NETAJI SUBHAS OPEN UNIVERSITY

STUDY MATERIAL

M. COM

PAPER - 11

Strategic Management

POST GRADUATE
COMMERCE

PREFACE

In the curricular structure introduced by this University for students of Post-Graduate degree programme, the opportunity to pursue Post-Graduate course in Subject introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post-Graduate level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of proper lay-out of the meterials. Practically speaking, their role amounts to an involvement in invisible teaching. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great part of these efforts is still experimental–in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these to admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Vice-Chancellor

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NETAJI SUBHAS OPEN UNIVERSITY

Post-Graduate : Commerce
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Module 1

Module 2

Unit 1 □ Strategic Management and Introductory Issues

Structure

1.1 Introduction

All of us are perhaps aware of the word strategy. We often use the term in our discussion with others about some perspective or issue. We also witness the usage this word time and again in different magazines, electronic and print media, etc. We listen from cricket experts about India's strategy to beat Pakistan, Australia and other cricket playing countries. Even business magazines talk a lot about the strategy of a company. But what is the exact meaning of strategy? The fallacy lies in the fact, that many a times we do not know the exact meaning of strategy yet we use if quite often. It would therefore be worthwhile to have a look at different definitions of strategy and analyse the word strategy. This would be helpful to understand the meaning of strategy in a better way. But our discussion on strategy and its related aspects will be confined within the purview of business organisations. The word strategy has become a catchword in the business world since 1950-60's when executives of top companies of the world felt the need to have a strategy for running firms in an efficient and effective manner in the light of a turbulent and complex environment. Since then strategy and strategic management have emerged as important issues in managing firms. In fact, this paper is concerned with Strategy and Strategic Management. The word strategy is the basis for understanding the meaning of strategic management. We shall therefore start our discussion by considering the different definitions of strategy. Then we shall discuss the process of strategic management.

1.2 Different Definitions and Analysis of Strategy

Strategy is derived from the Greek word *'strategos'* that can be broken down into *stratos* (the army) and *again* (to lead) and it means "the art of leading the army". The Oxford Pocket Dictionary defines it as "The art of war, especially the planning of movements of troops and ships etc., into favourable positions; plan of action or policy in business or politics." Now let us have a look at the different definitions of strategy provided by different experts in the field :

According to Von Neumann and Morgenstern, strategy is : "A complete plan : A plan which specifies which choices (the players) will make in every possible situation".[1]

In the opinion of Chandler, strategy is "the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".[2]

Jauch and Glueck have defined strategy as "a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment".[3]

'Unified' means that a strategy binds all parts of the firm; 'comprehensive' implies that the strategy covers all major aspects of the firm and 'integrated' suggests that all parts of the plan are well matched with each other and fit together well.

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1. Von Neuman, J. and Morgenstern, O., The Theory of Games and Economic Behaviour, New York : John Wiley & Sons, 1944, p. 179.
2. Chandler, A. D. Jr., Strategy and Structure : Chapters in the History of Industrial Enterprises, London : MIT Press, 1962, p. 13.
3. Jauch & Glueck, Strategic Management and Business Policy (3rd edition), New York : McGraw Hill International, p. 11.

According to Hatten and Hatten, strategy is "The way to achieve organizational objectives".[4]

Hitt, Ireland and Hoskisson, have opined that strategy is "An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage".[5]

James Quinn defined it as "the pattern or plan that integrates an organisation's major goals policies, and action sequences into a cohesive whole".[6]

According to Ansoff, strategy provides a common thread for five interrelated organisational aspects (a) product-market scope, (b) growth, (c) competitive advantage, (d) internally generated synergy, and (e) make or buy decision.[7]

In the opinion of Kenneth Andrews, strategy "is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be".[8]

Steiner, Miner and Gray have defined strategy as "forging for company missions, setting objectives for the organization in the light of external and internal forces, formulating specific policies and strategies to achieve objectives and assuring their proper implementation so that the basic purposes and objectives of the organization will be achieved".[9] They have further mentioned the following grouping to bring out some dimensions of strategy[10]—

a) The classification of strategy is based on scope-strategy can be defined in a broad or a narrow pattern depending upon its scope based on which we can have grand strategies, programme strategies or sub-strategies.

b) Strategy can be categorised according to different levels of a firm.

