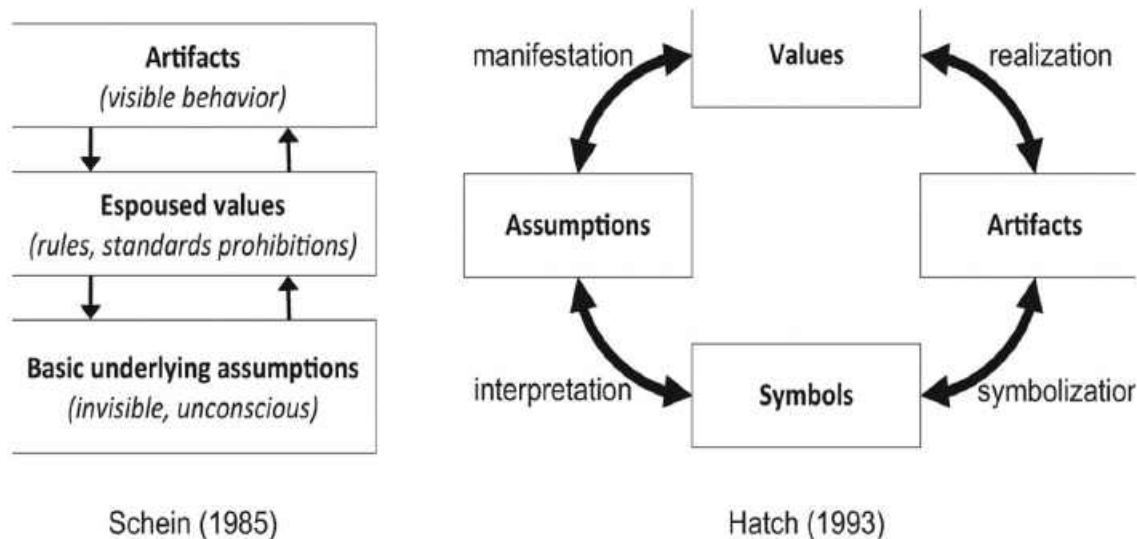


Figure III : Existing theories that support Organizational Culture and Strategy Linkage

Figure III show that interlink age between Organizational Culture and Strategy Linkage. Culture symbolized set of guiding principles and it equally affects the process of operationalization. Culture indirectly influences Strategy, Organizational Structure and Operations. Figure IV explains the overlapping between Organizational Culture, Strategy, Structure and Operations using Organizational Culture Model

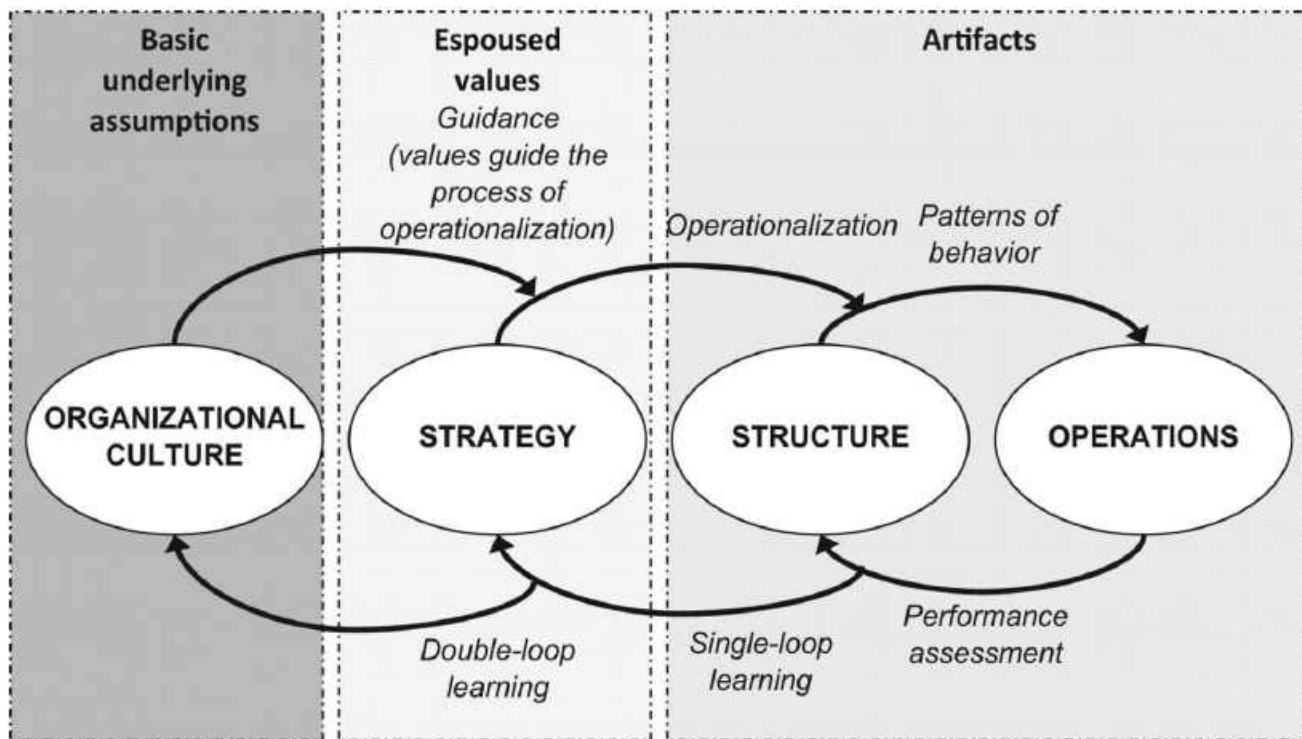


Figure II: Organizational Culture Model

From Strategic perspective, corporate culture is defined as the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with norms for behavior in the organization. Corporate culture focuses on the underlying values and attitudes that affect the way in which things are done. Strategic orientation ensured the mapping of organization behavior with firm's strategy. On the other hand, it is considered as a controllable variable to increase organization's overall performance. Like culture, strategic orientation is considered to be a critical issue that may determine the success or failure of an organization. This has particular implications for management, because strategic orientation is also considered a controllable variable, and therefore it can improve the organization's overall performance.

Strategic orientation focuses on how firms should interact with external environments such as customers, competitors, and technology to conduct business. The effectiveness of a firm's strategy depends on the fit between strategic choices and market dynamism.

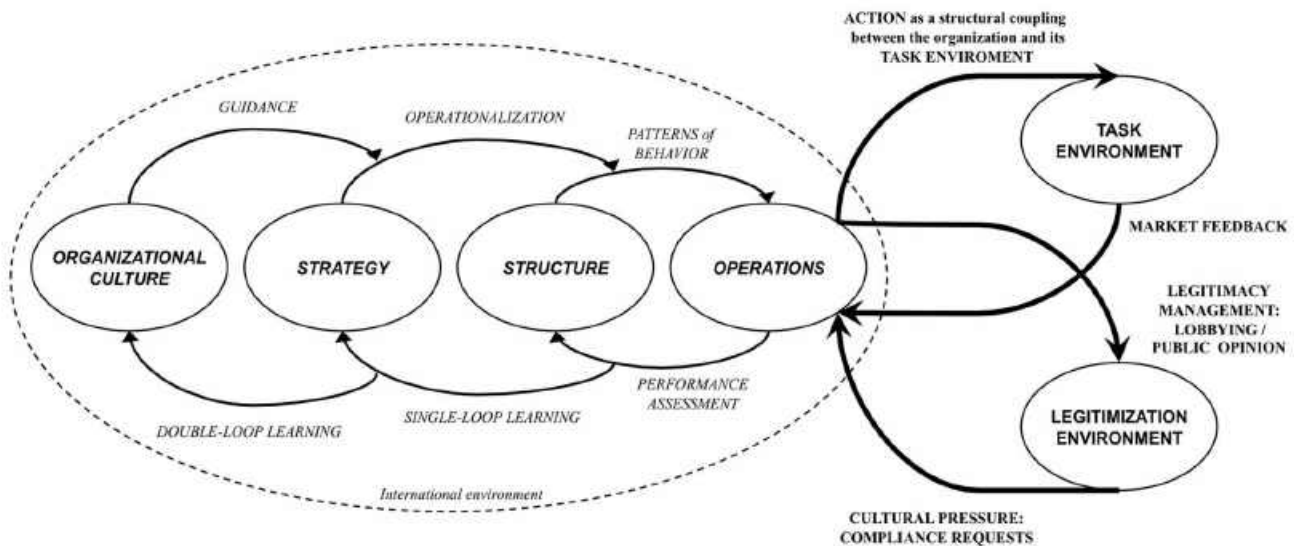


Figure III: Organizational Culture as Strategic tool (Source: HBR, 2011)

7. Corporate Culture and Strategic Advantage

There is a significant relationship between Return on Asset Deployed (ROA) and corporate culture for both service and manufacturing sector. Corporate culture has pervasive effects on non-financial aspects of an organization, and therefore its effects may be found at any point in the relationship because it defines the organization's employees, customers, competitors, and suppliers, as well as the way in which all of these stakeholders interact. Cultures are independent of geo-ethnic boundaries, and emerge through social transactions (i.e., patterned exchanges of material and immaterial items between individuals or groups). TCA encourages multilevel explorations of complex social phenomena.

Case Study : Breaking down 'Corporate Culture' In Google

Google Inc. (GOOGL) is a company that is well-known for its employee-friendly corporate culture. It explicitly defines itself as unconventional and offers perks such as telecommuting, flextime, tuition reimbursement, free employee lunches, on-site doctors and, at its corporate headquarters in Mountain View, Calif., on-site services like oil changes, massages, fitness classes, car washes and a hair stylist. Google's corporate culture has helped it to consistently earn a high ranking on Fortune magazine's list of 100 Best Companies to Work For.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Cooperative Strategies
Module Id	16
Pre- Requisites	Basic Knowledge of Business Environment
Objectives	To understand cooperative expansion strategies.
Keywords	Expansion strategies, Cooperative Strategies, Mergers and acquisitions, Takeovers.

Module 16: Cooperative Strategies
1.1 Learning Objectives
1.2 Introduction
1.3 Corporate Level Strategy
1.3 a Corporate level strategy involves:
1.3 b Different types of corporate level strategies are:
1.4 Cooperative Expansion Strategy
1.4 a There are different ways of expansion
1.5 Strategic Alliances
1.5 a Strategic Alliances Types
1.5 b Reasons for Strategic Alliances
1.6 Diversification
1.6 a Diversification is of three types –
1.6 a I. Unrelated Diversification
1.6 a II Related diversification
1.6 a. iii Conglomerate diversification

1.6 b Reasons For Diversification
1.7 Mergers and Acquisition
1.7 a Acquisition
1.7 b Benefits of Acquisition over Internal Development
1.7 c Drawbacks of Acquisition over Internal Development
1.7 d Differences between Acquisitions and Mergers
1.8 Takeovers
1.8 a Friendly takeover
1.8 b Hostile takeover
1.8 c Reverse takeovers
1.8 d Backflip takeover
1.9 Summary

1.1 Learning Objectives

Following are the learning objectives of the lesson

1. To understand the difference between functional level, business level and corporate level strategies.
2. To understand different types of corporate level strategies.
3. To understand cooperative expansion strategies.

1.2 Introduction

Strategy is a game plan to target a market, conduct operations, satisfy customers and achieve organizational objectives.

It lays down organizations' desired goals, direction and destination. Strategy can never be perfect; it is flexible. There are no second best choices in strategies. Strategy is partially proactive and partially reactive.

Proactive actions may include improvement of company's market position and achieving higher growth rate. And reactive actions are important because to know the fresh market conditions and the developments which have not taken place till yet. Strategies are formulated at three different levels:

1. Corporate level strategy
2. Business level strategy
3. Functional level strategy



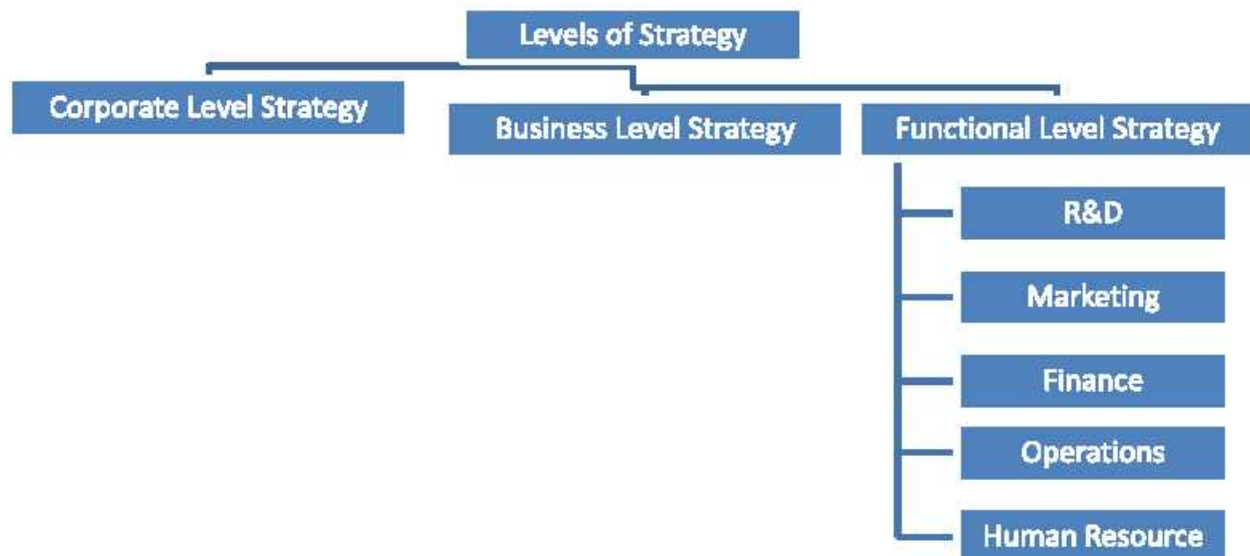
i. Corporate level strategy looks for the development of whole of the organization, beginning with mission, goals, to determining the business plan, resources and finally implementing different strategies in order to achieve a desired goal.

Example: Godrej which deals with wide range of businesses like soaps, furniture, edible oil, Information Technology, real estate.

ii. Business Level strategy deals with translation of goals to form individual businesses.



iii. Functional Level strategy deals with specific business functions or operations like human resources, product development, customer service etc



1.3 Corporate Level Strategy

Corporate strategy is strategy which refers to decisions concerning expansion or retrenchment from an industry and also about how the management of a multi-business enterprise can achieve synergies. Three issues addressed are:

It helps a company decide where a company should compete, how should it compete and what route would it need to take to achieve the profitability objective i.e. cost leadership or product differentiation.

A company through its various strategies should maintain strategic consistency across its strategic business units and make possible cooperation amongst these units in order to not only create value for the stakeholders in these business units but also to maintain a market identity even with a diversified portfolio.



1.3 a Corporate level strategy involves:

- **Reach-** It defines company goals, types of business in which company should get involved.
- **Activities and relationships-** It helps in developing a relation by sharing and coordinating with the staff. It helps in investing business units in different units to harmonize different business activities.
- **Management practises-** Corporates decide how business units are managed by direct corporate intervention or by less government agencies.



•

1.3 b Different types of corporate level strategies are:

1. Stability Strategies:

It involves 3 strategies which are

- No change Strategies
- Pause/proceed with caution strategies
- Profit strategies

2. Cooperative Expansion Strategies

It involves 5 strategies these are

- Integration
- Diversification
- Cooperation
- Internationalization

3. Defensive/ Retrenchment Strategies

It involves 3 types of investments

- Turnaround
- Divestment
- Liquidation

4. Combination Strategies

It involves 3 types of strategies

- **Simultaneous**
- **Sequential**
- **Combination of both**
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1.4 Cooperative Expansion Strategy

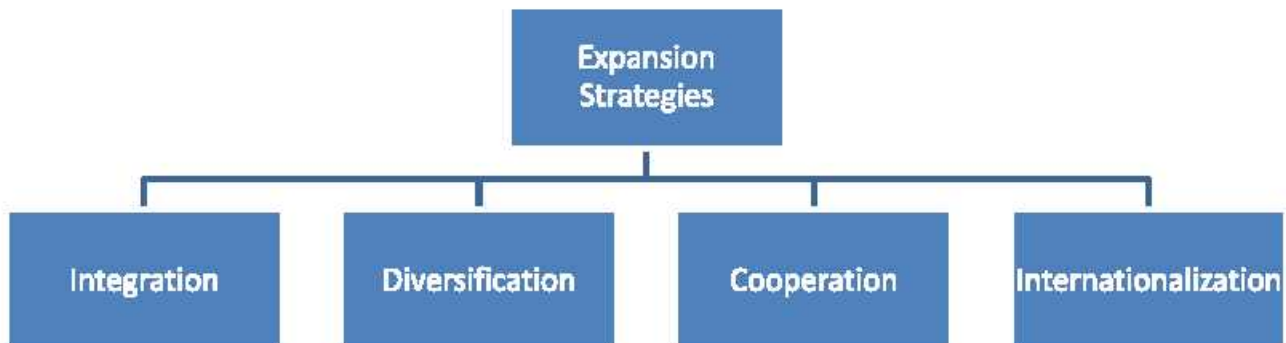
Every enterprise wants to expand to avoid risk drowning. Expansion provides ample of opportunities to the enterprise and is important for it. This is possible after achieving fundamentals of expansion. Expansion strategies are made in such a way that they help enterprise to maintain a competitive edge in international market. Hence for successful competition, survival and to flourish, an enterprise has to pursue an expansion strategy. Expansion is an important strategic option that allow the company to fulfill its long term growth objectives. It also help in pursuing significant growth as opposed to slow growth in stability strategy.

A cooperative strategy is the attempt by a company is to try and achieve its objectives of expansion but with cooperation through other players either within the same industry or from complimentary or non related industry. The objective of cooperative strategy is to expand by cooperating and working with others rather than working against others. The cooperative strategy allows synergistic use of resources of all the organizations. A cooperative strategy like strategic alliances can offer a company a chance to expand even if does not have a comprehensive portfolio of assets by choosing a partner who does. For example Ellily Lilly and Ranbaxy formed a strategic alliance to compliment each other's portfolios and objectives. The cooperative strategies also help companies explore new markets at a fraction of the risk.

For achieving long term objectives the expansion strategy provides the blueprint required to grow and also allow them to sustain their competitive advantage even in the complex stages of market and product evolution. Expansion strategy helps a company achieve economies of scale, which reduces operating costs and helps in improving earnings. Though main focus of the lesson is strategic alliances the lesson does discuss the other expansion strategies briefly.

1.4 a There are different ways of expansion of an enterprise in global market these are

- **Integration (Mergers and Acquisitions)**
- **Diversification**
- **Cooperation (strategic alliances)**
- **Internationalization**



1.5 Strategic Alliances

A strategic alliance is defined as a collaboration between the companies or incumbents of an industry or from different industries whereby they agree to share their resources and capabilities in pursuit of sustained competitive advantage and above average rate of return. These are also referred to as cooperative strategies where two or more companies decide to pool in their resources and capabilities to exploit a market opportunity. The companies in this case decide to work with each other to gain competitive advantage rather than work against each other. For example a strategic alliance was forged between two pharmaceutical giants i.e. **elilly lilly** and **Ranbaxy**, Which was used to enter India by **elilly lilly** and by **Ranbaxy** to gain knowledge about foreign markets. Similarly strategic alliance between **bharti** and **walmart** was a ode to cooperative strategy.

A global company is involved in multiple strategic alliances to compliment the needs of different markets and countries it is present in. for example **IBM** has formed alliances with **Sun Microsystems**, **SAP**, **Lenovo**, and **Cisco**, among others. These strategy alliances help **IBM** deal with threats from different companies and add on to the portfolio its strengths. The objective of each specific strategic alliance is unique and specific.

It is important to note that strategic alliances are not a uni-directional relationship. The basis of this relationship is the fact that both the parties, who are involved in this relationship, bring something unique to the table. This uniqueness adds to the competitive advantage that the strategic alliance can exploit over the period of time. It is very important in the strategic alliance that all the partners are actively solving problems, are being dependable, and are again and again finding ways to combine their resources and capabilities to create value to gain sustained competitive advantage an above-average returns.

1.5 a Three Types of Strategic Alliances

The academic text refers to 3 types of strategic alliances which have been discussed in this section of the lesson i.e. joint ventures, equity strategic alliances, and nonequity strategic alliances.

a. A **joint venture**: a joint venture is defined as an alliance between two organizations or companies where the organizations chose to lose their individual identity and form new and independent identity. This new identity which is formed from two or more partners, can boast of a resource and capability pool which consists of best of both the partnering companies. These ventures help companies establish associations which help them pass tactical knowledge about value addition to partners so as to gain competitive advantage and above average rate of return.

b. An **equity strategic alliance**. This type of alliance is defined as an alliance where partner companies have unequal shares in the new a venture created. The unique characteristics of the new venture are that it is created by combining resources and capabilities of the partnering firms. For example, Citigroup Inc. has formed a strategic alliance with Shanghai Pudong Development Bank Co.

c. A **nonequity strategic alliance** is defined as a alliance where partnering companies agree to share and leverage their resources and capabilities to gain competitive advantage in the target market. The Main difference between an equity strategic alliance and an non-equity strategic alliance is that in a non equity strategic alliance that the partnering companies do not set up a separate independent company and so don't take equity positions.



Joint ventures

A joint venture strategy is a strategy in which two or more company pool up their resources for accomplishing a specific task. This task helps in achieving a new project or provides company with different entity. Each member of joint venture is associated with all the expenses and revenue of the company. Joint venture is seen as a tool of international expansion. International joint venture enables companies to use resources and capabilities of each other which help in achieving economies of scale for bringing new product or service in market faster, more efficiently, more reliably and more cheaply than what they could do. Joint ventures have partners and these partners have certain position in the eyes of local and international markets. Before commencing of a joint venture the companies check the following following variables –size of company, business field and activity, abroad investments, structure and ownership strategy of company and many other variables.

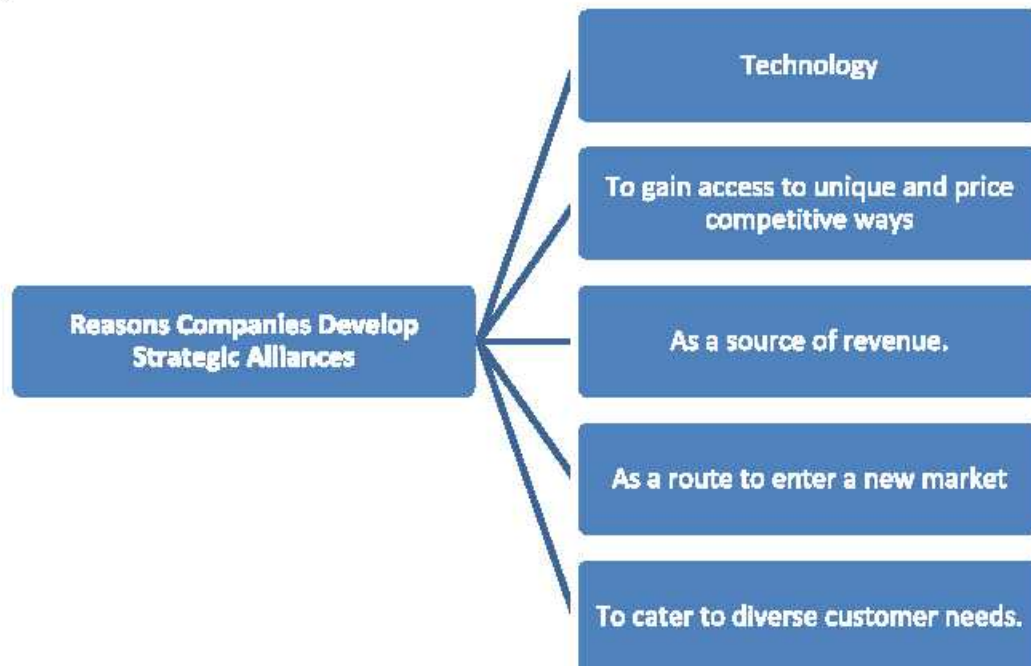
In joint ventures when two companies come in contract they lay the foundation of a third company which means $1+1=3$. The companies share profit and risk equally. The best example of joint venture is Sony Ericsson. Sony was the leading brand in electronics in India and Ericsson was the leading mobile brand of America. Both the companies joined hands to create a third company called Sony Ericsson to provide services in India. Another example of joint venture is Nokia and Microsoft.

1.5 b Reasons Companies Develop Strategic Alliances

A company can develop strategic alliances for varied reasons. Some of them have been listed below

1. Technology has become the basis of competition and at times because of patent or limitation in terms of resources and capabilities companies cannot gain access to these technologies. However, access is important to gaining market success and it is in these scenarios companies contemplate alliances.
2. Many a times companies enter strategic alliances to gain access to unique and price competitive ways of adding value to the market offering. The competition these days is determined by not only understanding the customer needs but also how quickly one can get that need satisfied i.e. cater to the market. Many a times companies find short cuts to the development process by opting for alliances or division of process across partners.
3. As a source of revenue.
4. As a route to enter a new market where a sole entry is not possible or allowed for example china.