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4. Hatten, K. J. and Hatten, M. L. Effective Strategic Management : Analysis and Action, Upper Saddle River : Prentice Hall, 1988
5. Hill, M. A., Ireland, R. D. and Hoskisson, R. E., Strategic Management : Competitiveness and Globalization, Cincinnati, OH : Southwestern Publishing, 1997, p. 115.
6. Quinn. James B., Strategies for Change : Logical Incrementalism, Homewood, Il : Richard D.
7. Ansoff, H. I., Corporate Strategy, New York : McGraw-Hill, 1965.
8. Kenneth Andrew, The Concept of Strategy, Homewood, IL : Irwin, 1971.
9. Steiner, G. A., Miner, J. B. and Gray, E. D., Management Policy and Strategy : Texts, Readings and Cases, New York : Macmillan Publishing Company, 1989, p. 11.
10. Ibid, p. 11-12.

c) Strategy encompasses both material and non material resources of a firm.

d) Strategy can be classified according to purpose or function or both giving rise to competitive strategies, product market strategies, human resource strategies etc.

e) Personal strategies of top management team make-up the basic framework within which a firm's strategies are formulated.

So from the above definitions and analysis of strategy, it is probably clear to you that strategy is a broad concept. Further, Hax and Majluf have identified some critical dimensions in order to understand a unified definition of the concept of strategy. In their opinionl[11]—

i) Strategy is a means of establishing the firm's purpose in terms of priorities in long-term objectives, action programmes and resource allocation.

ii) Strategy defines a firm's competitive domain.

iii) Firms pursue a strategy in response to opportunities and threats, and strengths and weaknesses so as to gain sustainable competitive advantage.

iv) Strategy acts as a "coherent, unifying and integrative pattern of decisions".

v) Strategy provides a definition of the contribution that firm wants to make, in order to satisfy the needs of its stakeholders.

vi) Strategy is expressed through strategic intent in terms of stretching the firm.

vii) Strategy is an instrument that helps firms to develop their core competencies.

viii) Strategy is an instrument through which firms invest in resources in order to develop the competencies and to gain competitive advantage.

Although many firms strategies, keeping their internal and external environment in mind yet strategies do not always succeed. In this perspective, the critical factors that make a strategy successful are[12]—

(i) When objectives are long-term in nature, consistent and simple.

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11. Hax, A. C. and Majluf, M. S., The Strategy concept and process : A pragmatic Approach Prentice Hall International, New Jersey, pp. 2-9, 1996.

12. Grant, R. M., Contemporary Strategy Analysis-Concepts, Techniques and Applications, (4th Edn.), Oxford : Blackwell Publishers, 2002 pp. 11-12.

(ii) When strategies have been formulated on the basis of a clear understanding of the firm's competitive environment.

(iii) When strategies have been set on the basis of clear understanding of the firms resources and capabilities.

(iv) Effective implementation of the selected strategy.

Many a times firms fail in their effort to formulate strategy. The reason for the failure may be primarily ascribed to the above mentioned reasons. But you should deep one thing in mind and that is strategy and strategic management are complicated issues. In fact this will be clear as you go through the different chapters of this paper. Your task will be have a clear understanding of the different issues that are involved in the strategic management process.

1. 3 Strategic Management

1.3.1 Different definitions of Strategic Management

We have discussed the details of the concept of strategy in our last section. We have also stated that strategy is the basis for understanding the issue of strategic management. We shall start this discussion by looking at a few definitions of strategic management stated by experts—

- In the opinion of Jauch and Glueck, "Strategic management is a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives".[13] So, in their opinion, strategic management is a process through which top executives of firms determine objectives, make strategic-decisions and take actions.
- According to Ansoff and DcDonnell, "strategic management is a systematic approach for managing strategic change, which consists of the following[14]—
    i) Positioning of the firm through strategy and capability planning.
    ii) Real time strategic response through issue management.
    iii) Systematic management of resistance during strategic implementation".