5. Many times companies enter strategic alliances to cater to diverse customer needs and they don't want to lose the customer to competitor so they partner. For example in airline industry not every airline can cater to every route and therefore they partner and form alliances.

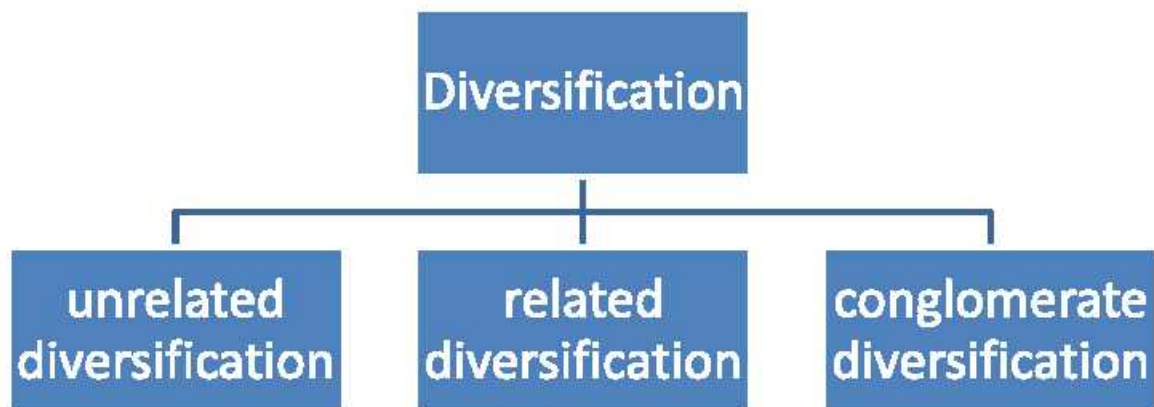


1.6 Diversification

Diversification is a type of portfolio management in which investor reduces the risk of volatility by investing in various products of company which have very low correlation with each other. The advantage of diversification is that when in a company one product is earning a high profit and other is running in losses it balances or outweighs the negative investment.

1.6 a Diversification is of three types –

- Unrelated diversification
- Related diversification
- Conglomerate diversification



1.6 a i. Unrelated Diversification: *Unrelated-diversified (or highly diversified)* companies do not share resources or linkages. Companies that pursue u examples-

- TATA Group – it have diversified its business from steel to hotels, tatamotors , TCS etc.
- AMWAY –it is a beauty and home care products have entered into jewellery.

1.6 a ii Related diversification: A related-diversified company has been defined as the one in which at least 30 percent of its revenues are earned from sources outside of the dominant business. example

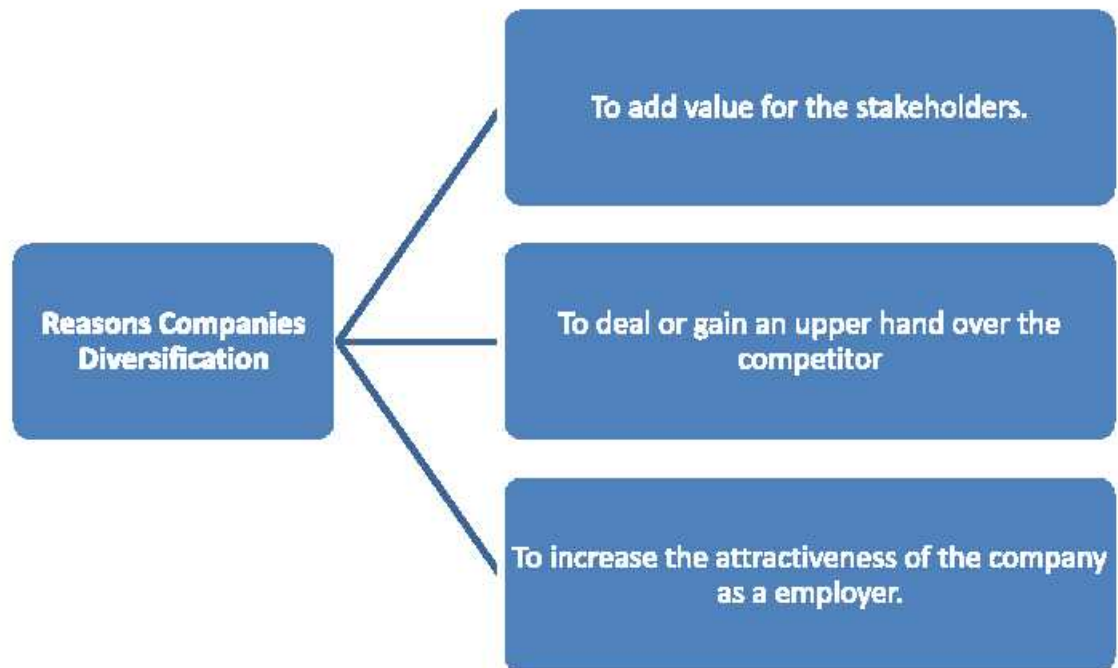
- Nestle – for assistance to tomato sauce and ketchup they have introduced maggi.

1.6 a. iii Conglomerate diversification example –

- General electronics – it have diversified its business in electronics , financial sevicees , health care etc.
- TATA group – tata group of hotels produces their own amenities, are also in communication.

1.6 b REASONS FOR DIVERSIFICATION

Companies opt to adopt diversification strategies to add value for the stakeholders. However, more specifically the main purpose of adopting these strategies is to deal or gain an upper hand over the competitor and his market power, to reduce the employment risk by concentrating on product line and also to increase the attractiveness of the company as a employer. It has been established that more diversified is the portfolio of a firm, larger is the size and more is the compensation which enables the firm to attract better talent.



1.7 Mergers and Acquisition

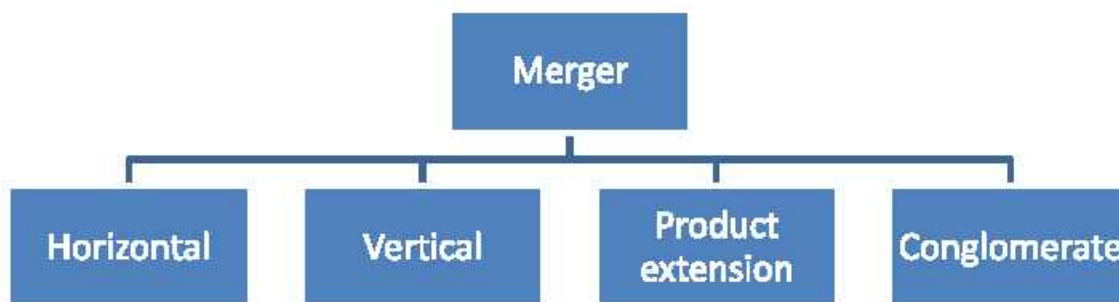
If two companies combine their value would more as a single unit rather than different unit. Mergers and acquisitions are done by company to increase their market share and to survive in competitive markets. Mergers and acquisition are two different things. Merger is when two different companies join hands to create a new venture. For example – Lipton tea and Brooke bond. Whereas acquisition refers to overtaking of one entity by other. For example – TATA group acquired Corus 2006 the deal size was \$12.98 billion.

Legally speaking in merger two companies come in an agreement for the formation of a third company and in acquisition one company takes over all the operational aspects of other company.

Varieties of merger

- Horizontal merger – two companies with delivering same product and are in direct competition. Example Coke and Pepsi.

- **Vertical merger** – two companies which are producing products of one finished product. Example – automobile company joining hands with part supplier.
- **Market extension merger** – two companies selling same products in different markets. Example -Eagle Bancshares
- **Product extension merger** – two companies selling different but related products in the same market. Example – Mobillink telecom by broadband.
- **Conglomerate merger** – in this there are two companies that do not have any common product line. Example – Walt Disney and American Broadcasting.



1.7 a Acquisition

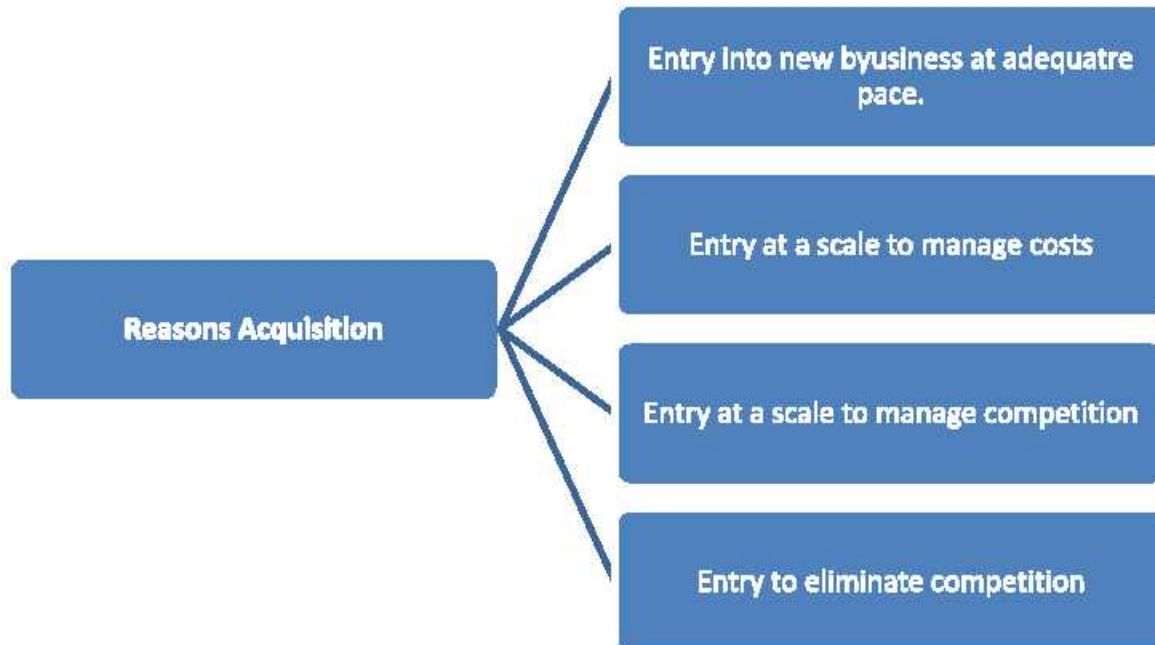
As we have discussed earlier acquisition refers to overtaking the company and its operational aspects of the company. For example, Flipkart and Myntra, a big acquisition in Indian history. Flipkart acquired Myntra at a whopping amount of Rs. 2000 crore deal according to the insider details.

Another example of acquisition is Tata Tea taking over Tetley Tea making it world's second largest tea marketer and which was double of what Tata tea was for a 271 lakh pound through leverage buyout.

1.7 b Benefits of Acquisition over Internal Development

One of the key advantages of acquisition over other methods of expansion is pace of development. Acquisitions ensure that a company enters a new business with adequate size;

and attains viable competitive strength. In this strategy the acquiring company is guaranteed of entering at minimum efficient scale for cost purposes and is provided access to complementary assets and resources. In addition, entry by acquisition may foster a less competitive environment – by eliminating a competitor.



1.7 c Drawbacks of Acquisition over Internal Development

Acquisitions are often more expensive than internal development; they are unlikely to generate sufficient return on capital to justify the premium cost; and the acquiring company may inherit several unnecessary adjunct businesses. The internal development process allows for many points at which the project can be assessed and reevaluated so the company can pull the plug. Acquisitions are typically all or nothing propositions. There is also a potential problem of organizational conflict—the eruption of cultural clashes that can impede the integration of two companies.

1.7 d Differences between Acquisitions and Mergers

The term acquisition means that a transfer of ownership has taken place; that is, one company bought another. A merger is the consolidation or combination of one company with another. Mergers are typically between companies of relatively equal size and influence that fuse together to form one new larger firm. There are three categories of motives for M&As: managerial self interest, hubris, and synergy.

1.8 Takeovers

Takeovers generally refers to purchase of one company by other. Whereas in UK takeovers are termed as acquisition of a public company whose shares are listed in the stock exchange. Takeovers are of different kinds these can be –

- Friendly takeover
- Hostile takeover
- Reverse takeover
- Backflip takeover



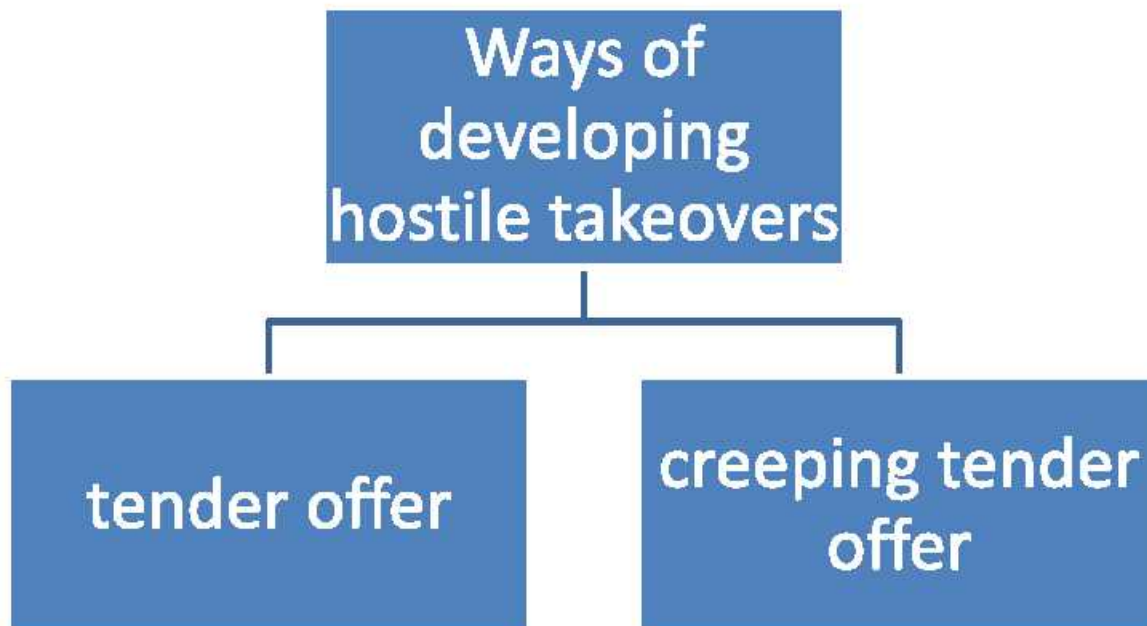
1.8 a Friendly takeover

A friendly takeover is a takeover in which the acquisition is approved by the management. In this before a bid is made by the bidder the deal is usually first informed to management and if the management thinks that through this deal the shareholder are getting benefited or through its rejections they suffer losses. In private company the shareholders and the board are usually the same people or connected with one another, so private takeover are friendly. For example – Johnson and Johnson friendly takeover of Dutch Vaccine maker Crucell. The deal accounted to 1.75billion euros.

1.8 b Hostile takeover

In a hostile takeover the bidder can takeover the company whether their management are willing or not willing to sell the company. Hostile takeover happens when the board rejects the offer made by the bidder. There are various ways to develop a hostile takeover

- Tender offer – when an acquiring company makes a public offer at a fixed price which is above the market price.
- Creeping tender offer – in this the bidder quietly buys enough stock of the company in the open market which allow to change in the management.



An example of hostile takeover is Oracle over People soft. After a battle of 18 months the oracle company takeover the people soft company.

1.8 c Reverse takeovers

A reverse takeover is the one in which the public company is acquired by the private company so that private company can bypass the complex process of going public. In this generally the private players buy the share of the public company and then merge it with their company. For example MTN, an African based telecommunication company, is planning for reverse takeover of Reliance communication. Through this deal, the company value would reach up to 70 billion with 120 lakh users.

1.8 d Backflip takeover

It is a type of takeover in which the acquiring company turns himself into the subsidiary of the purchased company. This happens when a larger but less known company acquire a struggling company. For example the takeover of Bank of America by the National Bank, but it adopted the name of Bank of America.

1.9 Summary

Strategy is a game plan to target a market, conduct operations, satisfy customers and achieve organizational objectives. It lays down organizations' desired goals, direction and destination. Strategy can never be perfect; it is flexible. There are no second best choices in strategies. Strategy is partially proactive and partially reactive. Corporate level strategy looks for the development of whole of the organization, beginning with mission, goals, to determining the business plan, resources and finally implementing different strategies in order to achieve a desired goal. Corporate level strategies are those strategies which are concerned with the strategic decision making in the company. These strategies are made by high governing bodies of the firm. One of the main corporate level strategies is to decide the means of expansion into new areas. Current lessons discusses cooperative strategy as a option to expand the corporate portfolio.



Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Strategic Choice
Module Id	Module No.- 20
Pre- Requisites	Strategic Alternatives
Objectives	To explain the processes, tools and techniques used for strategic choice
Keywords	Strategic Choice, Strategic Business Unit, Product Life Cycle, BCG Matrix, GE Nine Cell Matrix

QUADRANT-I

Module-20 Strategic Choice
1. Learning Outcome
2. Introduction
3. Process of Strategic Choice
4. Approaches to Strategic Choice
5. Subjective Factors in Strategic Choice
6. Summary

1. Learning Outcome

After completing this module the students will be able to understand:

- ◆ The processes, tools, and techniques used for strategic choice
- ◆ The importance of subjective factors in strategic choice

2. Introduction

Strategic Choice is looked upon as a key aspect of the strategic management process. The process of strategic choice is essentially a decision-making process that has a lasting impact on the organization's performance. The decision-making involves relating intent to the vision/mission of the organization,

generating alternatives, choosing one or more alternatives that helps the firm to achieve its objectives and finally, implementing the chosen strategy. Thus, for the purpose of selecting or rejecting alternatives, the managers have to ascertain a set of criteria.

These criteria are termed as selection factors and can be broadly classified into two

groups: the objective and subjective factors. The objectives factors are basically data driven and are based on analytical techniques whereas the subjective factors are based on one's experience and personal judgment.

3. Process of Strategic Choice

The process of strategic choice comprises of following four steps:

1. Relating intent to the vision & mission
2. Generating alternatives
3. Assessing the options
4. Selecting one option that fits with the intent

A foremost step in the process of strategic choice is to define the intent and relate it to the vision, mission and goals of the organization. Unless the intent is clear, it would be difficult to generate alternatives and further assess them so as to facilitate a strategic choice. Figure 1 illustrate that the strategy chosen must help fulfill a strategic intent, from a set of generated strategic options, of which some are subsequently validated by assessment. For example, Tata Global Beverages (Exhibit 1) states its vision as, 'To be the most admired natural beverages company in the world by making a big and lasting difference in Tea, Coffee and Water' while the purpose is stated as, 'We will focus on creating magical beverage moments for consumers, and an eternity of sustainable goodness for our communities'. From the above stated vision statement it is clear that the company's business focus area is in *natural beverages* i.e. Tea, Coffee and Water, whereas it ignored the other feasible alternatives in natural beverages segment like juices, nectar etc. Further, having a close look onto the intent, the key is to build company as an Admired; Global Company; in Natural Beverages, for which it has chosen the strategy that focuses on building unique competencies, differentiated offerings, appealing brands, and significant scale in the 3 natural beverage categories of tea, coffee and water. Tata Global Beverages has grown through innovation, strategic alliances and acquisitions, and organic growth. Over 65% of the company's consolidated revenue originates from markets outside India and more than 90% of their turnover is from branded products.

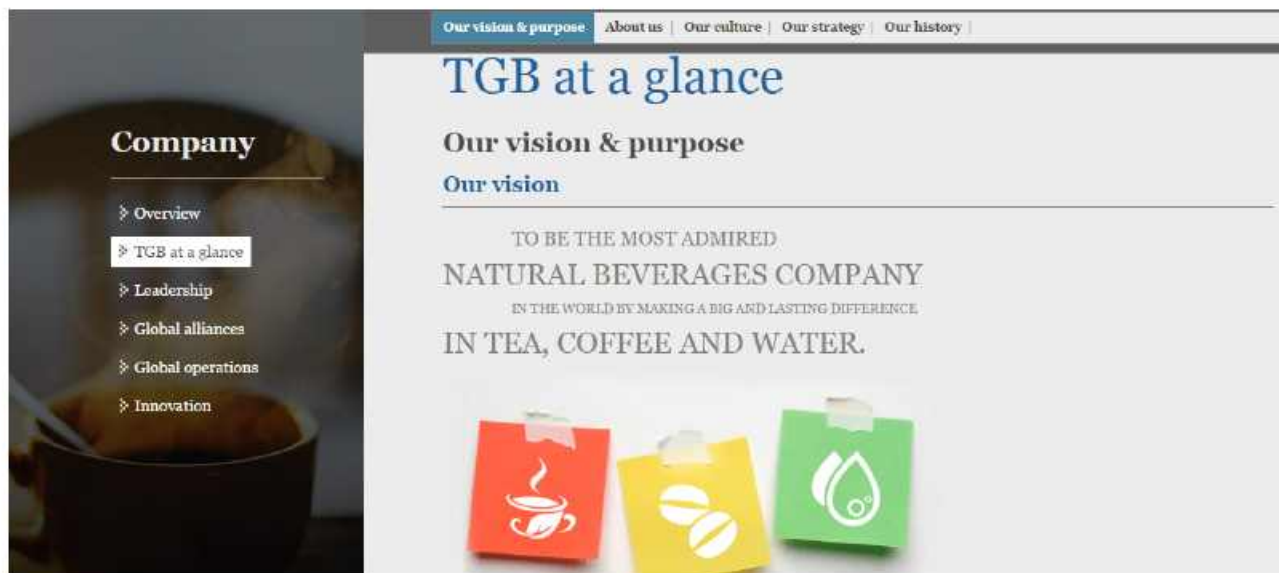
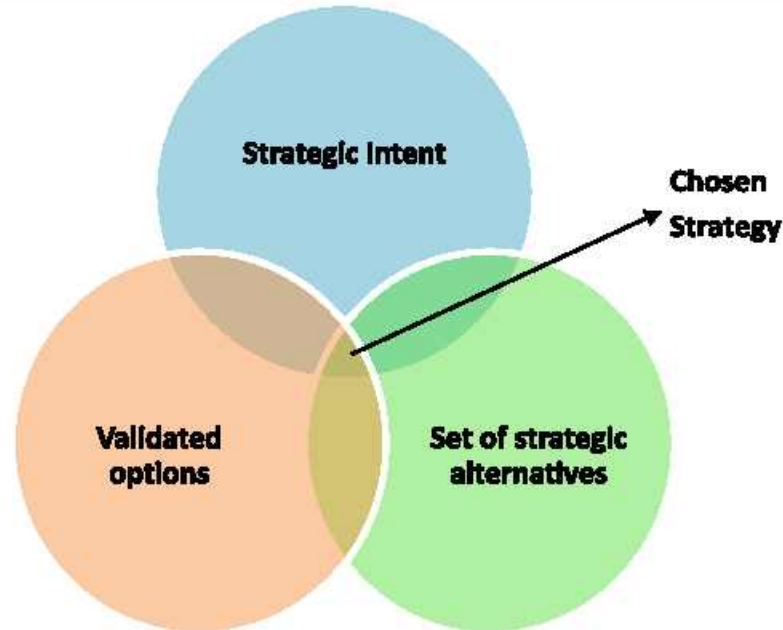


Exhibit 1: Tata Global Beverages strategic intent

(Source: <http://www.tataglobalbeverages.com>).

Figure 1:
Strategic Choice



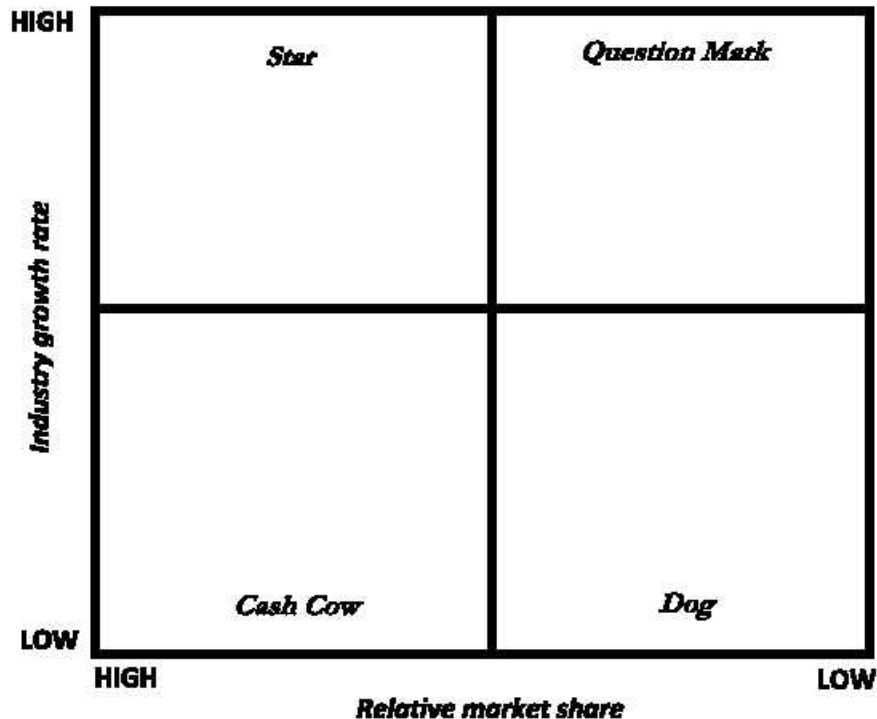
4. Approaches to Strategic Choice

It is well acknowledged that strategic decision-making is a complex activity where no single factor is adequate for making a strategic choice. The various approaches used to generate the strategic alternatives ranges from some of the simplest techniques that are based on intuition, are judgmental and descriptive in nature to the highly sophisticated analytical models such as Product Life Cycle (PLC), Boston Consulting Group (BCG) matrix, GE Nine Cell Model. These models provide generic guidelines for a specific business situation. With the help of these approaches a blueprint is drafted that helps to describe the strategies and the conditions under which they could be made to operate.