13. Jauch and Glueck, op. cit. p., 5.

14. Ansoff, H. I. and McDonnell, E. J., Implanting Strategic Management, (2nd edn.) New York : Prentice Hall, 1990, p. xvi.

- According to Thompson and Strickland, strategic management refers "to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtime initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate".[15]
- Rue and Holland have defined strategic management as a "process by which top management determines the long-run direction and performance of the organization by ensuring that careful formulation, proper implementation, and continuous evaluation of strategy takes place".[16]
- Fred David has defined strategic management "as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives".[17]
- According to Hunger and Wheelan, "Strategic management is that set of managerial decisions and actions that determines the long run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic planning), strategy implementation, and evaluation and control".[18]
- In the opinion of Dess and Miller, Strategic management is "a process that combines three major interrelated activities : strategic analysis, strategy formulation, and strategy implementation". In their opinion strategic analysis is the homework necessary to develop a strategy, strategy formulation is the process of transforming "homework into a plan", and strategy implementation is the process of putting the plan into action.[19]

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15. Thompson, A. A. and Strickland, A. J., Strategic Management : Concepts and Cases, New Delhi : Tata McGraw-Hill, 2004, p. 6
16. Rue, L. W. and Holland, P. G., *Strategic Management : Concepts and Experiences,* New York : McGraw-Hill International, 1986, p. 5
17. David, F. R., *Strategic Management : Concepts & Cases,* New Delhi : Pearson Education, 2003, p. 5
18. Hunger, J. D. and Wheelan, T. L., *Essentials of Strategic Management.* New Delhi : Prentice Hall of India, 2004, p. 2
19. Dess, G. G. and Miler, A., *Strategic Management.* New York : McGraw-Hill, 1993, p. 9

1.3.2 Evolution of Strategic Management

Before moving on to the basic model of strategic management, it would be useful for us to have a brief look at the evolution of stratetegic management. Authors like Jauch an Glueck, Rue and Holland etc. have effectively traced the evolution of strategic management. You can therefore-consult their books to get a clear understanding of the evolution of strategic management. For your benefit we are trying to briefly trace the evolution of strategic management.[20]

Well, during the 1950s and 1960s, executives felt the problem of managing big firms that involved different actors, where different types of decisions had to be made and action to be taken. For this, firms took the help of financial budgeting. But as time progressed, it was felt that an advanced method is required for predicting the future. During the 1960s, the emphasis was on long-range planning where economic and market forecasts were undertaken by firms with the help of a separate department. In long-rang planning, advanced and scientific techniques like econometric tools, linear programming, cost-benefit analysis were used. This planning was generally carried out by a group of staff and the report was forwarded to the top management of firms. However, this period was fonowed by a period where firms faced a more turbulent environment and it was quite difficult for them to forecast the future with the help of long-range planning since it suggested a single course of action for the most likely future environment. Thus firms felt the necessity of developing a more sophisticated technique that would provide a better idea about several scenarios of the future. This requirement was met with the help of strategic planning and strategic management. In case of strategic planning, preparations were made for several scenarios for the future after analysing the business. This was different from long range planning where the firm selected a single plan for the most likely future. Here the central attention was on competition and competitive advantage. During the late 1970s and 1980s firms tried to analyse their external environment through industry analysis. Then during 1980s and 1990s, the focus shifted towards identification of the internal sources from which firms gain competitive advantage. This phase saw the emergence of core competencies and resource-based views in the context of strategic management. Presently executives are trying to "seek new strategies to exploit new sources of profitability, new approaches to strategy formulation that can generate innovation, and new organizational forms capable of implementing these strategies".[21]

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20. This section is based on Grant, R. M., Contemporary Strategy Analysis-Concepts, Techniques and Applications, (4th Edn.), Oxford : Blackwell Publishers, 2002 pp. 18-22
21. Ibid