4.1 Boston Consulting Group Matrix: Boston Consulting Group (BCG) matrix is a corporate portfolio analysis technique that helps the strategists to take decisions with regards to individual products and business units in a firm's portfolio. The basic purpose of adopting this approach is to channelize the resources at the corporate level to all the businesses (SBUs) and products that hold greater potential under the corporate umbrella. So as to enable the company to identify the suitable strategy needed to maintain the firm's strong position in the industry or to regain the lost one.

BCG developed a four quadrant matrix based on the empirical research. The matrix analyses the different products and businesses in its portfolio based on the two parameters i.e. relative market share and industry growth rate. The relative market share refers to the ratio of firm's sales to that of the sales of the industry's largest competitor or the market leader, whereas the industry growth rate is rate of growth in sales in percentage for a particular industry. The pictorial depiction of BCG matrix is as below (Exhibit: 2):

Exhibit 2: BCG Matrix



The four quadrants of the matrix are termed as Star, Question Mark, Cash Cow & Dog by the Boston Consulting Group and are as follows:

Stars: The quadrant labeled as star represents the products or businesses that have high market share and holds high industry growth rate. These are the businesses that may or may not be self-sufficient in cash flow. They possibly require cash in excess of what they generate for meeting the capital expenditures so as to maintain their market position and for securing higher returns in the future. Since, the stars are the businesses that are growing fast in the market and have already attained a larger market share therefore they happen to provide the corporation with the best profits and growth opportunities. Henceforth, the profits generated may be utilized for its own future business expansion.

Cash Cows: It is interesting to note that in due course, the *star* may become *cash cows* which are classified as low growth with high market share businesses. The cash cows are the businesses that generate high levels of cash flows but needs very little funds for capital expenditures because the industries in which they operate have lost its attractiveness. The strategic feature of cash cow is that the high cash returns generated may be used to pay dividends, debts or to finance the stars. The best suited strategy that these businesses may adopt is stability or a phased retrenchment strategy.

Question Marks: Also termed as problem child, question marks are the businesses in a high growth market but with a poor market share. As the label of the quadrant suggests that the future of these businesses is in dilemma so a decision needs to be taken whether to invest in these businesses with a hope

that they will gain its market share in near future, or to allow them to die a slow death as they have already been squeezed out by the rivals. Therefore, no single set of strategy could be recommended for businesses falling under the question mark category. 'Question marks' holds the opportunity of becoming the 'stars', if enough investment is made into them, or may become 'dogs' if ignored or neglected.

Dogs: Dogs are categorized as the businesses with a low market share in slow-growth industries. These businesses may have been cash cows at some time but have now fallen on hard times. They neither generate or require any funds and are cash trapped that fails to provide any return on investment. The businesses or products categorized as dogs should be allowed to die or be killed. Therefore, retrenchment is the recommended strategy for such businesses.

The summary of the BCG matrix and its strategic implications are illustrated as below:

Quadrants	Relative Market Share	Industry Growth Rate	Strategy
STARS	High	High	Expansion
CASH COWS	High	Low	Stability/ phased retrenchment
QUESTION MARKS	Low	High	Invest/retrench
DOGS	Low	Low	Retrenchment

The major advantage of BCG model is that it showcases a pictorial representation of the portfolio of businesses/products of a company which makes it easier to classify the businesses/products and the strategic alternatives to be implemented. The critics consider the BCG model to be a fundamental approach that lacks the practical applicability. It is however, difficult to measure the respective relative market share of different businesses in a given portfolio and above all to identify the market leader. Keeping these limitations in view, many other techniques of portfolio analysis have been proposed that are discussed in the following subsections.

4.2 GE Nine Cell Matrix: The General Electric (GE) Company in assistance with the consulting firm of McKinsey & Company developed a nine-cell corporate portfolio analysis grid in an attempt to overcome some of the limitations of the BCG matrix. GE matrix is henceforth, a more advanced technique than the BCG matrix in a sense that each dimensions of GE nine-cell matrix is a composite measure of several component factors whereas BCG matrix considered evaluating



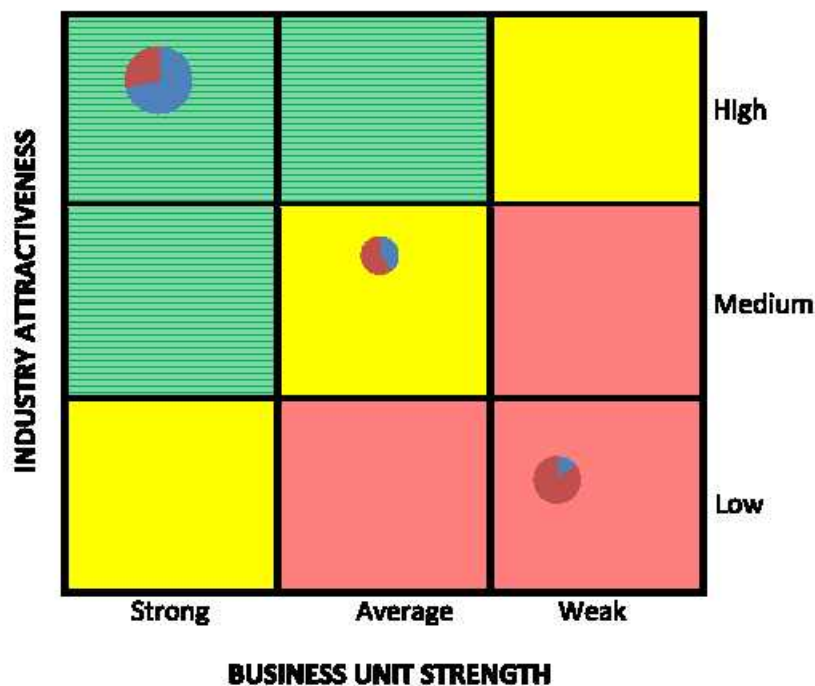
its two dimensions based on a single factor only. The two dimensions of the GE matrix are 'industry attractiveness' and 'business strength' which are determined by various other factors. However, BCG matrix uses the market growth rate as a proxy for industry attractiveness and relative market share as a proxy for the business strength.

Exhibit 3 demonstrates a GE nine-cell matrix. The vertical axis of the matrix represents the industry attractiveness while the horizontal represents the business strength. The industry attractiveness is

determined by the component factors such as: market size, market growth rate, industry profitability, demand variability, competitive intensity, macroeconomic factors (PESTEL). While, business strength is again a composite measure of several factors that includes relative market share, growth in market share, product quality, pricing, brand equity, distribution channel access, capacity utilization. The procedure for calculating the composite values for industry attractiveness and business strength respectively involves assigning each of the component factor a weight depending on its perceived importance and multiplying it with the estimated value using a 1-10 rating scale. It is important to note that the weightage assigned to each factor and the ratings given by the analyst are based on detailed research. The respective dimensions of GE matrix are calculated as below:

$$\text{Industry Attractiveness/Business Strength} = \text{factor value}^1 \times \text{factor weight}^1 + \text{factor value}^2 \times \text{factor weight}^2 + \dots + \text{factor value}^n \times \text{factor weight}^n$$

Exhibit 3: GE nine-cell matrix



The businesses in a firm's portfolio under consideration are plotted on to the matrix based on the composite values calculated for industry attractiveness and business strength respectively. The businesses or products are represented by circles. The sizes of the circles represent the size of the relevant market, while the market share is represented by using the circle as a pie chart. The position of the business in the matrix suggests an appropriate strategy for the business. However, it is to be noted that there are strategy variations within the respective zones or groups. The nine cell matrix is grouped into three zones of three cells each that are denoted by green, red and yellow colors for which the matrix is also known as traffic light signal model (Exhibit 4). For example, within the red zone the firm would be quick to divest its weak SBU operating in an unattractive market whereas it might undergo a phased harvest of a business of an average strength in the same industry. The three different zones are explained as below.

The diagonal cells (yellow) from lower left to upper right represents the businesses units that are mediocre in overall attractiveness. Such SBU's may require selective investment i.e. the resource allocation recommendation for these businesses may be of hold type strategy (wait and watch) that is aimed at stability and consolidation.

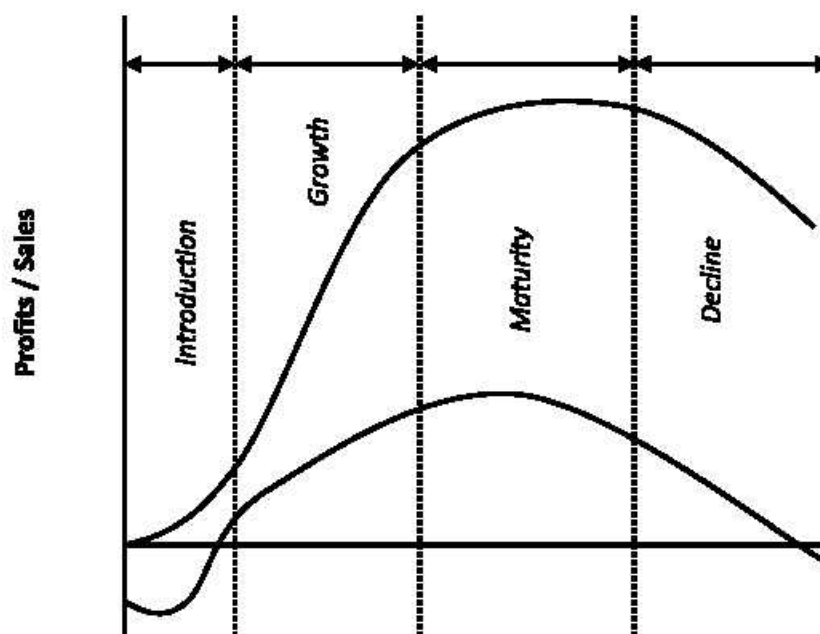
Exhibit 4: Traffic light signal model

(Source: <https://open.lib.umn.edu/principlesmarketing/wp-content/uploads/sites/6/2015/03/bb85afea7bd15cdde86e1763da0e4bc5.jpg>)

The three cells (red vertical lines) below the diagonal cells represents the SBU's that are low in overall attractiveness. The appropriate strategy for these businesses would be retrenchment or harvesting. However, the three cells (green horizontal lines) above the diagonal lines represent the businesses having strong competitive position in a highly attractive industry. These businesses require resources for further development and to ensure that at least their market share grows along with the growth in a given industry.

4.3 Product Life Cycle: Product life cycle (PLC) is yet another technique for making a strategic choice. It helps to map the stages in a product's sales history and assists in understanding that how the strategy under pursuance would be helpful to position the business units. Exhibit 5 demonstrates a classical PLC pattern.

Exhibit 5: Product Life Cycle (PLC)



The two axes of the PLC graph are sales/profits (X-Axis) and time (Y-Axis) where the profitability and sales of a product can be expected to change over a period of time. PLC, therefore is an attempt to identify the distinct stages in the life cycle of a product and to suggest the appropriate strategies. The four phases of the product life cycle are discussed in detail as follows:

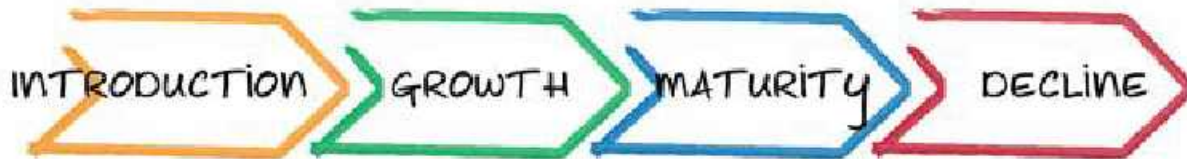


Image Source: <https://www.linkedin.com/pulse/20140916031354-63871420-will-your-products-and-services-live-forever>

Introduction phase: The first phase of the life cycle that is identified with slow acceptance of the product by the consumer, inconsistent production costs and hurdles in the initial set up of operations. This stage is generally characterized by low sales, low or no profits.

Growth phase: At this stage, the product is being able to overcome the initial hurdles and becomes equally accepted by the consumers, henceforth giving sharp rise to the demand of the product in the market. The revenues tend to grow because the firm starts to enjoy larger economies of scale that helps to achieve low unit cost of production and enhanced profit margins. The prospective firms try to enter the industry because of the high growth attained by the industry and ultimately leading to increased rivalry amongst the firms in the industry. Therefore, product differentiation and cost leadership approaches become more important for competing and retaining the market share.

Maturity phase: In this stage, the growth rate slows down and stabilizes. This is fairly a longer phase in the life cycle of a product. The product becomes mature and has a defined demand in the marketplace though has the capacity to generate constant or slightly declining profits. Therefore, the focus is to prolong the duration of this phase by way of product modifications or improvements so as to remain competitive in the industry.

Decline phase: This is a logical phase and is inevitable. The old products give way to new ones. However, the path of decline may differ for different products. Some products may have an abrupt ending while others may have a fairly long one in a more phased manner. This shrinkage could be due to markets becoming saturated, technological intervention making the products obsolete or change in consumers' preferences etc.

In this way, a strategic choice may be made based on the life cycle concept.

5. Subjective Factors in Strategic Choice

Strategic decision making is a complex activity where no one factor is sufficient for exercising a strategic choice. Strategy formulation is looked upon as an art as it is a science. The strategists should

be capable to sense the future opportunities and respond quickly to build a strong position for a business. It becomes imperative for one to understand that strategic choice is not entirely an analytical process but take into account the subjective factors too. It would be wrong to assume that subjective factors are irrational and non-analytical. Rather, they engulf many of the issues that cannot be dealt with help of analytical models. The subjective factors are basically intuitive and descriptive in nature. Some of the important subjective aspects of strategic choice are culture, politics, managerial bias and leadership style. For example: On shifting of Tata Motors Nano plant from Singur (West Bengal) to Sanand (Gujarat), Mr. Rattan Tata was asked that how he would be liked to be remembered, he said, "I would like to be remembered as somebody who had never hurt others and done work to the best interest of business." (source: 'Ratan Tata: Shifting from Singur cost us heavily' *Business Line*, 6 August, 2014). Six years hence, Mr. Tata termed shifting of Nano plant from West Bengal as a prudent move though to the group it gave a high negative cost. Shifting of Tata Motor's fully-built passenger car plants from Singur to Sanand (a distance of 2,000 Kms.), was perhaps an unprecedented operation of such a scale that might have ever happened anywhere in the world. Over 3,340 trucks were used to transport the plant from Bengal to Gujarat in seven months. This decision to shift the plant was announced in wake of the political unrest and farmer's agitation led by Mamata Banerjee (leader, opposition party) in West Bengal against the acquisition of farmland by the state government to have Tata build its factory. It was the group chairman's, Shri Ratan Tata firm commitment to deliver the nation a small car at \$ 2,500 that led to the strategic decision of shifting Nano's plant from Singur to Sanand (Exhibit 6).

Exhibit 6: Tata Nano – Rattan Tata' dream project



(Source: <http://www.smiruddhafrind-smirsinh.com/wp-content/uploads/2013/01/Jugaad-nano.jpg>)

6. Summary

The strategic choice process is a highly complex activity that requires a structured strategic thinking mechanism. One may note that no single technique or tool is adequate to make the strategic choice decision. The process of strategic choice is divided into four steps i.e. relating intent to the vision & mission, generating alternatives, assessing the options and selecting one option that fits with the intent. Further, the selection factors for making the strategic choice can be broadly classified into two groups: the objective and subjective factors. The objectives factors are basically data driven and are based on analytical techniques whereas the subjective factors are based on one's experience and personal judgment. The highly sophisticated analytical techniques include models such as Product Life Cycle (PLC), Boston Consulting Group (BCG) matrix, GE Nine Cell Model whereas; some of the important subjective aspects of strategic choice are culture, politics, managerial bias and leadership style.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Strategic Evaluation
Module Id	Module No.– 28
Pre-Requisites	Business Environment
Objectives	To study the strategic role of evaluating strategies for an organisation working in complex environment with disparate stakeholders to keep it aligned to its defined objectives
Keywords	Strategic evaluation, Strategic evaluation and control

QUADRANT-I

Module – 27 Ethics, Corporate Social Responsibility And Strategic Management
1. Learning Outcomes
2. Introduction
3. Concept of strategic evaluation
4. Nature of strategic evaluation
5. Benefits of strategic evaluation
6. Strategic evaluation process
7. Choosing the right evaluation approach
8. A strategic evaluation framework
9. Models for strategic evaluation
10. Strategic evaluation getting more difficult
11. Characteristics of effective strategic evaluation
12. When strategy fails, lessons from strategic evaluation

1. Learning Outcome:

After completing this module the students will be able to understand:

- ❖ Concept and nature of strategic evaluation
- ❖ Process of strategic evaluation
- ❖ Benefits of strategic evaluation
- ❖ Framework of strategic evaluation
- ❖ Models of strategic evaluation
- Characteristics of effective strategic evaluation
- ❖ Lessons learned on strategic evaluation from failed strategies

2. Introduction

“Organizations are most vulnerable, when they are at the peak of their success”- R. T. Lenz



One of the most influential quotes on “Change” is that “Change is the only constant”. In case we analyse the current business environment, we could easily reach the conclusion that even the rate of change is not constant. Rate of change of business environment is increasing, resulting in shorter products lifecycle and need for constant innovations to deal with the dynamism and cut-throat-competition consequently.



An organisation has to formulate innovative strategies to combat this ongoing competition battle, but formulating and implementing a well-thought strategy doesn't guarantee success in the real world. An effective strategy is one that is formulated and implemented in such a way that it takes full advantage of the environment of the organisation and help shine and utilise the strengths of the organisation, while making its weaknesses obsolete. As we have already discussed that the environment changes very fast, a strategy could become ineffective in a new environment. Therefore, a strategy must be evaluated times and again to see whether the strategy still proves to be best from the perspective of the changed environment.

Managers must consistently review, evaluate and control the strategies of the organisation to render those effective in the changing business environment.

As discussed above, Strategic Evaluation is vital to an organisation wellbeing. Timely evaluations can alert the management to problems and potential problems before the situation becomes critical. Strategic evaluation includes three basic activities:

- (1) Examining the underlying bases of a firm's strategy,
- (2) Comparing expected results with actual results,
- (3) Taking corrective actions to ensure that performance conforms to plans (though this is done in control process, but many authors club control process with evaluation process).



Figure 3
(Source: <http://curhatdura.blogspot.in/2013/11/the-nature-of-strategic-management.html>)

Timely and adequate feedback is the cornerstone of effective strategic evaluation. A manager must keep it into mind that the strategic evaluation is no better than the information it is based upon. Preconceived notions of the managers that are not based upon solid research may lead to ineffective strategy evaluation.

Strategy evaluation either ensures that the stated goals are achieved or signifies the deviation between stated objectives and actual status. Both the results help in increasing the productivity of an organisation by setting in the requisite controlling process to take care of the deviations.

Managers use performance indicators of the organisation using different parameters. They look for the increase in variables like revenues, profits, return on investment, earnings per share ratio, etc. Results of such analysis help organisations align their efforts for desired goals. However, managers must not take such analysis as the ultimate criterion because strategies are implemented to strike a balance between short-term profits and long-term growth and the aforementioned parameters might not gauge the success of the strategy in practical terms, or might give misleading results even, resulting in prompting inappropriate actions.

3. Nature of Strategic Evaluation

Strategic evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation. Regardless of the size of the organization, a certain amount of *management by wandering around* at all levels is essential to effective strategic evaluation. Strategic evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. A proactive approach must be adopted to nip the problems in the bud.



Figure 4

(Source: <https://2012wc.wordpress.com/tag/evaluation/>)

Evaluating strategies on a continuous basis allows an organisation to establish benchmarks of progress and to monitor more effectively. Some strategies take a long time i.e. years to implement; consequently, results thereof may not become visible for years. Successful strategies combine patience with a willingness to promptly take corrective actions when necessary.

Managers of the firm should be continually aware of progress made toward achieving the firm's objectives. As critical success factors for the organisation change, managers should involve themselves in determining appropriate corrective actions. If assumptions and expectations deviate significantly from forecasts, then the organisation should renew strategy-formulation activities. In strategy evaluation, like strategy formulation and implementation, people make a real difference. Through the active involvement in the process of evaluating strategies, managers and employees become committed to keep the organisation achieve its defined objectives.

4. Benefits of Strategic Evaluation

Following are the major benefits of Strategic Evaluation Process:



Figure 5(Source: http://www.huffingtonpost.com/ayodeji-awosika-/10-useful-ways-to-choose-the-right-direction-in-life_b_9192982.html)

Evaluation provides strategic direction and ensures management that the organisation is heading in the right direction and that the corrective action will be taken where needed.



Figure 6(Source: <http://www.focuseduvation.com/careers/>)

Evaluation provides guidance to the management and employees to enable them learn how they are performing against the benchmark and what needs to be done to improve performance.



Figure 7(Source: <http://www.businessmanagementdaily.com/45318/how-to-help-employees-build-confidence>)

Information about the performance as per the standards inspires confidence in the management and employees. Those within the organisation are likely to be more motivated to achieve better performance in order to improve their track record. Those external to the organisation- customers, suppliers, government, shareholders, etc. are likely put more credence to the performance and potential success of the organisation.

5. Strategic Evaluation Process

As discussed earlier, evaluation plays a cardinal role in strategic management. Its role is to critically assess how well or bad things are going at every phase of the strategic management process; so that the necessary actions may be taken to improve the performance of the organisation.

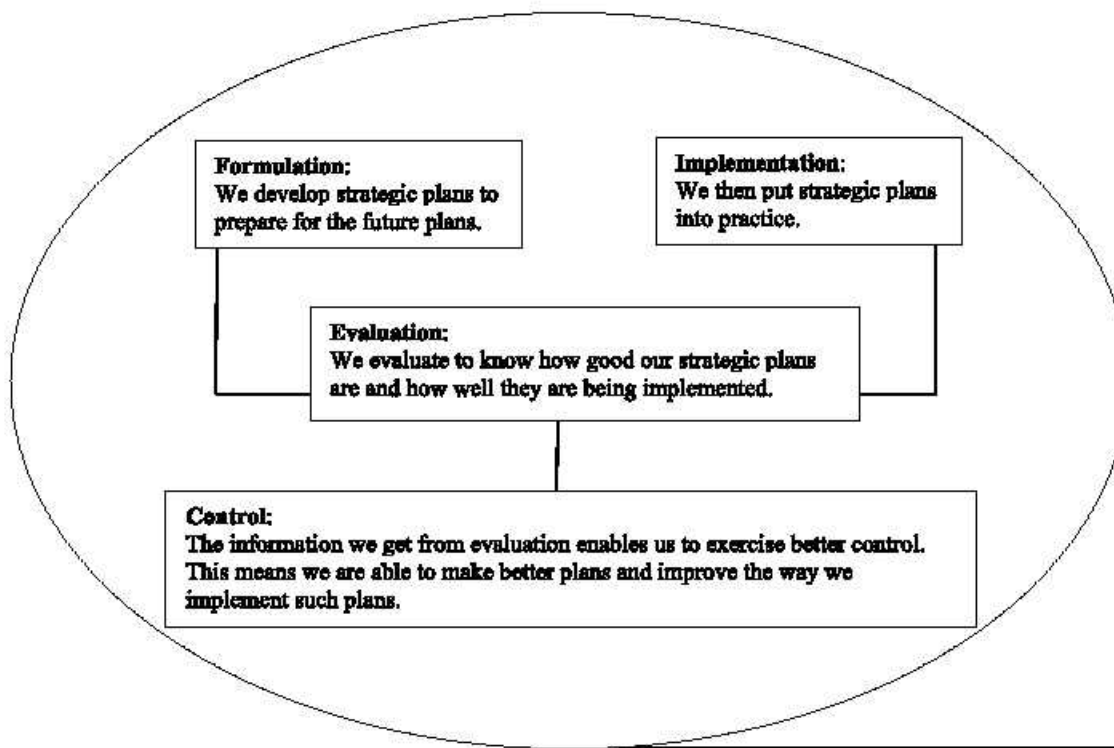


Figure 8(Source: HRC Group, Strategic management briefing papers (1989))

The terms 'evaluation' and 'control', although almost always used together, are not necessarily the same thing. Figure above shows the related and yet different roles played by Evaluation and Control in the strategic management process.

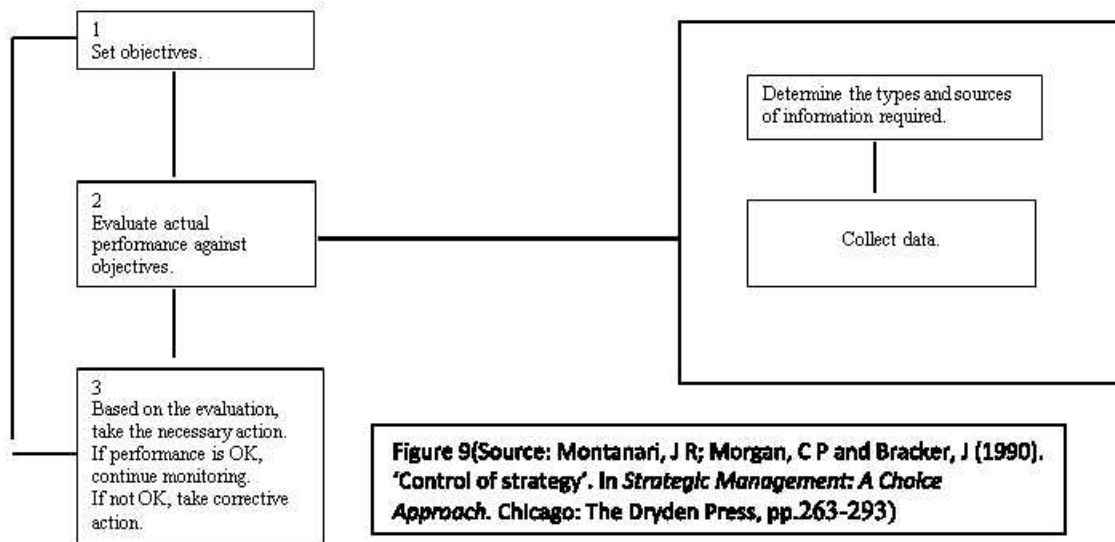
From the figure above, it is clearly evident that the Strategy evaluation means to find out what is going on. It encompasses collecting and analysing information about how well the formulated strategies have been implemented. After getting the evaluation results, we must decide for the appropriate action (s) to be taken. If, everything is as per the planning, then we have no problem; all we need to do is to continue doing what we are currently doing (or try to do even better on the same lines). However, if results show that some things aren't going well or as per the plan, then we have to eliminate these trouble spots.

If our formulated goals and/or implemented plans are so ambitious that they cannot be achieved, then we should be more realistic and should make them feasible and viable. If our human resources are not competent or prepared to follow the Implementation process, then we should impart training. Evaluation is an inseparable part of overall Evaluation and Control Process. An organisation might end up taking a wrong decision, if the Evaluation Process is not conducted well.

6. Choosing the right evaluation approach

Ultimately the types of questions you ask, and the criteria you set will depend on the evaluation approach you follow.

Approach 1-Approach 1 is shown in Figure below.

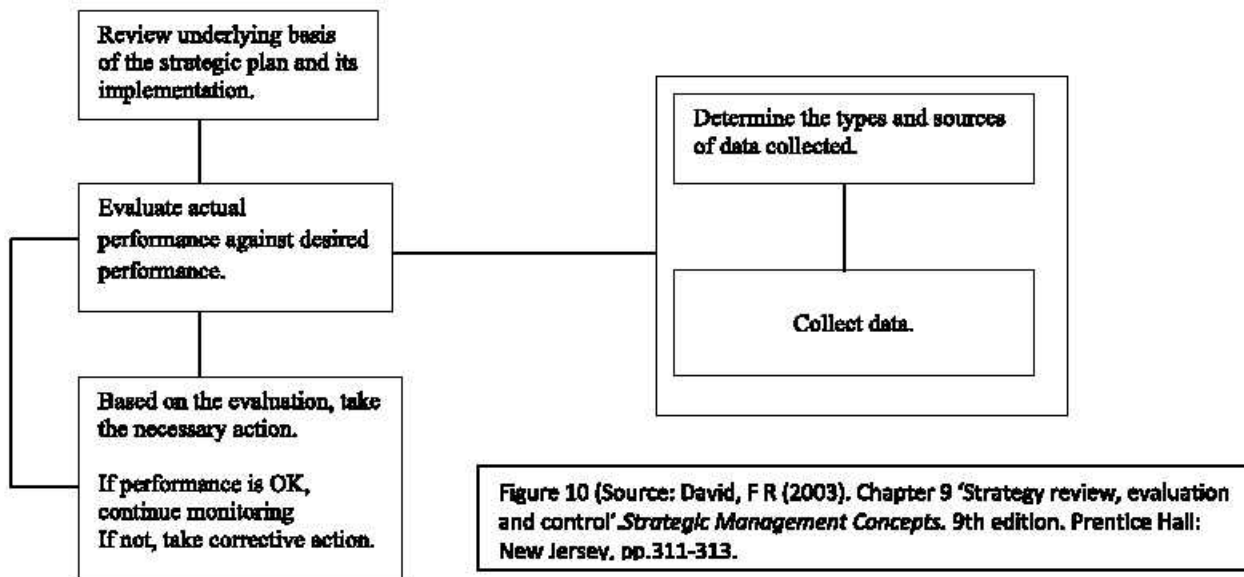


This approach zeroes in right away on the targets (usually the goals or objectives as stated in the strategic plan) and assesses everything from that basis. It focuses on questions such as: Are the objectives appropriate under current circumstances? If not, what has changed the internal or external environment? Should the objectives be changed in view of any identified

environmental changes? As these questions indicate, approach 1 does a lot of backtracking, constantly checking to see if targets remain in consonance with present or anticipated conditions.

Approach 2- Shown in Figure below, this approach casts a wider net right from the word go. Instead of going directly to the targets, It starts off with a review of the basis of the whole strategic plan. This means seeking to validate every major aspect of both, the strategic plan and the way it is implemented.

The difference between the two approaches is that the first assumes the strategic plan is valid and focuses on areas that require attention: the second first examines whether the plan is valid and then proceeds from there. This second approach is more comprehensive, but is time consuming and therefore, more expensive).



Your choice of approach will depend on the evaluation requirements of the organisation and on the resources you have for conducting evaluation and control. Both the approaches, however, raise the question of how in-depth a review should be.

Experience shows that many organisations get bogged down in details. The type of review you choose depends on two factors: the relative importance of the issue/problem and the strategic health of the area being evaluated:

- Large-scale reviews are clearly for those areas facing a major problem, or where a potential opportunity may make a significant impact.
- Medium-scale reviews are for areas that may be meeting their targets but have a few important issues ahead that may require a slightly modified change.
- Small-scale reviews are for areas where there are no real problems or dangers lurking on the horizon, and all that is needed is to monitor the situation.

Assessing the type of review or evaluation you require before you actually start is indeed a good way of making efficient use of time and money and of focusing on the most essential

issues. Remember the 80/20 rule: concentrate on those areas that will produce the majority of results.

7. A strategic evaluation framework

The evaluation process is followed by the control process and corrective actions are almost always needed except in the following two situations:

1). Internal and external factors have not significantly been changed.

(2) The firm is moving satisfactorily and steadily toward the achievement of stated objectives.

Therefore, the arguably one of the most important task of the evaluation process is to measure the performance of the organisation in terms of the parameters that could portray whether the organisation is moving in the desired direction. Let's focus on this aspect below.



This activity includes comparing actual results to expected results, investigating deviations from what was planned, evaluating individual performance, and examining progress being made toward predefined objectives. Both long-term and annual objectives are commonly used. Criteria for evaluating strategies should be quantitatively measurable and verifiable. Effective control requires accurate forecasting. Failure to make desired progress toward accomplishing long-term and annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives.

Many variables can and should be included in measuring organizational performance.

A favourable or unfavourable variance is recorded at short intervals, and resultant actions needed are then determined.

Determining the most important objectives in the evaluation of strategies can be quite difficult. Strategy evaluation should be based both on quantitative and qualitative criteria. However, selecting the set of criteria for evaluating strategies depends on a particular organization's size, industry, strategies, and management philosophy.

Financial ratios are the most commonly used quantitative criteria to make three critical comparisons: (1) Comparing the organisation's performance over different time durations, (2) Comparing the organisation's performance to that of competitors', and (3) comparing the organisation's performance to industry benchmarks and averages. Some key financial ratios useful as in strategy evaluation are as follows:

1. Return on investment (ROI)

2. Return on equity (ROE)
3. Profit margin
4. Market share
5. Debt to equity
6. Earnings per share
7. Sales growth
8. Asset growth

However, some potential problems are associated with aforementioned financial ratios as quantitative criteria for evaluating strategies. First, most quantitative criteria serve for annual objectives rather than long-term objectives. Also, different accounting norms and thus methods provide different results on many quantitative criteria. For these and such other reasons, qualitative criteria are also considered in evaluating strategies. Human factors such as high absenteeism and attrition rates, poor productivity quality and quantity, or low employee satisfaction and commitment can be major causes of declining performance. Marketing, finance/accounting, R&D, or management information systems factors too can contribute to financial problems.

Some additional key questions that reveal the need for qualitative criteria in strategy evaluation are as follows:

1. How good is the firm's balance of investments between high-risk and low-risk projects?
2. How good is the firm's balance of investments between long-term and short-term projects?
3. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?
4. How good is the firm's balance of investments among different divisions?
5. To what extent are the firm's alternative strategies socially responsible?
6. What are the relationships among the firm's key internal and external strategic factors?
7. How are major competitors likely to respond to particular strategies?

Figure 12
(Source: <http://www.wolfcreekcompany.com/key-questions-asking/>)

8. Models for Strategy Evaluation

It is literally impossible to demonstrate that a particular strategy will prove to be optimal or to guarantee that it will even work. At best, we can critically analyse a strategy on some fundamental points.

9.1. Richard Rumelt Model

One such model is prescribed by Richard Rumelt wherein he suggests four criteria i.e. consistency, consonance, feasibility and advantage. Consistency and feasibility are mostly based

on internal assessment, whereas Consonance and advantage are largely based on external assessment of the firm. These four criteria are described below.

- **Consistency:** The goals and the policies of an organisation must be synchronised with the organisational philosophy, and its mission, vision and values. Strategy Inconsistencies may result in the following symptoms:
 - a). Managerial problems persist even after changing the problem personnel. The problems prove to be issue based rather than personnel based.
 - b). Interdepartmental rivalry reach the extent that the success of one department is seen or interpreted as the failure of the other.
 - c). If policies remain the bone of contention and issue related thereto keep on arising and put to top management on a regular basis.
- **Consonance:** Consonance refers to the measure of responsiveness of a strategy of an organisation for the individual trends and set of trends. We are well aware that an organisation operates in a complex environment and there lie many controllable as well as uncontrollable variables there in the environment. Business environment keeps on changing regularly and new trends emerge with the ebb of old ones. The new trends sometimes culminate from seemingly unrelated and sometimes more than one trends emerging in the society. Big malls emerged at suburban areas and highways relatively away from the residential areas only after the emergence of automobile industry that made it possible for the customers to do shopping in bulk and transport it home easily on their personal vehicles.
- **Feasibility:** Literally no organisation operates in Eden Garden and scarcity is the rule of the game. Any organisation has limited human and financial resources and specific capabilities. Therefore, a strategy must be framed keeping in mind the resources and the capabilities of the organisation. A strategy that takes away more financial resources than it should have may wheedle away company's profits and destroy the balance of long-term growth and short-term profits. JP group is an archetype of a wrong strategy leading to large infrastructure projects undertaken by the organisation with the help of assuming debts. Now JP group is a debt ridden company having its shares in single digits.
- **Advantage:** A strategy must thrive on the strengths of the organisation, making its weaknesses negligible. It must take advantage of the opportunities lying in the environment and must get the threats out of the way. Such a strategy if provides appropriate positioning to the organisation, culminates into competitive advantage. Reliance Industries being so large a global company with its proven credibility gets a competitive advantage by getting cheapest capital being exposed to global reach. Though most of the companies having such competitive advantage are large in size, some small companies too are able to get a competitive advantage through making a successful niche for themselves.



Figure 13
(Source: <http://www.livemint.com/Consumer/xfGx6PVwIXZO8J3CUUFEnO/Richard-Rumelt-Strategy8217s-strategist.html>)

9.2. Tilles Model

A 'classic' approach by Tilles (1963) has a different *modus operandi*. He offers the following key questions that must be considered when evaluating a strategy:

- 1 Is the strategy consistent internally?
- 2 Is the strategy consistent with the environment?
- 3 Is the strategy appropriate in view of available resources?
- 4 Does the strategy involve an acceptable degree of risk?
- 5 Does the strategy have an appropriate time frame?
- 6 Is the strategy workable?

To this list, other authors have added three more questions:

- 7 What is the position of our competitors in comparison to ours, and what is its implication on our strategic approach?
- 8 How are/might the competitors react to our strategy?
- 9 How competent is the strategist who put the strategic plan together?

Many of the assessment models overlook the last question. However it is very important to assess the competencies of the managers who put the strategy together.

From the discussion above, it can easily be surmised that success today is no guarantee of success tomorrow. The business environment changes so drastically that the competitive advantage may vanish completely with the passage of time with changed situations.

NOKIA, which was once thought to be the paragon of success, got literally wiped out.

NOKIA maintained the largest share in the mobile phone industry for years, but made

Figure 14 (Source: <http://update.com/hmd-nokia-reload/>)



two gross mistakes strategically. First, it could not grab the large emerging market of dual-SIM mobile phones and let Samsung and other new companies put their strong foot hold in this segment. Second, it couldn't see the advantage of adopting Android platform with its better avenues and continued with Symbian, its old love.

9. Strategic Evaluation, getting more difficult

The strategic evaluation is getting more and more difficult with the passage of time thanks to the following major reasons.

- Economies are becoming more and more global making the environment complex with zillions of variables connoting interdependence of economies on each other.
- The world was relatively more stable, but it is becoming more and more dynamic resulting in small product lifecycles.
- Technology transfer is getting easier and companies constantly develop new competencies to keep surviving and thriving in this cut throat competition.
- Competitors were few in number due to closed economies earlier. Now companies are becoming global and competing in foreign markets.

Because of the above reasons, planning and predicting future are becoming very difficult making strategy evaluation a tedious task.



Figure 15
(Source: <http://www.drcone.com/2014/10/06/a-biblical-response-to-difficulty-in-life/>)

10. Characteristics of an effective strategic evaluation

Strategic evaluation must meet the following basic requirements to be effective:

1. Evaluation must be economical. Too much information could be as bad as too little information.
2. Strategic evaluation should provide timely and executable information to facilitate corrective actions.
3. Strategic evaluation should be designed to provide a true picture on what actually is happening in the organisation.
4. Strategic evaluation process must foster mutual understanding, trust and cooperation from different parts of the organisation.
5. Strategic evaluation process must be simple, not complex or restrictive.
6. There is no fit-to-all evaluation process and every organisation must design it taking into consideration millions of variables affecting it.

When strategy fails: Lessons from Strategy Evaluation

There is perhaps no better way of stressing the importance of evaluation than by stating some lessons on failure.

The review of literature suggests that it is very much likely that if a proper evaluation system is set in place, problems could be detected earlier, and perhaps resolved before they could have done a serious damage.

The following are the major reasons that contribute to the failure of the well planned strategy by an organisation.

- Expecting results too fast.
- Lack of commitment of the top management throughout the entire process, or at some important stage.
- Too much complexity.
- Loss of momentum.
- Not educating people about strategic management.
- Inadequate line management involvement.
- Telling senior management what they want to hear.
- Too much form, very little substance.
- Isolation from the competitive environment.
- Extrapolation from the past
- Failure to differentiate.
- Inexperience in strategic management.
- Underestimating the nature and extent of disruption that can happen as a result of changes



Figure16
(Source: <https://tinybuddha.com/blog/when-following-your-dreams-results-in-failure-after-failure/>)

Summary

Evaluation mechanism is put in place to review every stage of the strategic management process to enable us carry on the success mantras and to learn from our mistakes. It is a means to collect information we might need to compare plans against actual performance, to ensure that things are working fine, and to anticipate, or correct, any faults or weaknesses in the system.

Effective evaluation can tell us what we are doing well and what we aren't. It not only reviews the implementation of the strategies, but serves to assess the validity of the strategic plans. It may not sometimes save an organisation from ruin, but may serve as the case history for other organisations on what to do and what not to do to be successful.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Models of Strategic Implementation
Module Id	Module No.- 21
Pre- Requisites	Strategy Formulation
Objectives	To operationalize and implement strategies using models
Keywords	Organizational Structure, Strategy Implementation, strategy formulation

QUADRANT-I

Module-20 Model of Strategic Implementation
1. Learning Outcome
2. Introduction
3. Interrelationship between Strategy Formulation and Implementation
4. Models of Strategy Implementation
5. 7-S Framework
6. Summary

1. Learning Outcome

After completing this module the students will be able to understand:

- ❖ The concept of strategy implementation
- ❖ Interrelationship between strategy formulation and implementation
- ❖ The importance of organizational structure in strategy implementation
- ❖ The McKinsey 7-S Framework

2. Introduction

Strategy implementation is critical to a firm's success. Simply formulating a strategy does not suffice the purpose of a corporation; the strategy has to be effectively implemented so as to be acknowledged as a good strategy. There has to be translation of strategic thought into strategic action. Though strategy formulation is the proposed action to meet the intent of the organization; the implementation on the other hand stresses on who, when, where and how of achieving the desired organizational goals and objectives. In order to have a competitive edge over its competitors, the organization with a superior strategy needs to have a superior ability to execute a strategy. Therefore, to make a formulated strategy operational, an organization must have a control system that could well monitor and regulate the deviations from the proposed future path. As a result the strategist have to overcome barriers that impede the smooth implementation of the strategy such as change in the circumstances, the mismatch between the cultures and values that of organization and individuals, resistance to building a common system acceptable to the organization as a whole. Hence, it becomes imperative to address these needs by adopting models that relates to human resources and organizational fit for successful strategy as an outcome.

3. Interrelationship between Strategy Formulation and Implementation

It is however, important to note that in real life, strategy formulation and strategy implementation processes are intertwined. Therefore, the relationship between the two could be best understood by their

interdependence, though as a discipline two are viewed as different phases of strategic management process purely because of the sequential and skill needs. However, strategy formulation phase involves largely conceptual and analytical activities and is a top management function whereas strategy implementation is more to do with administration and involves middle and lower management. Further, there exist two types of linkages between these two phases of strategic management that are forward linkages and backward linkages. The forward linkages deal with the impact of strategy formulation on the implementation whereas backward linkages relates to the relation in the opposite direction. The forward linkage means that with the formulation of the new strategies or reformulations leading to modified strategies, many organizational processes and structures have to undergo change as per the requirements of the new or modified formulated strategy. Therefore, the formulated strategy provides the direction for the implementation of the strategy. On the other hand, the formulation process of the strategy is also affected by the factors related to implementation. The organizations tend to consider those strategies which can be implemented with the help of present structure and resources. Such incremental changes underway over a period of time, in turn assist the organization to move up from its present position to the desired state.

4. Models of Strategy Implementation

Implementation of a strategy involves identification of the organization's structure and processes so that the necessary tasks are assigned and the performances are well evaluated, monitored, controlled and regulated to achieve the ultimate organizational objectives. Depending upon the priority given to the strategy, the processes are closely watched and revamped for successful implementation of the strategy.



Strategic fit is one of the important factors that express the degree to which an organization aligns the business strategy with its values, resources, and structure to positively impact performance. A good strategic fit indicates how a strategy needs to be “fitted” with its external environment and how the internal organization needs to be properly meshed with the strategy. The casual dynamics of a good fit can be outlined as follows:

(Image Source: <http://pinchange.com/wp-content/uploads/2012/12/Success-Graph-300dpi-280x190.png>)

1. The first step involves identifying the organization's management processes and the fundamental structure that could support the formulated strategy.
2. Secondly, to transform the organizational complex demands into simplified ideologies and processes so that they are easily perceived by all stakeholders.
3. This simplicity evolves into a holistic understanding that helps to reinforce the fit and minimizes the need for extensive coordination among different divisions of the organization.
4. Therefore, an outstanding performance can be sustained by emphasizing the basic fit among the formulated strategy, structure and process.

Exhibit 1 highlights the evolution of management processes at Tata Ceramics Limited with Titan's intervention in the business to turnaround the profitability of TCL.

Exhibit 1: Titan does wonders for Tata Ceramics

Tata Ceramics Ltd. (TCL), was incorporated in 1991 as an associate of Tata Power. Being an export oriented unit, nearly 90 per cent of its turnover came from European markets, Australia and New Zealand. Tata Ceramics Ltd. manufactured bone china tableware for some of the world's best brands such as Wedgwood, Royal Doulton and Churchill. Despite that the company was meeting all stringent international quality standards; it was unable to scale up the size of its business. Its plant at Kochi, Kerala having a production capacity of 10 million pieces a year was underutilised (50 percent), leading to losses for the company. The main reason attributed to the falling sales was the declining consumer preference towards bone china crockery in export markets.

Tableware crafted for the Rashtrapati Bhavan



It was in 2013 that Bhaskar Bhat, the MD at Tata group's Titan Company Ltd. was appointed Chairman of TCL and was bestowed with the task of reviving the company. He was the man behind the scene who oversaw Titan's diversification from a watch maker to a jewellery and eyewear retailer. He was once again entrusted to bring in a similar transformation in TCL.

The strategy adopted by Bhat was to shift the focus to the domestic market, for which researches were undertaken to explore the potential. Analysing the tableware market in India to be unorganised, the thrust was to know that how to make the local market organised and grow. Moreover, there lied an opportunity that many Indian middle-class households were moving from steel tumblers to crockery and TCL had a competence in manufacturing world class bone china table ware. Henceforth, the thrust was to continue the growth in exports along with establishing its presence in the domestic market.

Titan's mandate was to turnaround the profitability for Tata Ceramics Ltd., where Titan operated at an arms-length. In an attempt to align the business strategy with its resources, capabilities and structure to impact the performance positively, the company established the long and short term objectives of this turn-around. In the short run, focus was laid on optimizing the year-on-year cash flow by streamlining the production range and to launch a new array of products based on consumer's needs and preference which holds an immense potential. Further measures were taken for improving processes at the manufacturing back end, strengthening the existing HoReCa (Hotels, Restaurants and Cafes) and distributor accounts through well-planned replenishment, improved service standard and identifying new high-worth segments for the existing range of products (for instance, corporate gifting). On the other hand in the long run, keeping in mind Titan's expertise in new market entry, there lays ahead a very strong pitch that Tata Ceramics may launch a retail-brand for the domestic market under the aegis of Titan.

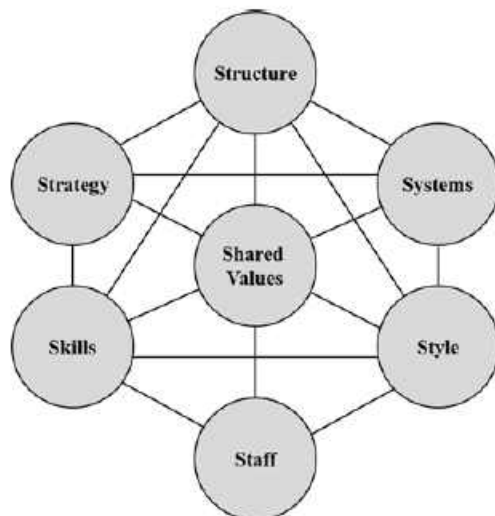
Source: <http://titaninnovationnewsletter.com/titan-turns-around-tata-ceramics/> as accessed on 07 August 2016

5. 7-S Framework

McKinsey&Company

The 7-S model was developed in 1980s by McKinsey consultants Tom Peters and Robert H. Waterman. The purpose of the model is to

analyze how well an organization is positioned to achieve its intended objective. The framework helps to identify the elements in the organisation that need to be aligned to improve performance. It is important to note that implementing a strategy is not only a matter of structure, although it remains one of the key elements. Therefore, the 7-S model highlights the seven different internal aspects of an organization that need to be aligned together to achieve effectiveness in an organization are: Strategy, Structure, System, Skills, Staff, Style and Shared Values. These seven elements of organization are divided into 'soft' and 'hard' areas. Strategy, Systems and Structure are defined as the hard elements as it is much easier to identify and manage them when compared with the other elements such as Style, Staff, Skills, and Shared Values which are termed as 'Soft Ss'. The 7-S model is graphically depicted in the figure1 as below:



Hard S	Soft S
Strategy	Style
Structure	Staff
Systems	Skills
	Shared Values

Figure1: McKinsey 7-S Model

The graphical representation of the model depicts that there exists multiple internal factors (7S) that need to be aligned to improve the organization's performance. Secondly, all the factors are interconnected and it is perhaps not only difficult but impossible to make significant progress in one area without making any in others.

The 7-S model is a valuable tool that helps the company to frame the organizational design in times of uncertainty. However, the most common uses of the model are:

- To determine how best to implement a new strategy.
- To facilitate organizational change.
- To improve the performance of the company.

Let us now try to understand the 7S one on one in detail for a better understanding of the framework.