1.3.3 A Model on Strategic Management

It is probably clear to you from the definitions stated earlier that strategic management is a process that involves a number of stages or phases. Experts have stated that there can be four to five phases in strategic management process. In the opinion of experts, the basic phases of strategic management are :

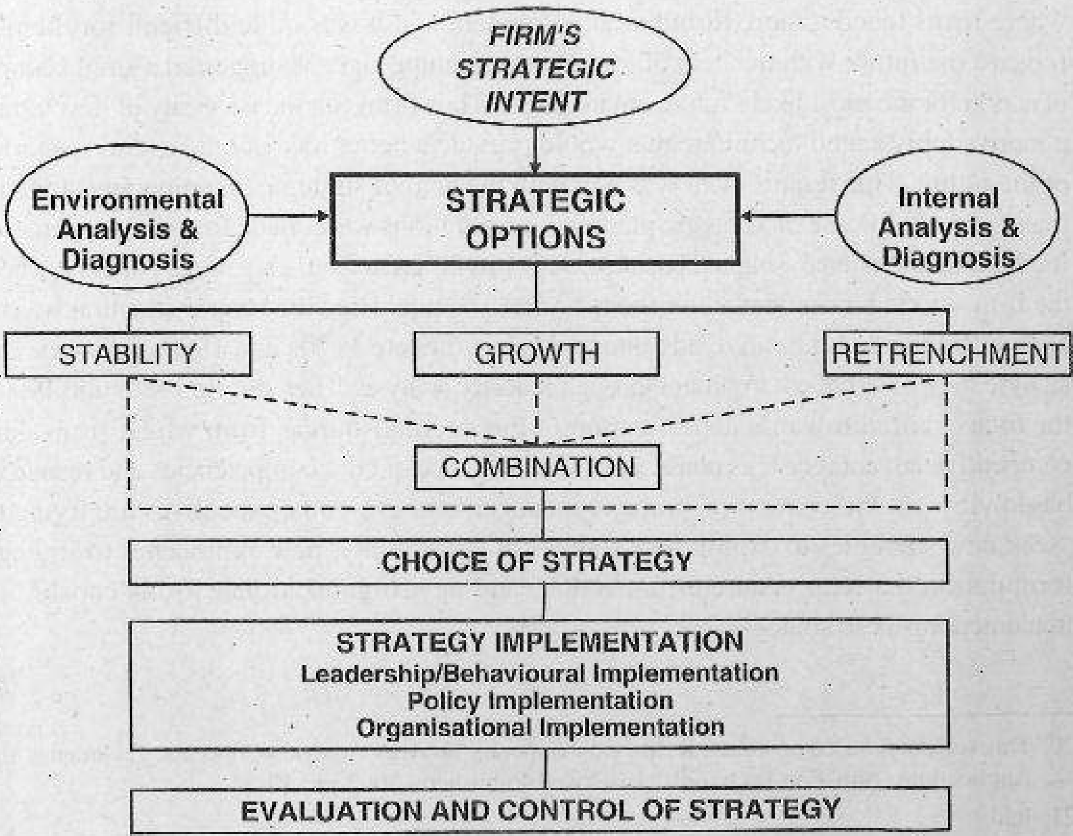
i) Forming a direction where the firm will move in the future – Formulation of mission and setting objectives

ii) Formulating and developing a strategy

iii) Implementing and executing the strategy chosen

iv) Evaluating performance and initiating necessary adjustment in the light of changing environment

We shall now try to develop a basic model on strategic management on the basis of the different tasks and processes that need to be carried out in the context of strategic management as stated by experts like Jauch and Glueck and others. This model is shown in the figure below—



From the above figure it is probably clear that the phases of strategic management are sequential in nature, one following the other. Let us now briefly discuss each of these phases. Moreover, the details of the different phases have been discussed in the different units of this half of your course curriculum.