Strategy: Strategy may be defined as the actions undertaken by a company in response to the changes in its external environment. It is the way by which the company positions itself vis-a-vis its competitors in

the industry to achieve competitive advantage. One of the pre-requisite for successful implementation of strategy is that the strategy has to be simplified, for it to be easily perceived and communicated to the entire stakeholders.

Alfred Chandler was the first to point out that 'structure follows strategy'. Definitely, a better understanding of the strategy helps to rationally align the organization's structural design but the statement 'structure follows strategy' may not stand valid in isolation. Neither a good formulated strategy nor a well structured organisation is self-sustained for successful execution of a strategy. There lie many more dimensions that help in successful implementation of the strategy.

"Structure follows strategy"

Alfred Dupont Chandler Jr.
American Professor
1918-2007



(Source: <https://danielelizzo.wordpress.com/category/alfred-dupont-chandler-jr/>)

Structure: The Structure is defined as the organizational chart of the firm that represents the way portfolio of business divisions and units are organized. The very basic purpose of a structure is to divide the tasks/activities and then to provide coordination between them. Organizational structure is a trades-off between specialization and integration. By way of structure, a company takes stock of its internal competencies and capitalise it to achieve organizational objectives. No doubt, as the complexity and size of businesses increases with time; the dimensions along which companies want to divide its tasks also changes. The various possibilities for division before a company may be based on function, product, division, geography, strategic business unit and probably more. Structure is one of the most visible and easy to change elements of the framework.

(Source: <http://strategisch-adviseur.nl/wp-content/uploads/2013/03/hardjes.jpg>)

System: If a company wants to bring in a change without disrupting the structure of the organization then system is one of those elements. Systems are the processes and procedures, both formal and informal that makes an organization accomplish its day-to-day business activities. Cost accounting procedures, training systems, budgeting systems, management information systems are the examples of systems within a company. For successful strategy implementation a company must have its systems in place. For example, if a bank wants to decrease the waiting time for its customers while availing retail banking services at the branch; the bank needs to focus on its systems and sub-systems that could enhance the bank's effectiveness.

Image Source: http://daghealth.com/wp-content/uploads/2015/08/Fotolia_88089787_Subscription_Monthly_ML.jpg

Skills: We generally tend to characterize the companies by what they do best? Skills refer to the attributes or the capabilities that the company needs to acquire in order to reinforce its new strategies. Corporation like 3M that is known as the global innovation company had differentiated its products in the marketplace and created high entry barriers through its high levels of innovation. The people at 3M capture the spark of new ideas and transform them into thousands of ingenious products and practical applications that help make people's lives better. Skills are thus the tacit capabilities that are difficult or impossible for the rivals to imitate and enable the company to achieve competitive advantage over them. Image Source: <http://tridiversity.net/skills-requirements-for-different-types-of-engineering-degrees/>

Staff: The staff element relates to type and number of personnel within the organization. How they will be recruited, trained, motivated and rewarded. In today's knowledge-based economies, it is the people who make the real difference.



Image Source: <http://www.aisdit.com/wp-content/uploads/2014/11/STAFF.png>

For the successful implementation of the strategy, the organization has to assure that it has the right people to undertake the appropriate job. For example, it was in 2013 that Bhaskar Bhat, the MD at Tata group's Titan Company Ltd. was appointed Chairman of Tata Ceramics Limited (TCL) and was bestowed with the task of reviving the company. He was the man behind the scene who oversaw Titan's diversification from a watch maker to a jewellery and eyewear retailer and was once again entrusted to bring in a similar transformation in TCL.

Style: Style refers to the leadership approach of the top managers in the organization. How do the leaders interface with subordinates and others in the organization, and how do members interact with each other? Every organisation has its own distinct culture and management style that largely includes the values, belief, norms etc. which become the enduring part of organizational life. For example, the South Asia –

Head of General Electric, Banmali Agarwala laid emphasis on the new culture emergent in the organization that was driven by Jeff Immelt, GE's global CEO. It demanded its people to cut through the maze of politeness and to deliver their messages directly for enhanced performance. The intent of such a culture was that the people should not waste their time on being nice and polite to each other just because they want to avoid confrontations and don't want to displease anyone. The belief behind promoting such a culture hence was to promote constructive criticism that in turn would help the organization and its employees to come up with new and better ideas. Hence, the leadership styles of the top management have an important role in bringing in the required changes in the organization and thus helping in easy adoption of new strategies.



Image Source: <http://professionbiz.com/wp-content/uploads/2015/03/1c0c94c.jpg>



Jeff Immelt, GE's Global CEO

(Image Source: <http://static3.businessinsider.com/image/582396ba5124c954322aa8cf480/general-electric-co-chief-executive-jeff-immelt-speaks-at-a-news-conference-in-boston-massachusetts-in-this-april-4-2016-file-photo-reutersbrian-snyderfiles.jpg>)

Shared Values: Shared values are the fundamental ideas or the guiding concepts around which the business is built. These are a set of beliefs, often unwritten that goes beyond the conventional formal

statement of organizational objectives. These values and common goals bind the employees towards a common destination as a cohesive team. On the contrary, the organizations with weak values and common goals often tend to exhibit difference between the employees personal and organizational goals, where employees are found following their individual goals different from that of the organization. For example, the aspiration to 'Lead with purpose' remains the area of focus for Johnson & Johnson that drives the company to create innovations that significantly impact human health and well-being. In the same way, 3M's slogan 'Science. Applied to Life' inspires people to apply science and innovation to make a real impact in every person's life around the world. These shared values may carry a very little meaning for the outsiders, who are not well conversant with the organization but for the insiders these values hold higher level of significance.



(Source: <http://www.focusconferences.nl/assets/image/666x/1/shared-value.jpg>)

Therefore, it is to be noted that the solution to problem of implementing the strategy is not only sufficed by bringing a change in the organization structure but the reasons lie among the other variables as highlighted by the 7-S framework.

6. Summary

Strategy implementation remains one of the crucial steps in the process of strategic management process – intent, analysis, choice, and implementation. Implementation refers to as a process through which strategies are put into action by programs, budgets and procedures. For a strategy to be successful, the strategic thoughts need to be translated into strategic actions. A well framed strategy is a half way to success till it is properly implemented. However, in real life, strategy formulation and strategy implementation processes are intertwined. The strategy formulation phase involves largely conceptual and analytical activities and is a top management function whereas strategy implementation is more to do with administration and involves middle and lower management. The implementation of a strategy involves identification of the organization's structure and processes and to align them with the proposed strategic intent. For which the necessary tasks are assigned and their performances are evaluated, monitored, controlled and regulated to achieve the ultimate organizational objectives. The traditional processes evoke

only aligning the organizational structure for successful implementation of strategy. Whereas, the 7-S framework highlighted that implementing a strategy is not only a matter of structure, although it remains one of the key elements. The framework describes various internal aspects of an organization that need to be aligned together to achieve effectiveness in an organization that are: Strategy, Structure, System, Skills, Staff, Style and Shared Values. These seven elements of organization are further divided into 'soft' and 'hard' areas. Strategy, Systems and Structure are defined as the hard elements as it is much easier to identify and manage them when compared with the other elements such as Style, Staff, Skills, and Shared Values which are termed as 'Soft Ss'. The softer components of the model are the most challenging elements as they are difficult to change. However, if soft 'S' are altered, they can have a great impact on the hard 'S' i.e. structure, strategies and the systems of the organization.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Strategic Risk Management
Module Id	Module No. - 38
Pre-Requisites	Basic Knowledge Strategy
Objectives	To study the different types of strategic risk, risk assessment process and approaches to manage the strategic risk
Keywords	Strategic Risk, Strategic Risk Management, Risk Assessment, Enterprise Risk Management

QUADRANT-I

Module – 38 Strategic Risk Management
1. Learning Outcome
2. Introduction
3. Concept of Risk
4. Enterprise Risk Management
5. Strategic Risk Management
6. Types of Strategic Risk
7. Strategic Risk Management Process
8. Approaches to Strategic Risk Management
9. Summary

1. Learning Outcome:

After completing this module the students will be able to understand:

- ❖ Concept of risk and strategic risk
- ❖ Concept of enterprise risk management and strategic risk management
- ❖ Different types of strategic risk
- ❖ Risk assessment
- ❖ Risk management through different approaches

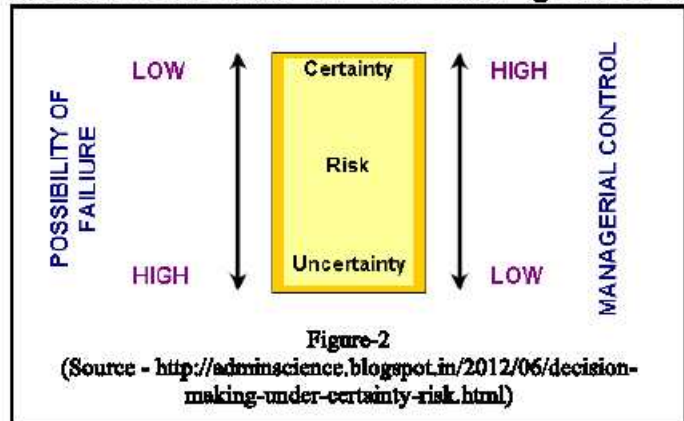
2. Introduction:

The different important phases of strategic management like strategy formulation, implementation, evaluation and control etc. involve a time horizon and are based on number of assumptions related to different aspects like market, finance, economy and so on. Over a period of time, there are changes in physical environment, especially in the country of investment, the economic activities of the industry, the market place and the financial arena, which leads to risk of success of strategy and achievement of overall objective of the organization. That is why the identification, measurement and management of such risk is very important to the success of organization.



3. Concept of Risk:

The term risk owes its origin to the classical Greek word “Rizikon” meaning root. The concept of risk is based on the degree of uncertainty. An event has many parameters associated with it. Depending upon their nature, some may be spatial and others may be temporal. When all the parameters are fixed, then the occurrence becomes a certainty. When some of those parameters are not clearly defined and the probability of their occurrence is not measurable, then event becomes uncertain. Between the two



extremes of certainty and uncertainty, lies the risk (Figure-2). Greater the uncertainty involved, larger the risk associated will be. It is the probability of occurrence of a hazardous event that adversely impacts the company. It is a potential harm that is likely to accrue due to future event, the probability for which can be measured. Risk usually entails a negative impact. The degree of this impact can be measured in terms of cost of assets, loss of revenue, loss of human life, or loss of reputation to an organization etc. The potential harm may arise from a future occurrence of an event that may lead to exorbitant increase in the cost or by a failure to achieve an expected benefit. Risk can be of different types depending upon its source, impact and incidence. Some risks will not be a threat to overall health of a company or its ability to achieve its objectives. For example, a temporary data centre outage can result in a short-term problem, but once recovered, the organization will be back on its track. Similarly there can be some significant risk events resulting in the irreparable loss that can not only impair the organization’s ability to meet its objectives but are also threat to survival of the organization as well. So the risks are simply future problems that need to be avoided or mitigated.

4. The Enterprise Risk Management:

Certainly, risk management in the organization is not new. Different functional managers look at risk differently. HR looks at human capital risk e.g. retaining talent, minimizing turnover etc. Internal audit looks only at its set of risks. Finance manager looks at only financial risks and operational manager looks at risk involved in his area only (Figure-3).



Status was the same until past few decade or so when it was realized that all such risks are inter connected with each other. It was the early 2000s, when in the wake of high profile corporate failures, the concept of Enterprise Risk Management (ERM) emerged. It attempts to manage enterprise wide risk in an integrated fashion. In September 2004, the Committee of Sponsoring Organizations of Treadway Commission (COSO), which is recognized for providing guidance on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud and financial reporting, issued guidelines that defined enterprise risk management.

According to COSO, ERM is a process, affected by the board of directors, management and other personnel, involved in strategy setting and across the enterprise, designated to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of the objectives of entity. The publication of this definition of ERM was a milestone. Yet today companies still struggle with how to implement an effective ERM system. That may be because holistic performance management is still evolving and many companies lack a culture or mechanism for managing cross enterprise issues.

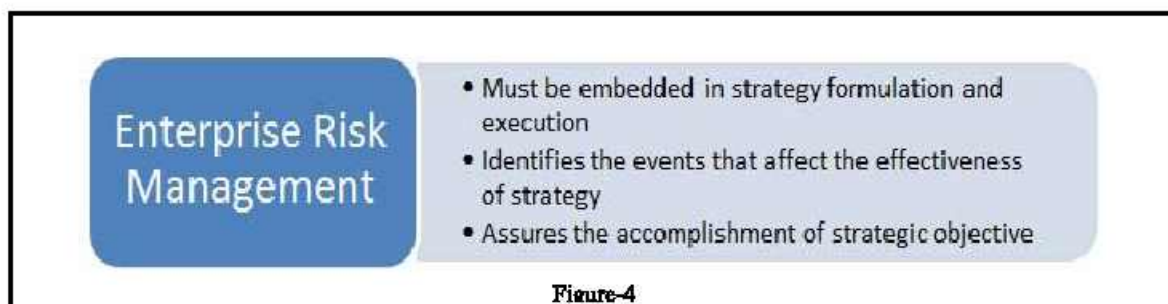


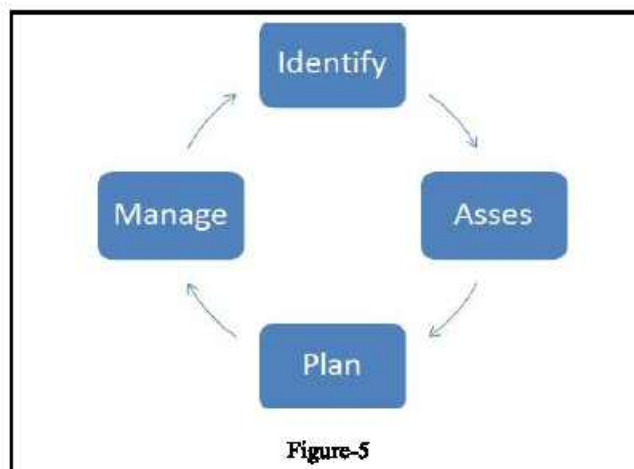
Figure-4

Three key components of COSO's ERM definition relate to strategy and strategy implementation: (a) ERM is directly related to strategy setting. For effective ERM, it must be embedded in strategy formulation and execution. (b) ERM is designated to identify events that may affect the effectiveness of its strategy. (c) ERM is to provide a reasonable assurance for achieving organizations strategic objective (Figure-3). So it becomes very clear that Strategy and ERM needs to be aligned and integrated. That is why, effective strategic risk management becomes essential for achieving the objective of organization.

5. Strategic Risk Management:

Increase in the significant risk exposures has given rise to a focus on strategic risks and strategic risk management. Strategic risks are those risks that are most consequential to the organization's ability to execute its strategies and achieve its business objectives. These are the risk exposures that can ultimately affect shareholder value or the viability of the organization. Strategic risk management is organization's response to strategic risks. Strategic risk management can be

defined as “the process of identifying, assessing, planning and managing the risk in the organization’s business strategy—including taking swift action when risk is actually realized.” (Figure-5) Strategic risk management is focused on those most consequential and significant risks to shareholder value that requires the time and attention of management and the board of directors of the company.



It involves understanding the strategy clearly, all the risks involved in adopting and executing the strategy. It involves evaluating how a wide range of possible events and scenarios will be affecting the formulation and execution of strategy; and the ultimate impact on company’s value. It requires the organization to identify tolerable level of risk as a guide for strategic decision making. It is continuous process that should be embedded in strategy formulation and execution. Effective strategic management is built around a clear understanding of how much risk the organization is prepared to take in order to meet its strategic objectives and a timely and reliable evaluation of how much risk it is actually taking. Thus, board of directors need to improve their focus on risk by integrating risk management into their routine strategic evaluation. The success of strategic risk management depends upon that how well the strategic planning and risk management is integrated and coordinated; and how well the performance measures are aligned with risk management.

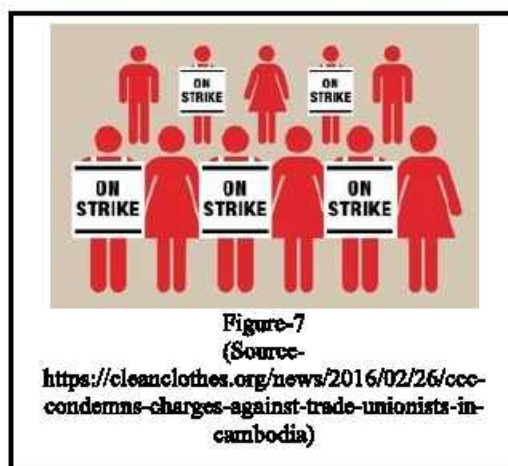
6. Types of Strategic Risk:

In order to design an efficient structure for risk management and to help in allocating the responsibility for managing different types or risk, risk need to be appropriately categorized (Figure-6). One simple method can be to categorize the different types of risks on the basis of functional activities like financial risk, operational risk, or IT risk etc. It is the responsibility of the board of directors to ensure effective management of risk that are fundamental to the organization’s existence and prosperity and are having impact over day to day activities of the organization also. Keeping in the mind the said objective, different risks can be categorized as following:



6.1 Country Risk: It can be an area of concern when business is being started in a foreign country. It can be either in form in Government's control over raw material, licensing or some other key business issue. It can also be caused due to changes by political influence rather than company's influence. For example, nationalization was adopted by many socialistic governments at some point of time and then was reversed due to exigencies in the market economy.

6.2 Human Component Risk: Many changes have been observed in the labour and management relationship since industrial revolution. The birth of trade unionism and collective bargaining as a source of strength for labour has brought sea changes in the labour management thoughts (Figure-7). The application of turnaround strategies, restructuring, downsizing, business process reengineering etc. have faced many risks in term of human component such as safety nets for retiring employees, retaining existing employees to help them gaining new skills etc.

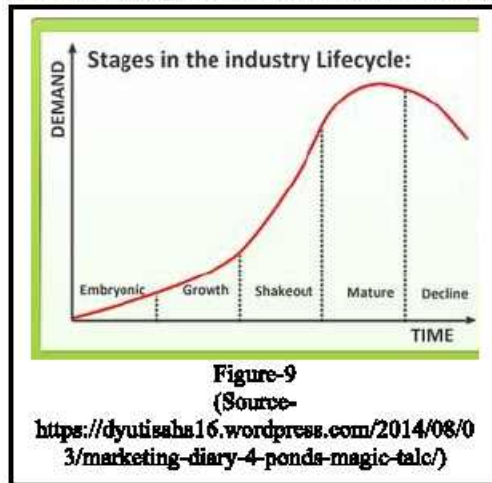


6.3 Financial Risk: Inflow of the capital in form of foreign direct investment may face the political risk at the strategic level. Policies favoring FDI may have toll against the policies favoring nationalization or strict government control. Inflow of capital through foreign institutional investors may face different risks caused by changes in the interest rate, political



and national exigencies. For example, the different interest rates in the different countries has introduced a risk that FIIs pull out funds from a country or enter another country in a big way, leading to a volatility in interest rates and their differentials. A thin margin of profit may lead to movement of FIIs from one country to another.

6.4 Industry Risk: This risk arises when a company itself faces extinction suddenly, due to



unavoidable reasons. Every industry is known to have a life cycle comprising different stages like introduction, growth, maturity and decline (Figure-9). Sometimes a company may have a fractured life and may face a sudden death. Mass customization has become the reality and industry has to face up the situation. Threats caused by the internal rivalry among existing companies have also added to the complexity of an industry.

6.5 Market Risks: Market volatility has always been a reason for deviation from the desired course. Markets are no longer protected and have resulted in diverse business risk of demand supply imbalances, unexpected technological changes and new exigencies in the corporate governance. The price mechanism has also changed. The belief that, price takes care of all the factors of production, is no longer correct because inefficiencies of any factor cannot be passed to the consumer. Customer behavior has become an important component of the value chain that needs to be carefully coordinated and thus adds to the risk.

6.6 Transition Risk: This risk may arise due to sudden technological obsolescence. This type of risk is more common in IT field when new products based on latest technology are introduced very frequently. The life of a technology which is normally a decade or so, suddenly finds itself out of market.

6.7 Stagnation Risk: The stagnation risk may be caused by sudden fall in the demand for products of a company due to recession or other reasons. This type of risk is more harmful for companies holding large inventories of raw materials and components. For example, when an automobile company is affected by stagnation, the business of different manufacturer supplying components will also suffer.

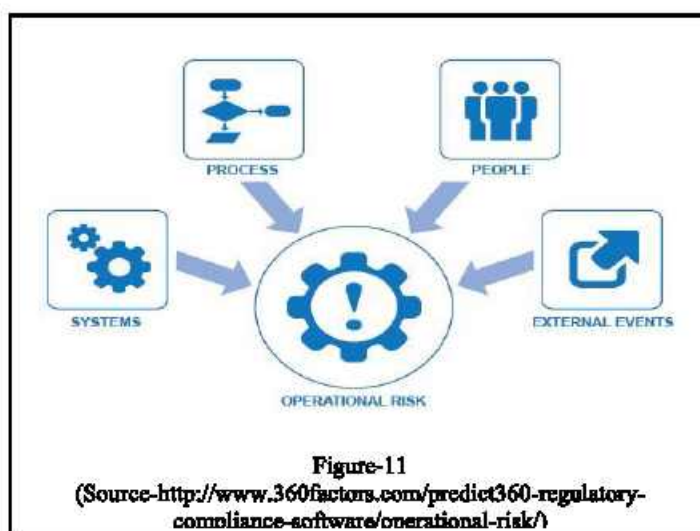
6.8 Unique Competitor Risk: This risk may arise due to sudden entrance of an unexpected competitor. This risk is a culmination of the big resource, high technology, and managerial skill that the new competitor possessed. For example, entry of big corporate houses like Reliance, Bharti and Birla Groups etc., in the retail trade has posed a risk for small shopkeepers and street vendors.

6.9 Brand Risk: Every company builds its market share on the basis of its brand equity and brand loyalty. If due to any reason, such brand loses its sheen suddenly, the brand risk emerges and company may face virtual extinction. This unexpected happening can take place due to loss of confidence from the customer on the value of brand and may not be able to market its products for a substantial period of time (Figure-10).



6.10 Project Risk: This type of risk arises when a project fails to take off due to sudden and drastic changes in some of the basic assumptions. A project normally extends over a long period of time and entire economy of a project is based on many assumptions. In case, such assumptions are not fully tested or verified, the project may come to a sudden failure.

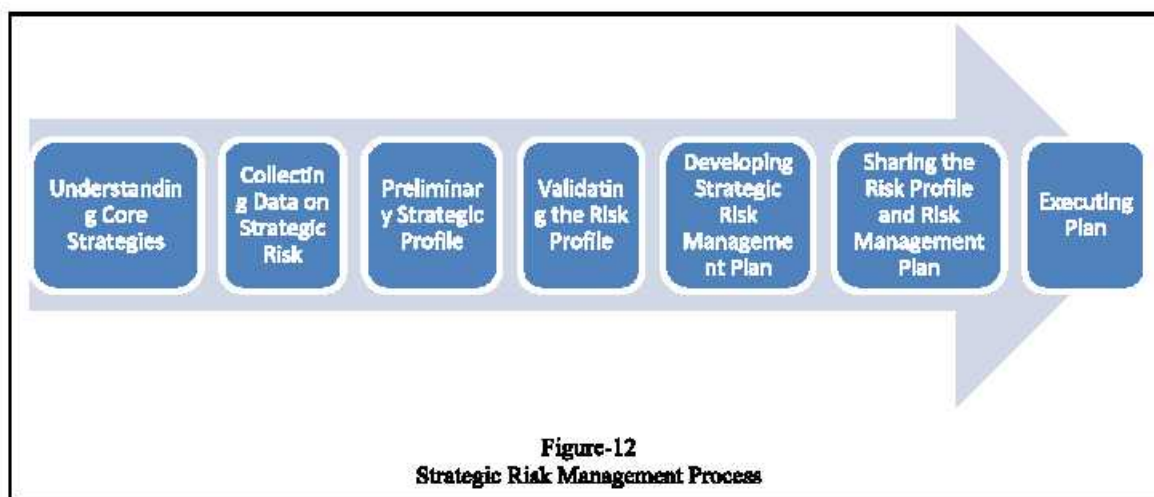
6.11 Operational Risk: Operation risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from any external events (Figure-11). It arises from execution of the normal day to day operations of the company. It is a risk associated with any failed process within the organization for example, any type of fraud in the organization, damage to the physical assets, any kind of business disruption and system failure etc.



7. Strategic Risk Management Process:

Assessment of the strategic risk is very much essential for the effective risk management. Strategic risk assessment is a systematic and continual process for assessing the most significant risk driven by company's core strategies. Conducting an initial assessment of risk is always a valuable activity and should involve senior management and board of directors. If risk strategic risk assessment is not embedded and owned by management as integral part of business processes, the strategic risk management will rapidly lose its impact and will not add any value to the organization. Following steps may be undertaken by an organization for managing the strategic risk:

7.1 Understanding the Core Strategies: To gain a thorough understanding the strategies of company is an initial step for the risk assessment process. Some organizations may have well developed strategic plans and objectives, while others may be much more informal in their articulation and documentation of strategy. In either case, the assessment must develop an overview of the organization's key strategies and business objectives. This step is critical, because without these key data to focus around, company will not be able to prioritize the risk. It helps in establishing a foundation for integrating risk management with the business strategy.