The process of strategic management begins with a consideration of a firm's strategic intent. Many authors prefer to consider a hierarchy of strategic intent encompassing the vision, mission, business definition and objectives. The strategic intent outlines what the firm is trying to achieve in the long term. We shall consider strategic intent in the last section of this unit in the line of Hamel and Prabalad's treatment of the issue. On the basis of strategic intent in general, and mission and objectives in particular, a firm tries to formulate its overall strategy. Basically, a mission statement states the basic purpose of a firm and executives try to set and attain objectives in the line of the mission statement. In the section following the next section we shall discuss the dual concepts of mission and objectives. The next phase consists of analysis and diagnosis of the firm's internal factors and external environment. The external environment is analysed and diagnosed to determine the opportunities and threats. Firms ascertain significant changes in the economic, government / regulatory, technological, competitive sectors etc. from environmental analysis and diagnosis. Firms carry out internal analysis and diagnosis to determine the strengths and weaknesses. It has to ascertain the significance of its resources and capabilities. The environmental and internal analysis and diagnosis provide the fundamental direction of a firm's strategy formulation process. On the basis of the previous two phases, firms analyse and examine the alternative strategic options in the third phase. Here it is important to analyse the course of action that the firm should follow or modify according to its requirement. It should do this in he light of the match between its internal factors with the environmental factors. An important issue that needs to be addressed is that given the mission and objectives, what are the different alternatives options, available to the firm? Firms should assess each of the alternative courses of action. This task of analysing the different alternative courses of action is to be undertaken in this phase of strategic management.

The firm has to choose an appropriate strategy after analysing the alternatives. How should the firm perform the strategic choice process? Choice entails the integration of mission, objectives, and analysis & diagnosis of internal factors and external environment.

These issues have to be analysed in the phase of choice of strategy. In this phase, the firm should ensure that the most suitable strategy is chosen to meet its objectives.

After a strategy has been selected, strategy implementation phase comes in. This involves policy implementation, leadership implementation and organisational implementation.[22] In the context of policy implementation, firms try to match functional policies and resources with corporate strategy. In leadership implementation, the firm has to match the strategists with the strategy. Finally, in the context of organisational implementation, firm tries to relate its organisational structure with the strategy. After the phase of implementation of strategy, the final phase of evaluation and control of strategy comes into focus. In this phase, a firm tries to ensure whether the firm's strategy is moving in the right direction and will meet the objectives. Here firms compare actual performance with desired performance and determine gaps, if any. Necessary feedback for alteration of strategy is provided from this last phase of the strategic management process.

1.3.4 Advantages of Strategic Management

From the discuss so-far, it is probably clear to you that strategic management provides a number of advantages to firms to carryout their activities effectively. In this perspective, the advantages of strategic management as stated by expert can be summarised asfollows[23]—

i) Strategic management encompasses activities aimed as improving efficiency and effectiveness. A firm tries achieve its objectives in a better way by using minimum resources with the help of strategic management. Executives are encouraged to carry out a balanced approach on enhancing the performance of functional areas by taking into account the overall organisational perspective.

ii) Strategic management is concerned with the achievement of organisational goals. Moreover it provides a better guidance to the entire firm about what the firm wants to do. Executives of firms get a better understanding of the corporate goals with the help of strategic management. Since strategic management has a firm-wide

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22. Glueck, W. F., Business Policy and Strategic Management (3rd edn.), New York : McGraw-Hill, p. 36.

23. Dess, G. G. and Miler, A., *Strategic Management*, New York : McGraw-Hill, 1993, p. 9; Thompson, A. A. and Strickland, A. J., *Strategic Management : Concepts and Cases*, New Delhi : Tata McGraw Hill, 2004, p. 28.

perspective, middle and bottom level executives can get out of their narrow functional areas into corporate perspective encompassing the entire firm. They can understand the corporate goals and hence are in a better position to contribute positively towards the achievement of these goals.

iii) Strategic management takes into consideration the broad range of stakeholders of firms. Stakeholders like employees, customers, suppliers, and shareholders have a considerable stake in the organisational success or failure. Firm success relies upon effective decision-making that affects the interest of stakeholders. With the help of strategic management, firms can cater to the needs of all stakeholders in a better way. Since strategic management is holistic in nature, it suggests a possible trade off of interests of various stakeholders and helps to priorities those interests. It thus helps in unifying the firm and its stakeholders.