7.2 Collecting Data on Strategic Risk: After having a deep understanding of the strategies, next step is to collect the information and data related to strategic risk. Said information can be collected by conducting surveys and interviews of key executives, internal and external auditors and other people whose views can be significant to the types of risk involved such as compliance or safety. Views of these key individuals regarding potential emerging risks can also be considered.

7.3 Preparing Preliminary Strategic Profile: After analyzing the information collected in the previous step, the next stage is to draft a preliminary profile for strategic risk of the organization. The extent of information to be disclosed in the profile will be depending upon the needs of the organization. For some organizations, simple lists are adequate, while others may want more detail as part of the profile. At a minimum, the profile should clearly communicate a concise list of the top risks and their potential severity or ranking. Color coded reports or "heat-maps" may be useful to ensure clarity of communication of this critical information.

7.4 Validating the Strategic Risk Profile: The preliminary risk profile must be validated, refined, and finalized. Depending on how the data gathering was accomplished, this step could involve validation with all or a portion of the key executives and directors. It is critical, however, to gain sufficient validation to prevent major disagreements on the final risk profile.

7.5 Developing Strategic Risk Management Plan: Once the risk profile is finalized, the next phase is to develop a strategic risk management plan depending upon the risk profile. While significant effort can go into an initial risk assessment and strategic risk profile, the real product of this effort should be an action plan to enhance risk monitoring or management actions related to the strategic risks identified. The ultimate value of this process is helping and enhancing the organization's ability to manage and monitor its top risks.

7.6 Communicating the Strategic Risk Profile and Risk Management Action Plan: The next important phase activity is to communicate the risk profile and the risk management plan throughout the organization. The primary objective of this communication is to build an understanding among the people of organization regarding the top risks being faced by the organization and how to manage those risks. It helps focus personnel on what those key risks are and potentially how significant they might be. A second focus is the communication of management's expectations regarding risk to help reinforce the message that the understanding and management of risk is a core competency and expected role of people across the organization. The risk culture is an integral part of the overall corporate culture. The assessment of the corporate culture and risk culture is an initial step in building and nurturing a high performance, high integrity corporate culture.

7.7 Implementing the Strategic Risk Management Plan: The real value resulting from the risk assessment process comes from the implementation of an action plan for managing and monitoring risk. These steps define a basic, high-level process and allow for a significant amount of tailoring and customization to reflect the maturity and capabilities of the organization. Strategic risk assessment is an ongoing process, not just a one-time event. Reflecting the dynamic nature of risk, these seven steps constitute a circular or closed-loop process that should be ongoing and continual within the organization.

8. Approaches to Strategic Risk Management:

Risk identification and assessment are the important stages before developing any risk management action plan. The action plan for managing the risk is always going to be different depending upon the nature of risk and the type of organization. Various approaches have been developed over a period of time for managing the risk. Some of these approaches can be discussed as follows:



8.1 Risk Avoidance: This principle is based on the possibility of totally avoiding the risk that has been identified. It can be done by not performing the activity which is having risk associated with it. If a particular activity or a product line has significant risk attached to it, company may simply decide not to continue or go for that activity or a product line in order to avoid the associated risk completely (Figure-14). Risk avoidance can be perfect option for managing risk but it is said that higher risk leads to greater returns. So taking no risk or complete risk avoidance may not be an ideal approach to follow by any organization.



8.2 Risk Optimization: Optimization or reduction of risk refers to creating a balance between risk attached to some operation and benefits of the operation. It includes all the measures to be taken to reduce the effect of hazard itself as well as the vulnerability leading to the hazard. It also includes the steps to mitigate physical, economic and social vulnerability.

8.3 Risk Retention: Risk retention refers to acceptance of loss or benefit arising out of a risk when it takes place. This strategy is viable when risks are small enough to be transferred at a cost higher than the loss arising out of the risk. On the other hand, the risk can be so big that it cannot be transferred or insured. This method is useful when probability of the occurrence of risk is very low and some reserved created over a period of time can take care of the loss arising out of it.

8.4 Combination of Risk: Combining the risk is possible when one company is facing many risks at a time. It becomes necessary to understand all such risks and their nature and relationship inter se. For example, in a capital market, there are various risks such as high volatility risk, lower liquidity risk etc. It is worthwhile to assess the risks caused by these different factors and combine them to mitigate the risk as the ultimate goal is to increase the return and reduce the risk. Principle of portfolio management is the best example of combination of risk.

8.5 Sharing of Risk: Sharing of risk is known as transfer of risk also. This principle refers to sharing of the risk to some other party who has developed expertise in such risk. That party may be an insurance company or any other party who is an expert in handling the risk. In such case company will have to pay compensation to the other party for sharing the risk. Sharing of risk can also be done through risk retention pool.

8.6 Hedging of Risks: Risk arising from the fluctuations in prices or foreign exchange rates may be covered by hedging them using the financial derivatives. Company can enter into forward contracts with some financial institutions to hedge the risk of said fluctuations. There are various special contracts like forward contracts, futures, swaps, options, and insurance policies are available to hedge such kind of risks (Figure-15).



Figure-15

(Source-

<https://www.slideshare.net/shravan.bhumkar/futures-forwards-contract-derivatives-in-a-nutshell>)

9. Summary:

One has to map the certainty and uncertainty in order to determine the degree of risk involved in any operation. When all the parameters are clearly known and are fixed then there is complete certainty and no risk is involved. Strategic risk arises from the fundamental decisions that management takes concerning the strategic objectives of the organization. It is the risk of failing to achieve those objectives. Strategic risk management is company's response to such risks. It involves the identification, assessment and management of the risk in order to ensure the accomplishment of strategic objectives. Different types of approaches have been developed to manage strategic risks. Responsibility for managing the strategic risk lies on the board of directors. In order to manage the risk effectively, board needs to understand the major strategic risks involved and the major problems that could occur with it operations due to associated risk. Risk and initiative cannot be separated from business decision making; however, directors can ensure that a wide view is taken of risk management to restrict or limit the trouble that a risk can cause to the operations of organization.

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Ethics, Social Responsibility And Strategic Management
Module Id	Module No.– 27
Pre-Requisites	Business Environment, Management For Organisation
Objectives	To study the strategic role of ethics and corporate social responsibility for an organisation working in complex environment with disparate stakeholders
Keywords	Ethics, Ethical dilemma, Corporate Social Responsibility

QUADRANT-I

Module – 27 Ethics, Corporate Social Responsibility And Strategic Management
1. Learning Outcome
2. Introduction
3. Role of Ethics In Organisations
4. Types of Unethical Behaviour
5. Reasons of Unethical Behaviour
6. A Framework to Ensure Ethical Behaviour in Organisations
7. Social Responsibility and Strategic Management
8. Social Policy
9. Summary

1. Learning Outcome:

After completing this module the students will be able to understand:

- ❖ Concept of ethics and ethical dilemmas
- ❖ Role of ethics in strategic decision making and success of an organisation
- ❖ Underlying reasons for people behaving unethically in organisations
- ❖ Types of unethical behaviors perpetrated by employees in organisations
- ❖ Role of social responsibility, and thus social policy in strategic decision making and success of an organisation

Introduction



Figure -1

Source: <http://www.law2.arizona.edu/alumni/Newsletters/apr062016.htm>

***"If business is not based on ethical grounds, it is of no benefit to society, and will, like all the other unethical combinations, pass into oblivion."* - C. Max Killan**

The study of Strategic Management is incomplete without delving into the realm of Ethics. Ethics as a subject is a major branch of Philosophy and shapes the attitude and behaviour of individuals and society. The term **ethics** may be defined as accepted principles of right or wrong that govern the conduct of a person, the behavior of members of a profession, or the actions of an organization.



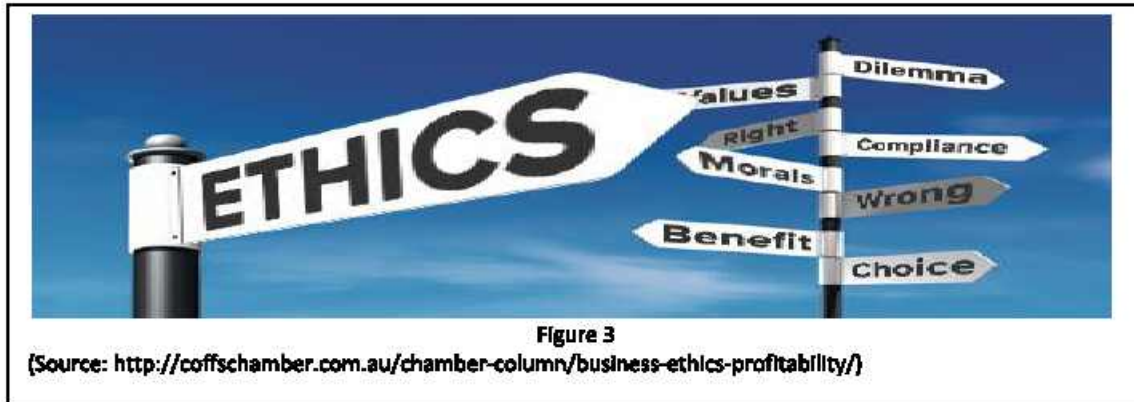
Figure 2

(Source: <http://www.shareyouressays.com/116162/short-speech-on-business-ethics>)

In particular, **Business ethics** are the accepted principles of right or wrong governing the conduct of business organisations and people at workplace. Ethical decisions are those that are in accordance with accepted principles of right and wrong, whereas an unethical decision is one that violates accepted principles. However, the world is complex and the situations often confronted by the managers ask for a decision, where the choices seem equally ethical or unethical; and sometimes it becomes very difficult to weigh the different choices on ethical grounds because no guiding principles seem to exist. Such inevitable situations, also known as ethical dilemmas and response thereof, shape the goodwill and thus the future of any organisation in long run.

Many of these accepted principles about right and wrong have been universally recognised and have been coded into laws. That ways, violating such principles not only counts as unethical on the part of an organisation, but also is termed as illegal under the legislature of the nation the organisation is operating into.

2. Role of Ethics In Organisations



One of the basic differences between ordinary and extraordinary companies is that the latter ones follow ethical policies beyond what is legally required.



You must have heard of good car companies recalling their defective cars suo moto or the pharmaceutical companies recalling their medicines because of some sub-standard chemical being used therein.

One such case is that of Johnson & Johnson, wherein it recalled its defective medicine from the market and went further to ad against using it. The company incurred a heavy loss, but it helped in its brand building eventually because of its superior responsiveness.

One such case is that of Nike wherein the operations seemed unethical, though Nike had not contravened any statute in US. It outsourced the production of shoes to third world countries, and the working conditions in some of these countries were substandard to say the least, in comparison to that in developed world. Nike had to bear the brunt in form of retaliation from many International agencies and subsequent fall in its reputation for a considerable time period.



Due to the presence of umpteen controllable and uncontrollable variables facing an organisation; there are zillions of ethical dilemmas for an organisation in daily life. Most of these ethical dilemmas faced by the manager are due to the potential conflicts between the individual goals of the manager, the organisation, and the goals and fundamental rights of the stakeholders i.e. stock holders, customers, suppliers, employees, government and society at large.

Stakeholders have basic rights that should be respected, and it is unethical to violate those rights. Stockholders have the right to accurate and timely information (in terms of accounting statements following requisite standards) about their investments. Customers have the right to be fully informed about the products and services they consume, Employees have the right to safe and conducive working conditions, fair rewards for the work they perform, and to be treated with dignity by the organisation. Suppliers have the right to expect contracts to be

respected and competitors have the right to expect that the organisation will abide by the rules of competition and will not violate the provisions of Competition Act and rules related thereto. Communities and the general public, including government, have the right to expect that a organisation will not harm the environment, will develop self-renewable systems so that the natural resources are not overly exhausted, and will help develop the society by providing opportunities of sustainable development.

In case we apply common sense to the realm of business, it won't take rocket science to conclude that an organisation must take the stakeholders' view into consideration while deciding for the organisation. Considerations for the stakeholders will eventually lead to their support in the survival and long term development of the organisation in this world of cut-throat competition.

Tata Motors, when shifted their plant from Singoor, West Bengal to Sanand, Gujarat, they trained the people of nearby village technically, conducted yoga classes and ultimately transformed them into productive helped Tata Motors to reputation and helped the large by generating employment Others go beyond this approach to ethics to argue that ethically is simply the right thing that businesses need to give something back to the society that made their success possible.



Figure 6

(Source: <http://www.autocarpro.in/news-national/south-india-makers-road-gujarat-29661>)

human resources. It boost their general public at opportunities. instrumental in many cases, acting to do. They argue

3. Types of Unethical Behaviours

Oftentimes unethical behaviour occurs due to agency problem; more specifically when the manager puts her interests or that of the organisation above the goals or the fundamental rights of one or more stakeholders. Let's look at some of unethical behaviours arising out of such circumstances.



Figure 7

(Source: <https://www.linkedin.com/pulse/self-dealing-501c3-tax-exempt-organization-scott-ogle>)

Self-dealing: It occurs when the managers find a way to feather their own nests with corporate moneys through misusing the resources of the organisation for their personal use beyond what is legal.



Figure 8

(Source: <http://www.relationship-economy.com/2010/09/being-manipulated-by-social-puppets/>)

Information manipulation: It occurs when a manager use their control and authority to hide or distort the information to gain financially. The classic case of Satyam Computers is a paragon in this regard, wherein Ramalinga Raju manipulated the financials of the company to get more funds for the company and to boost the morale of the stakeholders of the company. Eventually the surreptitious dealings were divulged to the world when it became impossible for him to carry it on any further. Many a times, information being manipulated is non-financial too. One example could be when a pharmaceutical company suppresses its internal research wherein it observes long term (not life threatening) side effects of one of its best selling drugs



Figure 9

(Source: <http://www.stuff.co.nz/business/industries/74724458/waste-oil-firm-bens-oil-fined-425000-for-attempted-anticompetitive-behaviour>)

Anti-competitive behaviour: It covers a range of actions that exploits the current and potential competitors. One of such actions is to show monopolistic behaviour by selling goods at such a low price that all other smaller competitors are ruined with the passage of time. The similar behaviour at macro level wherein the nations are involved is known as anti-dumping.

Other such action is Opportunistic exploitation. A large company exploits the suppliers or Intermediate customers in the value chain by forcing an unequitable contract having odds in favour of the company. The power to breach a contract or redefining the terms of the contract midway comes from the bargaining power lying with the company due to its large size and dynamics of the industry.

Yet other action in this category is to form a collusion by 2-3 largest organisations in a particular industry, when these companies decide the price of a product by illegally controlling the supply of the product or otherwise. It leaves no choice with the customers but to buy the product at artificially higher prices.



Figure 10

(Source: <http://businessadviser.co/w-a-t-c-h-d-smurfs-the-lost-village-2017-english-episode/>)

Substandard working conditions: Substandard working conditions arise when the organisation pays less than the legally set standards or under invests in the working conditions. Aforementioned Nike case falls in the same category. In India, State Governments propose Minimum Wages



time-to-time, and all the firms in the organised sector are legally bound to pay more than this level of wages. Labour laws like Factories Act, 1948, Contract Labour Act, 1970, Workmen's Compensation Act, 1923 etc. help provide conducive working milieu for the employees.



Environmental degradation occurs when the products, services or direct or indirect actions of an organisation harms environment anyway. Air pollution, water pollution and soil pollution, due to inappropriate dumping of harmful chemicals; sound pollution and heat waves due to furnace and heavy machines; and deforestation resulting in soil erosion and environmental imbalance, are some types of environmental degradation. Recently observed debacles like global warming and nuclear leakages have made the governments to focus on environmental friendly policies. All the big manufacturing units were ordered to base outside Delhi, due to the increasing levels of pollutions in the Capital of India. Organisations are expected to treat the water and fumes before releasing them to the atmosphere. Certifications like ISO 14001 are getting popular day-by-day to acknowledge and encourage environment friendly and sustainable practices.

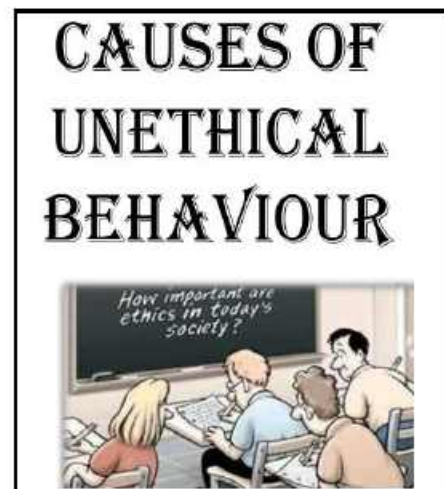


Corruption as an unethical action seems self-explanatory. Corruption can be perpetrated in zillions of ways. Managers pay bribes, manipulates financial statements, do money laundering, misappropriate funds etc. Subroto Roy aka Sahara Shree, has been put behind the bars for misappropriating the money of the investors into undisclosed activities. Rama Linga Raju's case already discussed above can also be put into the category of corruption.

4. Reasons of Unethical Behaviours

So far, we have discussed what is termed as ethical and unethical behaviour and specific situations pertaining to both the categories. More fundamental question confronting is why people behave unethically in the organisations. Let's look at some of the foremost 4. reasons:

- Whether people in organisations will follow business ethics depends largely on where they stand in terms of personal ethics. Personal ethics intern depends on their cultural values and upbringing.
- People, many a times, don't consider ethics as a criterion and decide purely economic terms and choose the most profitable option.
- Sometimes it becomes very difficult to contemplate what out of the available options will be ethical. These ethical dilemmas occur due to the



complex world having umpteen number of controllable and uncontrollable variables.

- People compromise on their ethical standards on trivial matters and justify themselves that they are doing it to attain some higher goal.

Above mentioned reasons make it clear that people take unethical decisions and frequently they do it in ignorance. Furthermore, ethical dilemmas make it difficult for people to ensure that their decisions will be counted as ethical even if they follow righteousness with all their understanding.

5. A Framework to Ensure Ethical Behaviour in Organisations

How can a manager ensure that her decisions count ethical? Following are some ways of prescriptive nature to ascertain it.

- **Employee acquisition:** It's already been established that personal ethics of a person impacts her decisions in business settings. Therefore, organisations strive to on-board people with higher ethical standards. But how could an organisation discern such people during hiring process?

One of the possible ways is to administer psychological tests to judge the personal value system of the applicants. Scales like Person-Organisation Fit and Person-Job-Fit fetch good results.

Reference check of the potential employees, through their previous organisations and people of repute is also appropriate.

Employee Referral Programs are very effectual in seeking appropriate employees, because the current employees happen to know the organisation they work at and the person they refer as well.

It is utmost important to on-board ethical people to maintain ethical standards. On the other hand, employees perpetrating unethical deeds must be punished suitably, to promote conducive culture.

- **Promotions:** Value System must be given due importance in promotion decisions and only those people must become the top brass of the organisation, who qualify on the adherence of essential ethical values.
- **Code of Conduct:** Every organisation must have a code of conduct to guide the employees on how to decide to be ethical. Standing Orders provided for the workmen based upon Industrial Employment (Standing Order) Act, 1946 provides an example in this regard.

The founders of Johnson & Johnson, one of the Fortune 100 companies created a Credo Statement that has stood the test of time and guided the employees of the companies through thick and thin most effectively. The Credo has been provided below and the reader is expected to read it like scriptures.

Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.

In meeting their needs everything we do must be of high quality.

We must constantly strive to reduce our costs

in order to maintain reasonable prices.

Customers' orders must be serviced promptly and accurately.

Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.

Everyone must be considered as an individual.

We must respect their dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate,

and working conditions clean, orderly and safe.

We must be mindful of ways to help our employees fulfill
their family responsibilities.

Employees must feel free to make suggestions and complaints.

There must be equal opportunity for employment, development
and advancement for those qualified.

We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.

We must be good citizens — support good works and charities
and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.

Business must make a sound profit.

We must experiment with new ideas.

Research must be carried on, innovative programs developed
and mistakes paid for.

New equipment must be purchased, new facilities provided
and new products launched.

Reserves must be created to provide for adverse times.

When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

Figure 15(Source: <https://zackowen.wordpress.com/2011/04/14/johnson-johnson-philosophy/>)

- **Decision making processes:** Besides the culture that favours and encourages ethical behaviours, an organisation must have practical and executable guiding principles to direct an employee to be sure that her decisions made by them are always ethical.

To ensure that, they must be able to systematically analyze the implications of the decisions made by them. Some experts have designed some questions, and the answer of these questions in “yes” ensures that the decisions made are ethical.

1. Does my decision fall within the accepted values or standards that typically apply in the organizational environment (as articulated in a code of ethics or some other corporate statement)?

2. Am I willing to see the decision communicated to all stakeholders affected by it—for example, by having it reported in newspapers or on television?

3. Would the people with whom I have a significant personal relationship, such as family members, friends, or even managers in other businesses, approve of the decision?

- **Ethics Officers:** Having Ethics Officers is one of the important ways to ensure that the organisation adheres to the ethical standards through sound Code of Conduct. Ethics Officers are qualified and competent to discern ethical actions from the unethical ones. In many companies, Ethics Officers also acts as internal Ombudsperson who deals with the complaints and suggests changes in the processes and systems so that the organisation behaves ethically to employees adhere to the Code of Conduct.
- **Strong Corporate Governance:** Strong Corporate Governance practices make sure that the employees adhere to ethical norms. Practices like having outside independent directors are most important to ensure that the managers don't make decisions to cut their own axe or to have ulterior motives. Had the companies like Satyam Computers, Enron and WorldCom had the independent directors, the companies would not have fallen for unwanted fatal practices and their managers would not have used the resources of the company as their own money. Moreover, following benchmark for reporting financial results help a long way.
- **Assertive Training:** Assertive Training popularly known as A-T in Corporate World is very important to instill the employees with the courage to say “No” in the pressure situations. It is a common fact that employees, when pressurised by the authorities, strike a compromise on their ethical standards. Group think and Group shift are common occurrences in the organisations.

To Install proper systems, to encourage people to divulge the malpractices of the company, is an effective way. Therefore, Whistle Blowing procedures must be instituted in every organisation.

Last but not the least, it must be understood that behaving ethically is not only a virtue, but also a mantra for immaculate reputation and long-term success of any organisation.

7. Social Responsibility and Strategic Management

We all must have heard the phrase that “With great power, comes the great responsibility”. Corporate Social Responsibility means the voluntary activities undertaken by a company

According to Investopedia.com, “Corporate Social Responsibility, often abbreviated as “CSR”, is a corporation’s initiatives to take responsibility for the company’s effects on Environmental and

Social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators and environmental protection groups”.

Some strategists put themselves in Ralph Nader’s camp, who asserted that corporations have unlimited obligations. He takes big corporations like ExxonMobil for example to demonstrate that its worth is more than that of most countries. Therefore such firms have the responsibility to help the society get free from many ills. On the other hand, other strategies follow Milton Friedman, the renowned economist, who proclaims that the business of business is just business and the firms need not to do for the society, that is beyond legally required of them. According to him, it is irresponsible of the firms to donate money because the firm could use that money more efficiently.

To take a neutral view, we’d all agree that the first responsibility of an organisation must be to do its business in an effective way to sustain itself through its core activities. . If the organisation becomes broke thanks to the overburden of social responsibility, it cannot be justified, as it itself will become a liability to the society. A company that plans to retrench a large number of employees because of slow in demand due to recession in the economy, it can’t always avoid the retrenchment so as to protect the livelihood of employees, when this action can liquidate the company altogether and all the employees could lost their life. Decisions are made with long-term orientation in these regards.

The best way to perform its obligations towards the society is that the strategists of the organisation must look for the nature of social activities that would support their core business. An IT company that has an ITES arm can help the society by employing disabled people for IT and BPO services. A company into real estate or construction may help construct toilets in villages and schools. Wipro does its social responsibility through investing in education sector. Birla Group constructs temples as its social responsibility. Tata Sons. Trust works in diverse areas.



Figure 16

(Source:<http://enoahisolution.com/corporate-social-responsibility/>)

8. Social Policy

Social Policy means the contemplation of policy on Social Responsibility that gels well with the Managerial philosophy at the highest level of the organisation. This is a very responsible job to frame such a policy. A well thought off policy ensures that the resources Invested by the company will create optimum value for the society and that the company will stick to its endeavor in long run.,

Look at the list of Most Admired Companies for Social Responsibility by Fortune Magazine:

1. Marriott International
2. Starbucks
3. Whole Foods Market
4. Royal Dutch Shell
5. CH2M Hill
6. Nike
7. Nestle`
8. Walt Disney
9. Statoil
10. Wyndham Worldwide



Figure 17
(Source: <http://fortune.com/worlds-most-admired-companies>)

It is a matter of research to know direction of causality in CSR activities of a company and its brand value. Responsible organisations undertake large social projects and help transform the society.