iv) Strategic management helps firms to formulate better strategies by using systematic logical and rational approach to strategic choice. The process helps executives to be more proactive and conscious in utilising the firm's resources by relating to the environmental opportunities in a better way to gain competitive advantage.

v) Strategic management take into account the firm's long-term perspective. In the opinion of Carlson, strategic management helps to maintain a constant linkage between long-term and short-term perspective. When executives take a long-term perspective into account, they can understand the activities that are required to be carried out by the functional departments. This contribute positively to the achievement of the firm's long-term objectives.

1.4 Role of strategists in the strategic management process

Strategists have a vital role to play in the strategic management process. Strategists can be individuals or groups that carryout the process of strategic management. Experts have identified the following as important strategists who carry out the strategic management process[24]—

(i) *Top managers*—The top managers manage the strategic affairs of a firm. They can be Chairman, President, Vice-president, the Chief Executive officer (CEO), etc. When the firm has multiple business or SBUs then the top of the SBUs can be

24. Glueck, op. cit., pp. 44-51

considered as strategists for SBUs, The top management identifies opportunities and matches them with the firms resources and capabilities, They make decision relating to diversification, technology upgradation, product development etc, Top management of SBUs looks after the affairs of SBUs and formulates strategy for SBUs.

(ii) *Board of directors*—Board of Directors is the ultimate legal authority in managing the affairs of a firm, Board of Directors carries out the following tasks in strategic management[25]—

(a) Monitor—Board monitors the affairs of the firm by remaining aware of the developments taking place within and outside the firm.

(b) Evaluate and influence—Board evaluates the proposal of top management of firms and their decision and action, It suggests alternatives to the top management for effective strategic management.

(c) Initiate and determine—Board of directors is involved in the formulation of the firms mission statement and strategic options.

(iii) *Entrepreneurs*—Individuals who initiate a business are referred to as entrepreneurs. They are expected play a crucial role in strategic management process. They provide direction to their firm, set objectives, formulate, implement and evaluate strategy. They have financial control on the firm and are largely held responsible for the success or failure of a firm's strategy.

(iv) *Consultants*—An external agent can be involved in the strategic management process of firms. In this respect consultants play a vital role by providing advice in different aspects relating to the strategic affairs of a firm. They study and analyse the nature of the problems that a firm is facing and suggest solution. Some firms also seek the opinion of consultants before making decision on strategic affairs.

(v) *Corporate planners*—Corporate planners and specialists in areas of strategic management sometimes carryout strategic management in firms. They are trained in the skills of strategic management. Corporate planners carryout analysis and diagnosis, generate strategic options and participate in strategy implementation process. In the opinion of Glueck, planners carryout the following activities—

(a) They assist top management in strategic issues.

(b) Assess the different business opportunities.

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25. Hunger and Wheelan, op. cit. p. 18

(c) Provide opinion on resource allocation related issues.

(d) Provide guideline on planning formats to different divisions and units.

(e) Help in integrating functional & business plans with corporate plans.