We've already discussed the case of Tata Motors, wherein Tata Motors educated and trained the people of nearby villages for its Tata Nano factory at Sanand, Gujarat. It helped the company improve its reputation and was able to get trained employees through local market. Political parties often educate general public on the power of votes and the voting process without soliciting them to vote for their political party. This helps to increase their credibility. It is very important to understand that Corporate Social Responsibility should not be taken as a burden and it can be a source of Competitive Advantage for an organisation.

8. Summary

Unethical actions may help an organisation to make a killing in short run by fly-by-night operations, but ethical actions ensure the success of the organisation in long run. There are zillions of examples of such companies that always adhered to ethical values and are able to inculcate trust in stakeholders leading to great brand value. Employees sometimes behave unethically in organisations, thanks to their vested ulterior motives, but organisations can develop appropriate systems to curb such behaviours and to reward ethical behaviours. Corporate Social Responsibility has gained a legal status and companies are required to spend a share of their net profits into CSR activities. Social Responsibility as a concept and application, is criticized for the reason that CSR puts a burden on an organisation and can hamper the growth of the organisation severely. However, if the areas of CSR activities are chosen keeping into consideration the line of business of the organisation; it might prove to be a strategic tool to

improve the reputation of the organisation and might help the organisation to flourish in global arena.

Description of Module	
Subject Name	Management
Paper Name	Strategic Management
Module Name/Title	Strategic issues in Emerging Economies
Module Id	39
Pre-requisites	Basic Knowledge of Strategic Management and International Business
Objectives	1. To understand the concept, definitions of Emerging Economies 2. Role of Strategy in internationalization of various economies 3. To evaluate various theories related to emergence of new economies
Keywords	Emerging economies, International Business, Strategic mapping, Corporate Strategy, Location advantage; Consolidation; boundary less marketplace, cross-disciplinary, international theory

Quadrant-I

1.0 Introduction

The Term Emerging Market Economics (EME), the term was coined in 1981 by Antoine W. Van Agtmael of International Finance Corporation (IFC), World Bank. An EME describes the economic characteristic of a nation that is progressing toward becoming more advanced, through rapid economic growth and industrialization. These countries show expanding socio-economic growth, political stability and investment avenues for investors. Therefore, an EME

has some characteristics of a developed market and has potential to become developed market in near future.

The increase of outward FDI from the developing countries is shaping the contour of international business and challenging the conventional wisdom that firms from emerging markets are less competitive.

Figure 1 shows the GDP growth among the developing economies per capita at PPP.

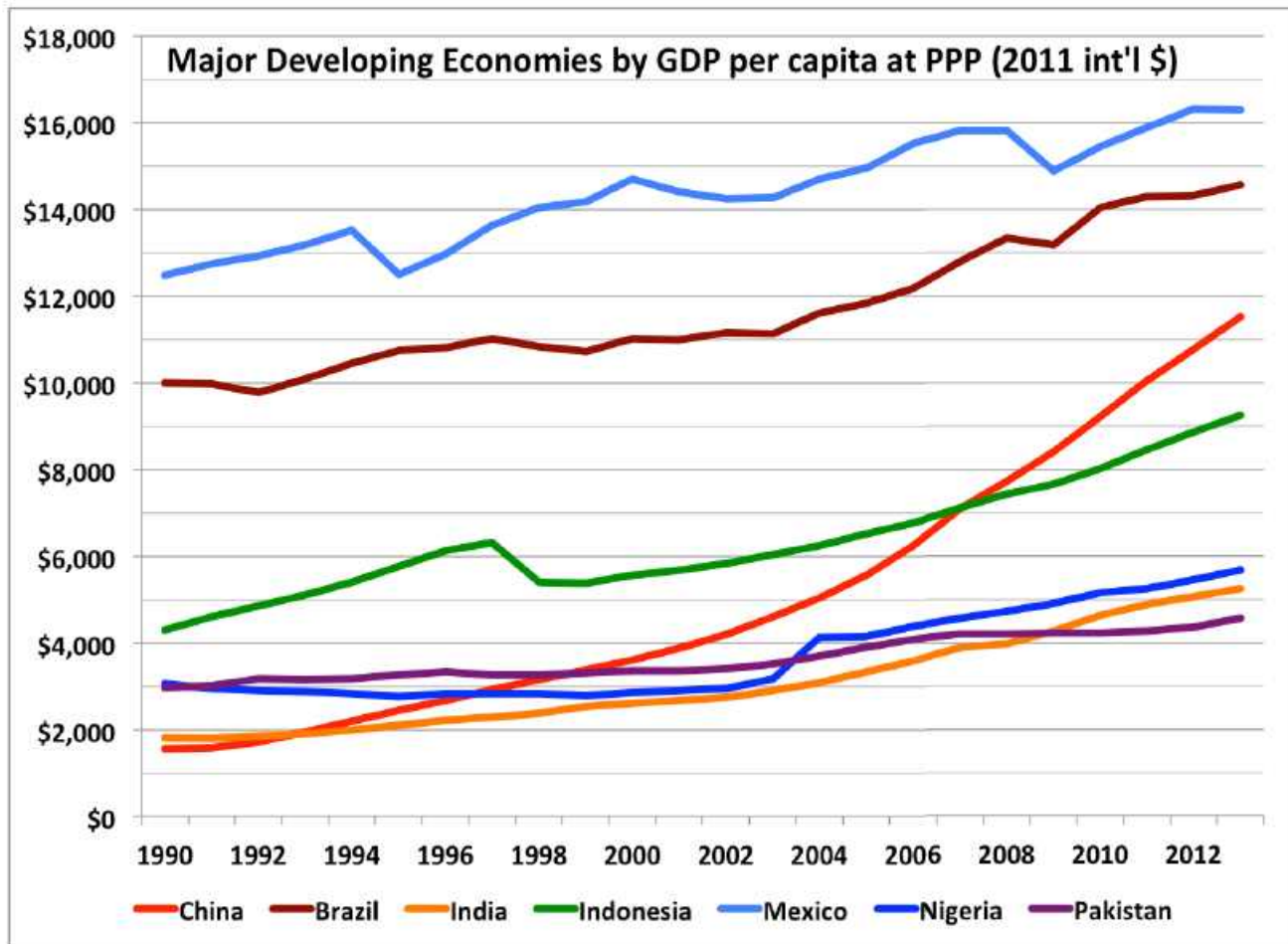


Figure 1: Major developing economies by GDP (Source: IMF, 2012)

As economic globalization has brought down trade and investment barriers and has connected far-flung countries in integrated global supply chains—and emerging markets seem to be converging with the world's "rich industrial countries"—distinguishing these

economies from developed markets may seem to matter less than before. We disagree. One fundamental premise of this book is that businesses still need to distinguish emerging markets—collectively from developed markets and individually from each other.

1.1. National Competitive advantage of Emerging Market Economies (EME)

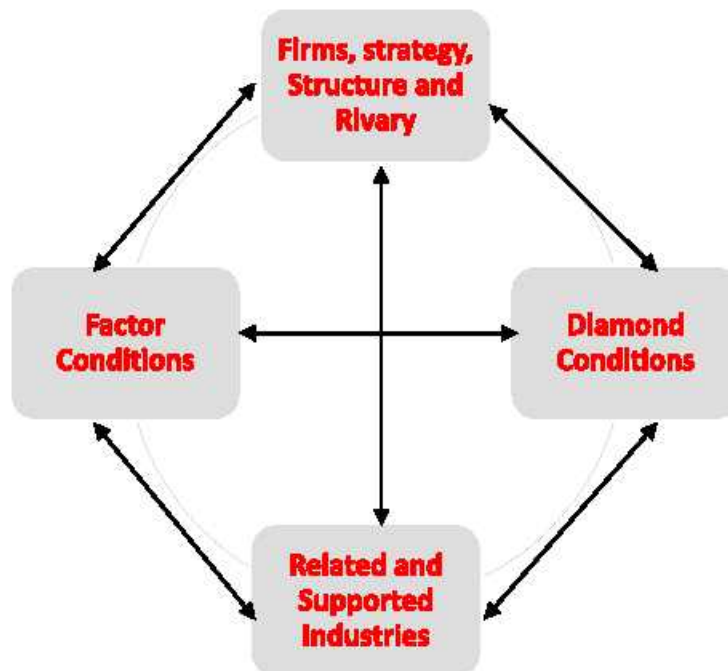


Figure 1: Determinants of National Competitive Advantage (Porter, 2002)

Every Emerging Market Economy has broad Country-specific advantages' (CSAs) including Low-cost labor, high valued intangible assets (including Intellectual capital, patents etc).Which often results in the development of national competitive advantage as mentioned in figure 1, a balance between all determinants of National Competitive Advantages.

1.2. Definition of Emerging Market

Emerging markets can be defined as "low-income, rapid-growth countries using economic liberalization as their primary engine of growth".The increase of outward FDI from the

developing countries is shaping the contour of international business and challenging the conventional wisdom that firms from emerging markets are less competitive.

1.3. Criteria for defining emerging market economy

The following Table illustrates the criteria(s) for defining emerging market economy

Category	Criteria
Poverty	Low-or middle-Income country
	Low average living standards
	Not industries
Capital Markets	Low market capitalization relative in GDP
	Low Stock market turnover and few listed stocks
	Low sovereign debt ratings
Growth Potential	Economic liberalization
	Open to foreign investment
	Recent economic growth

1.4. Characteristics of Emerging Market Economies (EME)

Emerging markets Economies are the growth engine for world economy as whole. They also present a great opportunity for entrepreneurs/ investors in these countries to build the future.

Theoretically, Emerging Market Economies (EME) have lower per-capita incomes, above-average sociopolitical instability, higher unemployment, and lower levels of business or industrial activity relative to the developed countries (viz. North America, Western Europe and Japan). However, they also typically have much higher economic growth rates. Example of emerging economies is less developed nations throughout Asia, Africa, Eastern Europe and Latin America. The following are the characteristics of Emerging Market Economies (EME).

- 1.4.1. From income perspective, EME are economies with low to middle per capita income. Such countries constitute approximately 80% of the global population, and represent about 20% of the world's economies.

- 1.4.2. From Business perspective, EMEs become the major outsourcing units for Production Service Operations and also getting leverages and benefits of liberal regulation and policies.
- 1.4.3. From Business risk perspective, EMEs are has higher risk as their stock are sensitive towards change in global interest rates. Emerging markets carries other risk including political and regulatory changes and currency fluctuations.
- 1.4.4. From economic growth perspective, Emerging markets are looking to sustain their growth. As a result, they tend to offer more capital gains opportunities than income opportunities. The majority of companies in emerging markets are choosing to invest extra cash back into the company rather than making substantial dividend payouts to their shareholders.
- 1.4.5. From Market Perspective, EMEs are assumed as important market locations as they contribute to the majority of world's population and therefore, a better place for investment (e.g. China, India and Indonesia that contribute together for more than 40 percent of world's population). Beside this, in recent years the proportion of global foreign direct investment (FDI) inflows to developing countries has increased from 18 percent in 1992 to 33 percent in 1996, when it exceeded \$100 billion.

In last one decade few developing countries named as Emerging Market Economies (viz. Brazil, Russia, India and China etc.) has tremendously acquired position of driving forces as producers of goods and services, capital investments and marketplaces. The growth trend will persist for years to come due to the advantage of global capabilities which attract almost 25 percent of all global foreign direct investment (FDI) in EME. The economies show high growth potential that by 2050, the sum of the GDP of BRIC might surpass the sum of G6 countries' GDP. The strategic Choices for investors/ entrepreneurs between developed markets and emerging market economies. Table 1 explains the opportunities and strategic choices available in both cases.

Table 1: Strategic choice available to Investors/entrepreneurs between Developed markets vis-à-vis Emerging Market Economy

Strategic Choice	Options for multinationals from developed markets	Options for emerging market-based companies
Replicate or Adapt?	Replicate business model, exploiting relative advantage of global brand, credibility, Know-how, talent, finance, and other factor inputs. Adapt business models, Products, or organizations to institutional voids	Copy business model from developed markets. Exploit local knowledge, capabilities and ability to navigate institutional voids to build tailored business models.
Compete alone or Collaborate?	Compete alone Acquire Capabilities to navigate institutional voids through local partnerships or JVs.	Compete alone. Acquire capabilities from development markets through partnerships or JVs with multinational Companies to bypass institutional voids.
Accept or attempt to change market context?	Take market context as given. Fill institutional voids in service of own businesses	Take market context as given. Fill institutional voids in service of own businesses.
Enter, wait or exit?	Enter or stay in market in spite of institutional voids Emphasize opportunities elsewhere.	Build business in home market in spite of institutional voids. Exit home market early in corporate history if capabilities unrewarded at home.

1.5. Potential of Emerging Market Economies over Developed Countries

Positioning emerging market firms required “right set” of strategies, which we define as the comprehensive set of plans and actions directed at leveraging and shaping sociopolitical and cultural institutions to obtain or retain competitive advantage. Relational strategies involve networking efforts to cultivate and manage dependency relationships with the government and key stakeholder groups. Infrastructure-building strategies address missing or inadequate regulatory, technological, and physical infrastructures that support business activities. Socio-cultural bridging strategies tackle socio-cultural and demographic issues that can hinder economic development and trade—for example, political and social unrest, illiteracy, poverty, and ethnic or religious conflicts. Emerging markets share same trends of economic development as developed nation does.

Table 1: Potential of BRIC over EU/US

US/EU	Brazil	Russia	India	China
Political Structure				
Countries have vibrant democracies with checks and balances. Companies can count on rule of law and fair enforcement of legal contracts	The democracy is vibrant. Bureaucracy is rampant. There are pockets of corruption in federal and state governments	A Centralized government and some regional fiefdoms coexist. Bureaucracy is stifling. Corruption occurs at all levels of government	The democracy is vibrant. The government is highly bureaucratic. Corruption is rampant in state and local governments	The Communist Party maintains a monopoly on political power. Local governments make economic policy decisions. Officials may abuse power for personal gain.
Civil Society				
A dynamic media acts as a check on abuses by both companies and governments. Powerful nongovernmental organizations (NGOs) influence corporate policies on social and environmental issues.	Influential local media serves as a watchdog. The influence of local NGOs is marginal	The media is controlled by the government. NGOs are underdeveloped and disorganized	A Dynamic press and vigilant NGOs act as checks on politicians and companies	The media is muzzled by the government, and there are few independent NGOs. Companies don't have to worry about criticism, but they can't count on civil society to check abuses of power
Modes of Entry				
Open to all forms of foreign investment except when governments have concerns about potential monopolies or national security issues	Both Investments and acquisitions are possible entry strategies. Companies team up with local partners to gain local enterprise.	Both Investments and acquisitions are possible but difficult. Companies form alliances to gain access to government and local inputs	Restrictions on green field investments and acquisitions in some sectors make joint ventures necessary. Red tape hinders companies in sectors where the government does allow foreign investment.	The government permits Greenfield Investments as well as acquisitions. Acquired companies are likely to have been state owned and may have hidden liabilities. Alliances let companies align interests with all levels of government.
Workers Market				
The level of unionization varies among countries. Industrial actions take place in Europe, especially in the manufacturing and public sectors, but not in the United States	Trade unions are strong and pragmatic, which means that companies can sign agreements with them	Trade Unions are present, but their influence is declining except in certain sectors, such as mining and railways	The trade union movement is active and volatile, although it is becoming less important. Trade unions have strong political connections	Workers can join the government-controlled All-China Federation of Trade Unions. Historically, there were no industrial actions, but there have been recent strikes at Hong Kong and Taiwan-owned manufacturing facilities.

Capital Markets				
Companies can easily get bank loans. The corporate bond market is well developed. The integration of stock exchanges gives companies access to a deep pool of investors	A good banking system exists, and there is a healthy market for initial public offerings. Wealthy individuals can invest in offshore accounts	The banking system is strong but dominated by state-owned banks. The consumer credit market is booming, and the IPO market is growing. Firms must incorporate local subsidiaries to raise equity capital	The local banking system is well developed. Multinationals can rely on local banks for local needs. Equity is available to local and foreign entities.	The local banking system and equity markets are underdeveloped. Foreign companies have to raise both debt and equity in home markets.
Venture Capital				
VC is generally available in urban areas or for specific industry clusters. VC is not as readily available in Southern Europe	A few private equity players are active locally.	Only companies in the most profitable businesses, such as real estate development and natural resources, can access VC	VC is available in some cities and from the Indian Diaspora.	VC availability is limited.
Accounting Standards				
Apart from off-balance sheet items, a high level of transparency exists. In the European Union, accounting practices should become more uniform after 2005 because of new norms	The financial reporting system is based on a common-law system and functions well.	The modified Soviet System of financial reporting works well. Banks are shifting to international accounting standards.	Financial reporting, which is based on a common-law system, functions well.	There is little corporate transparency. China's accounting standards are not strict, although the China Securities Regulatory Commission wants to tighten disclosure rules.
Financial Distress				
Efficient processes tend to favor certain stakeholders (creditors, labor, force, or shareholders) in certain countries	Processes allow companies to stay in business rather than go out of business. Bankruptcy processes exist but are inefficient.	Bankruptcy processes and legislation are fully developed. Corruption distorts bankruptcy enforcement.	Bankruptcy processes exist but are inefficient. Promoters find it difficult to sell off or shut down "sick" enterprises.	Companies can use bankruptcy processes in some cases. Write-offs are common.

1.6. Strategies to enter into Emerging Markets

Based on various advantages, there may be variety of strategies that can be adopted by firms to enter into emerging market economies. Few strategies are listed out in the Figure 1

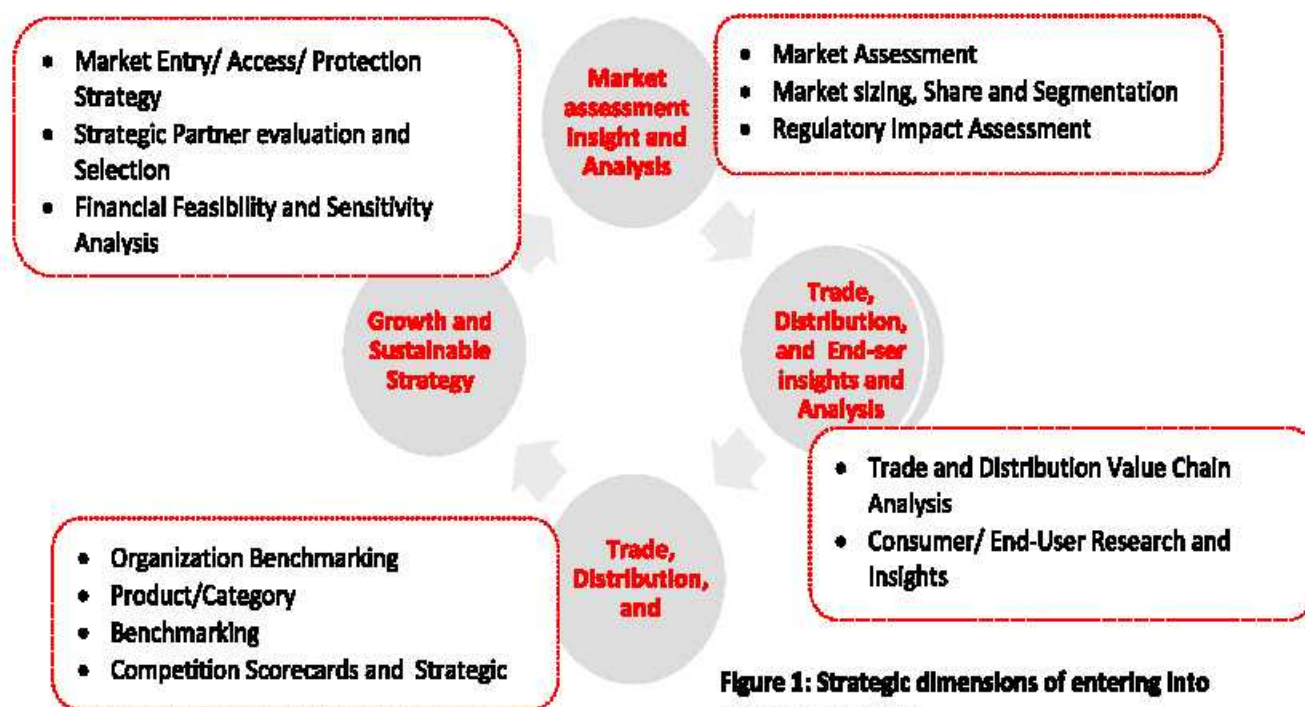


Figure 1: Strategic dimensions of entering into emerging markets

Various parameters may be examined in order to evaluate the Strategic fitness of the Emerging market Economy (EME). Various important dimension covered during the evaluation are Capital Market, Labor Market, Product Market, Government Regulation and Contract enforcement. Table 1 explains various parameter in context to developed countries vis-à-vis emerging economy

Table 2: Institutional dimensions for developed and Emerging Market Economy (EME)

Institutional Dimension	Developed Countries		Emerging Market Economy
	United States	Japan	India
Capital Market	Equity-focused; monitoring by	Bank-focused; monitoring by	Underdeveloped, illiquid equity markets and

	disclosure rules and the market for corporate control	interlocking investments and directions	nationalized banks; weak monitoring by bureaucrats
Labor Market	Many business schools and consulting firms offering talent; certified skills enhance mobility	Few business schools; training internal to companies; company-specific development of talent	Few business schools and little training; management talent scarce.
Product Market	Reliable enforcement of liability laws; efficient dissemination of information; many activist consumers	Reliable enforcement of liability laws; efficient dissemination of information; some activist consumers	Limited enforcement of liability laws; little dissemination of information; few activist consumers
Government Regulation	Low; relatively free of corruption	Moderate; relatively free of corruption	High; corruption common
Contract enforcement	Predictable	Predictable	Unpredictable

2. Strategy perspectives of Emerging Market Economy

The central questions addressed by various theories majorly concern on question “why firms in emerging market economy are differ and how they achieve and sustain competitive advantage”. In order to understand how strategies work in the emerging market economies it are important to understand the underlined theories.

2.1. Institutional Theory Perspective

Institutional Theory examines the influence and impact of organizations that shape social and organizational behaviour. Various institutional forces affect organization's processes and decision making and affect the institutional structure of the firm.

2.1.1 The organizations in the Emerging market economies are not merely acting as an autonomous agent seeking to maximize profit but also create a robust network of social stakeholders.

2.1.2. Social Perceptions of the firms enhance the legitimacy and institutionalization of the business and help firm to create brand value in the target market.

2.2. Transaction Cost Economics Perspective

2.2.1. Multivisional structure and vertical integration and strategic alliances.

2.2.2 Governance inseparability and unanticipated changes in bargaining power as constraints on firm choice, bringing varying risk preferences and trust into transaction cost economics and applying transaction cost economics to entrepreneurs.

2.2.3. Hybrid structures dominate both markets and hierarchies as the most efficient solution in emerging economies. It is difficult for emerging market firms to grow internally or through mergers and acquisitions owing to lack of property rights and unstable political structures. Networking as a hybrid strategy.

By pooling and coordinating resources, firms can achieve economies of scale and scope, and organizational learning can occur Network contracts and personal relations can be therefore be used to reduce uncertainty.

2.3. Resource based Perspective

2.3.1. Firm resources and capabilities can be differentiated on the basis of value, rareness, inimitability and substitutability.

2.3.2 In Emerging Market economies, local competitors may have developed capabilities for relationship-based management in their environment that substitute for the lack of institutional infrastructure.

3 Reasons why Emerging Market Economy has potential for Investment

- 3.1 Firms Appreciate and reconcile cultural differences and started adjusting with Emerging Market economies.**
- 3.2 Examine and react when and how to tolerate contradictions and when to reject them.**
- 3.3 Consult with diverse management teams to understand the implications of headquarters-based decisions on other markets.**
- 3.4 Understanding and establishing link between core values of the parent company, employee behaviour, management incentives that can be useful tool to strengthen the link.**
- 3.5 Ensure diversified management team for better global presence and company's geographical footprints.**

Items	Description of Module
Subject Name	Management
Paper Name	Strategic Management
Module Title	Contemporary Issues in Strategic Management
Module Id	Module No. - 40
Pre-Requisites	Basic Knowledge Strategy
Objectives	To understand the different contemporary issues in the area of strategic management and their impact on strategic decisions
Keywords	Strategic Management, Sustainability, Strategic leaders, Innovation, Technology

QUADRANT-I

Module – 40 Contemporary Issues in Strategic Management
1. Learning Outcome
2. Introduction
3. Business Ethics
4. Corporate Social Responsibility
5. Corporate Governance
6. Environment Sustainability
7. Strategic Leadership
8. Technology Proliferation
9. Innovation
10. Summary

1. Learning Outcome:

After completing this module the students will be able to understand:

- ❖ Changes in the decision environment
- ❖ Contemporary issues in the area of strategic management
- ❖ Impact of those issues on strategic decisions
- ❖ Managing those issues while formulating and implementing strategies

2. Introduction:

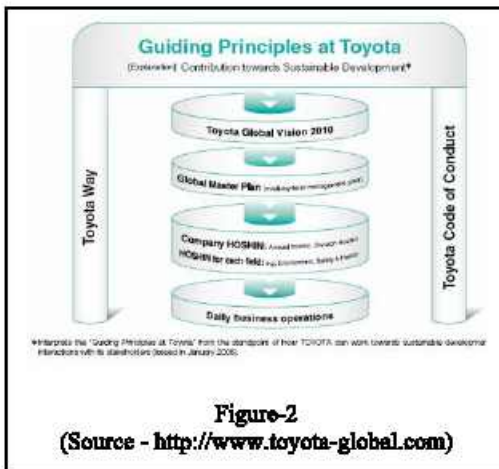
In today's business environment, the top down approach to management has fundamentally disappeared. Managers face new set of problems and issues while making their decisions in the present era. Different issues like innovation, corporate governance, corporate social responsibility, sustainability etc. have emerged which has significant impact over the strategic decisions of an organization. Strategists today must understand and apply variety of strategic management approaches and concepts to maneuver organizations through real time issues. In order to take an organization through complex strategic decisions, managers need to capitalize on emerging strategic management issues. Some of these issues can be discussed as below.

3. Business Ethics:

The term business ethics can be defined as principles of conduct within organizations that guide the decision making and behavior. It is the application of ethical principles and moral values while carrying the business operations and activities (Figure-1). In the present age, business ethics are prerequisites for successful strategic management. A rising tide about importance business ethics is sweeping almost all the organizations working across the globe. Ethical strategic practices lead to successful business whereas bad ethics can derail even the best strategic plans. An organization must show the ethical behavior in all the activities whether internal or external to the organization. Strategists such as CEOs and business owners must ensure that high ethical principles are promoted and practiced in the organization. All strategy formulation, implementation and evaluation decisions have ethical implications. Therefore, managements have to make it sure that standards of all internal functions are reasonably maintained in a controlled environment. This can be done through policies, procedures and punishments. Many organizations today lay emphasis on commitment to promoting ethical practices under different names like codes of ethics, social responsibility charter etc.

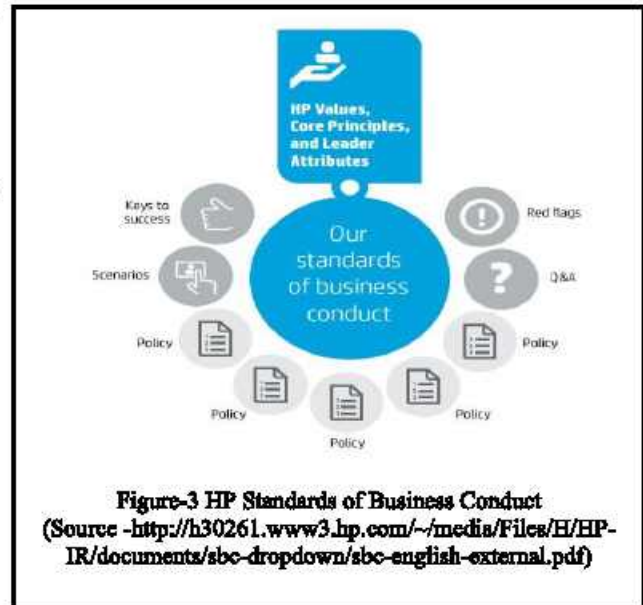


Code of Business Ethics: Normally it is seen that in organizations, business ethics are normative in nature, that is, a list about “dos and don’ts”. The interest in business ethics was accelerated dramatically during the period of 1990s because of surfacing of many corporate frauds respect to financial instruments, markets and false reporting. Later on a wave of ethical issues related to product safety, employee health, smoking, sexual harassment, waste disposal, conflict of interest, and safety & confidentiality of company’s record etc.



advocated the need for strategists to develop a clear code of business ethics to be followed in the organizations. At present, many companies have framed and implemented such codes of business ethics in the organizations for guiding the employees for ethical decision making. These guidelines are set by management with the approval of the board, and must be comprehensive and involve internal and external stakeholders. While framing such codes of ethics, companies must ensure that these are comprehensive in nature and cover the ethical issues related to all the areas like Finance, HR, Production, R&D etc.

For example, United Technologies has a code of business ethics comprising of full 21 pages and has appointed a vice president of business ethics also. Toyota has also framed and implemented a code of business ethics called “Toyota Code of Conduct”, (Figure-2) which suggests the ethical practices to be followed while transacting within and outside the organization. Similarly, Hewlett-Packard has also set a code of ethics called “Standards of Business Conduct” which talks about company’s core values, leader’s attributes, building trust, respect, Integrity, passion for customers, responsible corporate citizenship, and details regarding ethical compliance office (Figure-3).



4. Corporate Social Responsibility:

CSR has evolved as a way of corporate life and has become integral part of any company’s performance review. It is the obligation of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of society. It is a concept whereby companies voluntarily integrate social and environmental concerns in their business operations. CSR is the continuing commitment by the business to behave ethically and contribute towards economic development while improving the quality of life of



workforce and their families as well as of the local community and society at large (Figure-4). The European Commission says that being socially responsible means not only fulfilling the legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with the stakeholders.

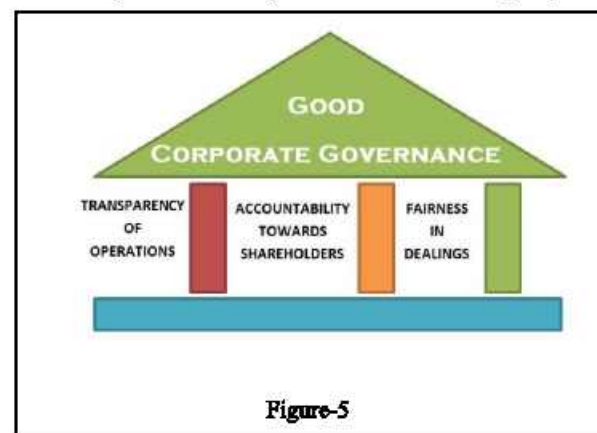
Therefore, being socially responsible has become unavoidable for the companies. The Strategists should examine the social problems in terms of potential costs and benefits to the firm and focus on social issues that could benefit the company in the future.

Many critics believe that a company should manage the bottom line, measured in financial terms only, as that is what an investor would be interested in. But, business leaders who plan on evolving long-term strategies have understood the importance of CSR. They have been quick to understand the new ethos and have identified the potential for triple bottom line benefits, namely economic bottom line, social bottom line and environmental bottom line. A number of companies have started using this method of accounting which expands the traditional reporting frameworks and takes into account the social and environmental performance in addition to financial performance.

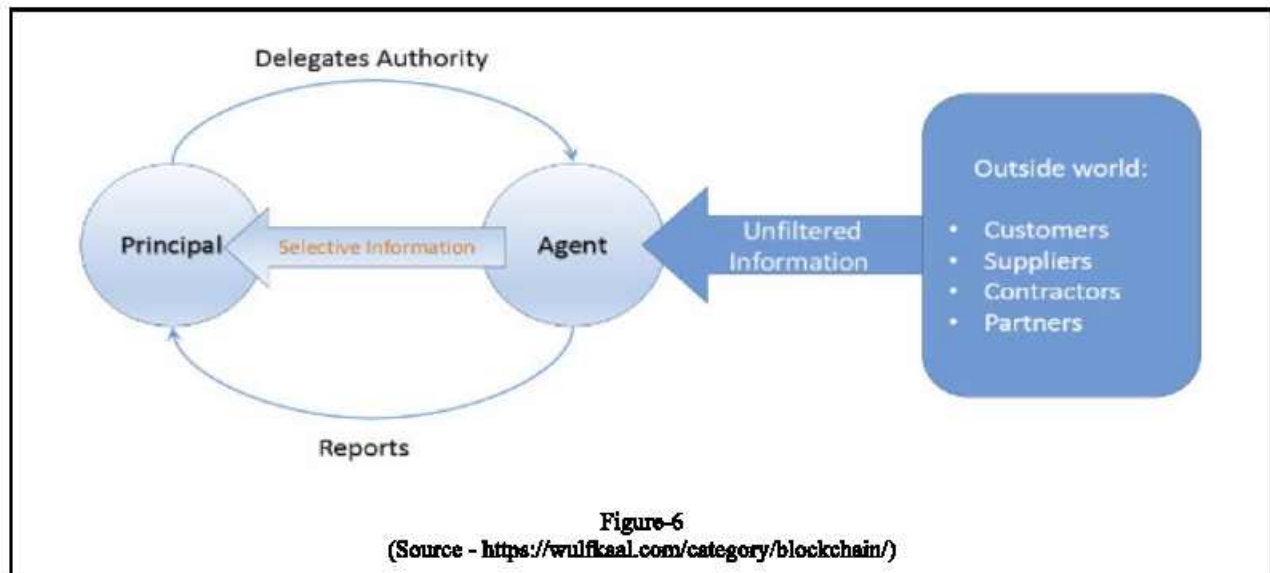
It has become imperative to focus CSR during the process of formulating and implementing strategies. While a company frames strategies to maximize the wealth of its shareholders, it must take into account that main stakeholders of a company includes shareholders, employees, the surrounding community, vendors and customers also. It is important that every stakeholder's interest be addressed and focused while deciding strategies. CSR in relation to production processes can also be carried out to reduce energy use, limit or alter material usage, reduce water use, save natural resources, efficiently managing emissions etc. CSR activities can be broadly divided into four categories: Community, Stakeholders, Production Processes, and Employee relations.

5. Corporate Governance:

Corporate Governance is the code of practices by which a company's management is held accountable towards shareholders for efficient use of resource. It is a system of directing and controlling the organization. corporate governance can be defined as a process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices and effort of all corporate participants including auditors and financial advisors which create a system of checks and balances with the goal of creating and enhancing enduring and sustainable value while protecting the interest of external environment.



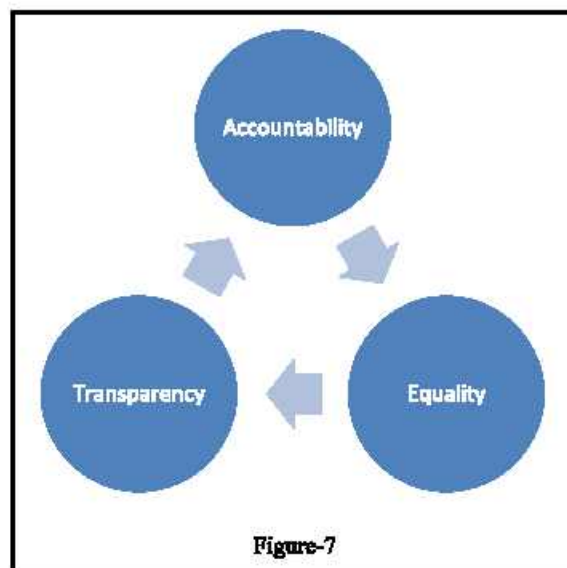
As we know that primary objective of management of a company is to enhance its value and to maximize the wealth of its shareholders. The central purpose of corporate governance is to make managers accountable to shareholders. Without a corporate governance structure, managers would be free to make decisions that are in their own interest, but not necessarily in the interest



of the company or shareholders. Corporate governance keeps managers in check by limiting their power and, often, by tying their pay to company's performance. According to Donovan," Corporate Governance is an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling the management activities with good business savvy, objectivity, accountability and integrity". The primary principle behind the concept of corporate governance is the agency theory. Managers work as agent of shareholders. Each and every action or activity of managers is supposed to lead towards value creation. But sometimes there may be a conflict in interest of principle and agent i.e. shareholder and manager (Figure-6). Therefore it is better to ensure the accountability of managers through some system that try to reduce or eliminate such conflict of interest between principle and agent.

In context to strategic management, corporate governance refers to the set of internal rules and policies that determine how a company is directed. Corporate governance decides, for example, which strategic decisions can be decided by managers and which decisions must be decided by the board of directors or shareholders. Therefore corporate governance helps in shaping the strategic focus which determines the direction an organization should take to meet its goals and ensure stakeholders satisfaction. This should be based on the predictability as the evolution of strategies have to consider the dynamic nature of environment within which it has to operate and hence the challenges from environment need to be anticipated. Strategists, while deciding upon any strategy has to take care of the corporate governance as well.

The fundamental concern of the corporate governance is to ensure the conditions under which organization's management and directors act in larger interest of the organization and shareholder in particular. It also ensures the means by which managers are held accountable towards capital providers for the use of assets. It allows more constructive and flexible response to raise the standards in running and managing a company as opposed to strict statutory requirements. Corporate governance in India is mainly based on Birla Committee's guidelines, which have three key aspects relating to scope, importance and ambit of corporate governance. These aspects are defined as accountability, transparency and equality of treatment for all shareholders (Figure-7).



6. Environment Sustainability:

Companies around the globe are struggling with a new role, which is to meet the needs of present generations without compromising the ability of coming generations to meet their own needs. Companies are being called upon to take responsibility for the ways their operations impact the natural environment (Figure-8). They are also being asked to apply sustainability principles to the ways in which they conduct their business. Sustainability refers to an organization's activities, typically considered voluntary, that demonstrate the inclusion of environmental concerns in the business operations and interactions with the stakeholders.



Strategies framed by companies are being evaluated in terms of environmental practices as well. People appreciate the organizations that decide and implement their strategies in a way that helps in conserving and preserving the environment. The interest of society is increasing in the companies that support preserving nature's ecological balance and foster the clean and healthy environment. Strategically companies are demonstrating to their customers and stakeholders that their green efforts are substantive and which set them apart from their competitors. A company's environmental performance must back up their rhetoric and be consistent with sustainability standards. The ecological challenge facing all organizations requires managers to formulate strategies that preserve and conserve natural resources and control pollution. Special natural environmental issues include ozone depletion, global warming, developing biodegradable products



and packages, waste management, water, air and noise pollution etc. In addition to having environmental favoring strategies, companies can have environmental representatives on their board of directors also. For example, Wall-Mart is following the strategy of monitoring not only price its vendor offers for the product but also how these products are made in terms of environmental practices (Figure-9). It has come up with a project of installing solar panels on all its stores in California and Hawaii which will be serving more than 30% of power requirement in the stores. It may go forward for adopting the same practice at national level if project is found to be successful.

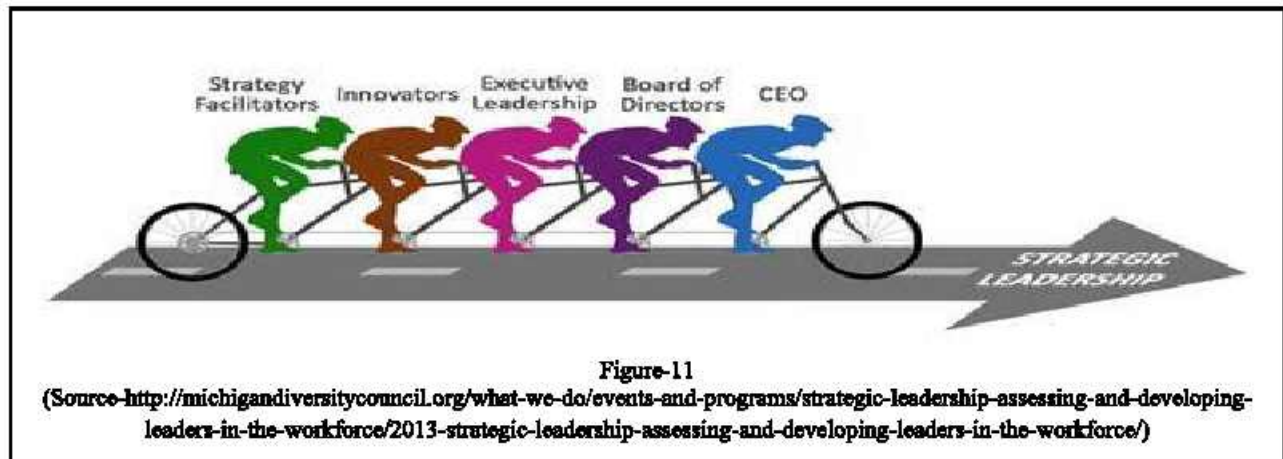
Sustainability Report: Majority of the companies have now started publishing sustainability report as an annual feature. Sustainability report is a document released by the company disclosing information about its environmental and social performance. It reveals that how company's activities are affecting natural environment. The Global Reporting Initiatives (GRI) has specified some guidelines regarding the information and contents to be provided by the companies in sustainability report. Earlier companies were used to use different terms like organic, green, safe, environment friendly etc. because there were no set of guidelines or norms and legal definitions were available. No company likes to have reputation of being polluter. Bad sustainability track reduces the market share, threaten its standing in the society and attracts scrutiny & penalty from government, environmentalists and regulators.

7. Strategic Leadership:

The effective strategic leadership is the key for successful strategic management in an organization. Strategic leadership is the ability of a manager to express strategic vision for the organization and to motivate the employees to work for fulfillment of that vision (Figure-10). Strategic leaders create organization structure, allocate resources and express the strategic vision. They make use of rewards and incentives to encourage the employees. It is the ability to anticipate, envision, maintain flexibility and to empower others to create strategic change in the organization.



Strategic productivity is the primary objective of strategic leadership. The ability to manage human capital is the most important skill of strategic leader. Probability to have competitive advantage and to earn above average profits is reduced when a strategic leader is not able to assess the changes in the environment and to respond quickly as well as appropriately. Strategic leader must know how to deal with the drivers and complex competitive situations.



The responsibility for strategic leadership generally lies with the top management. This role is mostly played by the CEO (Figure-11). It can be some time members of board of director, the divisional general manager also. Regardless of their title and organizational function, strategic leaders have substantial decision making responsibilities which cannot be further delegated. Strategic leadership is quite complex and critical form of leadership. Successful strategies cannot be formulated and implemented without having an effective strategic leader.

The productivity of the employees led by strategic leader is determined by the leadership style adopted by the leader. Most effective and commonly used style of strategic leadership is Transformational leadership. Transformational leaders motivates the followers to do more than expected, to continuously enrich their capabilities and to place the interest of organization over and above their individual interests. They keep on motivating followers to work for higher level of achievement. Such types of strategic leaders generally have high emotional intelligence, are empathetic with others and have effective interpersonal skills. Another style of Strategic leadership can be Transactional Leadership. Leaders using this style provide rewards and punishments to the followers depending upon their performance. Leaders and followers set the goals together, and employees agree to follow the direction and leadership to accomplish those goals. The leader review results and train or correct employees when team members fail to meet goals. Employees receive rewards, such as bonuses, incentives, promotion etc. when they accomplish goals.

Strategic leaders have to take undertake so many activities and actions. Some key actions taken by the strategic leaders include determining strategic direction, effectively managing the firm's resources, sustaining an effective organizational culture, ensuring ethical practices, and establishing balanced organizational control.

8. Technology Proliferation:

Technology can be defined as a body of knowledge that a company uses during the production of products and services (Figure-12). One of the biggest challenge strategists face today is how to deal with fast changing technology. How to accept it, reject it or to integrate into business operations. Decision regarding technology has become quite imperative because accepting right technology and changing or modifying the products accordingly, will keep the business



Figure-12

(Source-<http://www.autocarindia.com/auto-news/maruti-suzuki-resumes-production-at-haryana-plants-400399.aspx>)

moving forward otherwise company can be out of the business. Technological changes can lead to demolition of existing business or even the entire industry. It can affect the products and services offered by a company or the way a company carries its operations. The rate of changes in the technology varies from industry to industry. For example, in case of electronic goods such rate of change can be very high and constant in comparison to furniture manufacturing. Since the technology is integrated into almost all the sub-systems of a business, therefore success or failure of strategies also depends upon the effective decisions regarding technology.



Figure-13

(Source-<http://cognizant.com>)

Technology proliferation affects more in case of high technology industries. High technology industries are those where scientific knowledge that company uses while producing products and services is advancing very rapidly, resulting into frequent changes in the attributes of products and services being produced (Figure-13). Smartphones, Digital Cameras, Computers and Laptops and other electronic equipments are the

best example of high technology industry.

In case of high technology industries, companies often compete to develop revolutionary products and to be the first mover. Because being first mover in regard to a revolutionary product will lead to monopoly position and there are chances of earning huge profits if such revolutionary product is successful to satisfy the unmet needs of the consumer and demand is high. Moreover such first movers may be able to establish brand loyalty, which will be expensive to break for late movers. First movers may be able to ramp up the sales volume and can enjoy the large scale economies before the entry of rivals. At the same time, first mover has to bear the significant pioneering cost related to developing technology, distribution channels and educating the consumer about the nature of the product, which late entrants will not be required to spend and may be

enjoying a free ride. Due to lots many uncertainties involved, first movers are prone to bear huge losses as well.

9. Innovation:

Innovation is rapidly becoming a key strategic driver for successful organizations. It gives much needed competitive edge to the companies to move ahead of their competitors. According to Schumpeter, Invention is the act of creating or developing new products or processes, whereas Innovation is the process of creating a commercial product from an invention. Thus invention brings something new into existence and innovation brings something new into use. Technical criteria can be used to determine the success of an invention whereas commercial criteria can be used to determine the success of an innovation. No company can become and remain market leader in its industry if it is not in a continuous process of developing innovative products desired by the customers (Figure-14).



Many companies are able to create ideas that lead to inventions, but commercializing those inventions through innovation has proved difficult. This difficulty can be suggested by the fact that approximately eighty percent of R&D occurs in large firms, but these large firms produce less than fifty percent of the patents. Patents are strategic assets and ability to regularly produce them can be an important source of competitive advantage, especially for the firms competing in knowledge based industries. Innovation is not a result of being genius; rather it is a collaborative process where people from different parts of the organization contribute to create and implement the new ideas. It requires the broader set of people working with different backgrounds like engineers, marketing managers, investors, finance managers and above all strategists.

Methods of Innovation: Companies can follow any of the three methods to innovate. Innovation can be done through internal activities, through strategic alliances and by acquiring other companies to gain access to their innovations and innovative capabilities. A company can use even all the methods to innovate.

9.1 Internal Innovation: In case of established organizations most of innovation comes from efforts in research and development (R&D). Research and development is the most critical factor in gaining and sustaining a competitive advantage in some knowledge based industries such as information technology, pharmaceuticals etc. Innovating through internal R&D required a lot of time and investment as performance of R&D cannot be evaluated in the short run. Firms can go for two types of internal innovations – *Incremental innovations* and *Radical innovations*.

Most of innovations in this category are the **incremental innovations**. It refers to building on existing knowledge base and provides small improvements in the current product lines. These are evolutionary and linear in nature. The markets for internal innovations are well defined, characteristics are clearly understood, profit margins are lower, and competition is primarily on the price. For example, adding a whitening agent to soap detergent (Figure-15), improvements in televisions over the period of time etc. These types of innovations are the outcome of induced strategic behavior. In contrast to incremental innovations, **radical innovations** are technological breakthroughs and create new knowledge. These are revolutionary and non-linear in nature; typically use the new technologies to serve newly created markets. It establishes new functionalities for the users and significant potential for growth in revenues and profits. Radical innovations are rare because of the difficulty and risk involved in developing them. Value of the technology and the market opportunities are highly uncertain. These types of innovations are the outcome of autonomous strategic behavior. For example, development of smartphone from the basic cell phone, or development of personal computer to present age computer.

Super Rin strikes whiter than any other detergent tablet or bar.

Washed with any other detergent bar.

Washed with Super Rin.

Do the 'comparative wash' test

- Take two equally soiled garments.
- Wash one of them with any detergent tablet or bar.
- Now wash the other dirty garment with Super Rin.
- Compare the results.

You will actually see how much whiter Super Rin gets your clothes—whiter than any other detergent tablet or bar. Because Super Rin has more whitening ingredients.

More whitening power than any other detergent tablet or bar.

Figure-15
(Source- <http://www.businesstoday.in/photos/in-the-news/oldest-multinationals-india-hul/384.html>)

9.2 Innovation through Strategic Alliance: Companies are increasingly depending on strategic alliances for innovating and are building networks of alliances or joint ventures that represents a form of social capital for them. This social capital in form of relationship with other entities, help them to obtain knowledge and other resources required for innovation. Some firms even allow other companies to participate in their internal new product development processes.

9.3 Innovation through Acquisitions: Firms sometimes acquire other entities to have access to their innovations and their capabilities to innovate. Another reason for going such acquisitions can be growth. Capital market values growth; and acquisitions provide a mean to rapidly extend one or more product lines and increase the firm's revenues. But in such cases, sometimes company loses strategic control and focus instead on financial control of their original and especially of their acquired units. Therefore this method of gaining innovation is also not free from risk.

10. Summary:

It is clear from the above discussion that there are different areas and issues which are critical and gaining complexity over a period of time. Companies do business in an environment where society and community is also a stakeholder, therefore firms need to manager their relationship with community and society in large. Corporations are responsible for impact of their operations on society and environment beyond the legal compliance. Each of the strategic issues discussed above is critical to the future of businesses as they present some level of risk to the present businesses, organizations or strategic systems. Managers, while deciding and implementing strategies, must consider these issues and challenges to effectively navigate the company through environment they are operating in today. By paying attention and reacting to these issues, leaders can strategically manage their organizations to compete globally and for future growth and sustainability.