1.5 Levels of Strategy

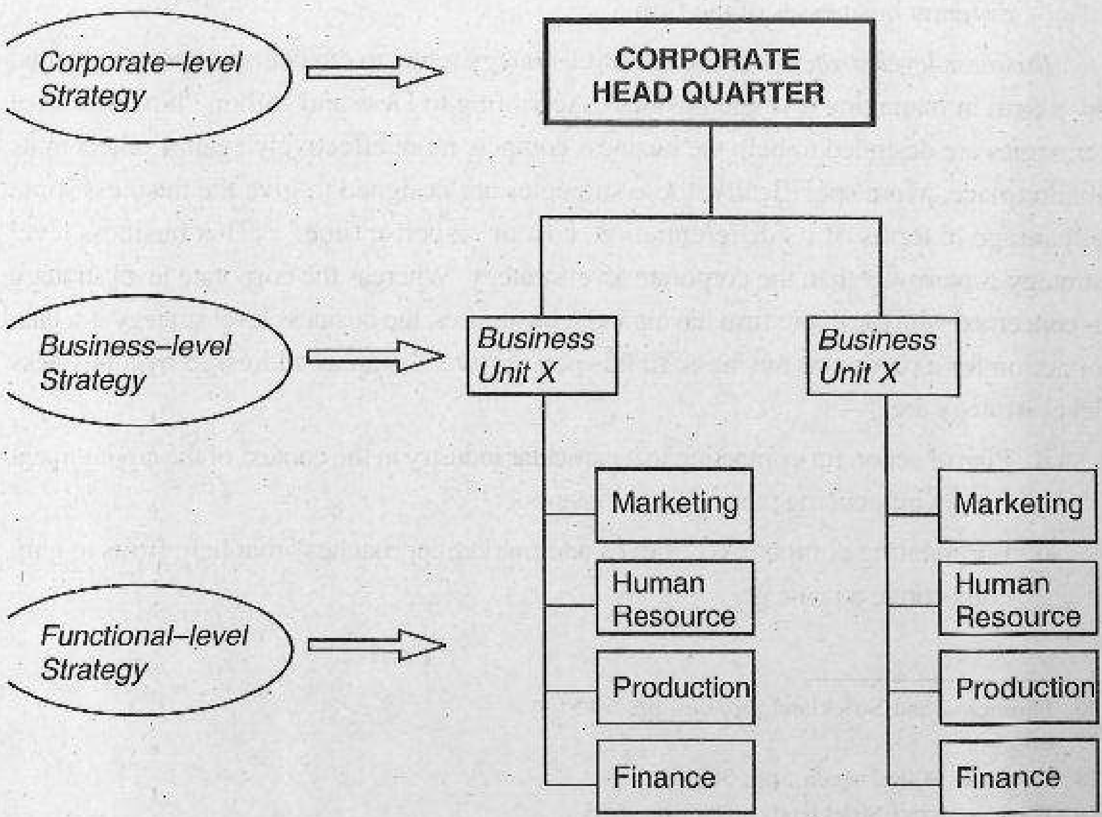
An interesting question that may come in your mind is that can there be single strategy for a firm? In answer to this, experts say that there should be two levels of strategy in a firm having a single division / business and three levels of strategy for a firm having multiple business. In a multi-business firm, the three levels of strategy are

i) Corporate-level strategy

ii) Business-level strategy

iii) Functional-level strategy

These are shown in the figure below—



Corporate level strategy—Corporate level strategy is the "overall managerial game plan" for a diversified firm; and "consists of the moves made to establish business positions in different industries and the approaches used to manage the company's group of business"[26]. Corporate level strategy involves developing mission and objectives of the entire firm, decision-making about the scope of the entire firm, resource allocation among different business units of the firm, setting objectives and measuring performance of each business unit of the firm, designing organisational structure, looking after finance and other issues encompassing the firm as a whole, etc. This level of strategy signifies four aspects[27]—

i) It gives clear direction to the firm in establishing its position in its diversified business and the ways to pursue a diversification strategy.

ii) It provides a guideline to enhance the combined performance of the firm in multiple businesses.

iii) It helps the firm to make a balance among its different businesses so that it can succeed in a competitive environment.

iv) It gives direction on the resource allocation issues and investment priorities among different businesses of the firm.

Business level strategy—Business level strategy refers to the course of action pursued by a firm in managing a single business. According to Dess and Miller, "business level strategies are designed to help the business compete more effectively against others in its marketplace. More specifically, these strategies are designed to give the business some advantage in terms of its differentiation, cost or response time.'[28] This business level strategy is narrower than the corporate level strategy. Whereas the corporate level strategy is concerned with the entire firm having multi businesses, the business level strategy is a plan of action for a particular business. In this perspective, the areas addressed by a business level strategy are[29]—

i) Plan of action for competing in a particular industry in the context of the environment factors influencing the particular business.

ii) Formulating competitive "moves and market approaches" that help firms to gain competitive advantege.

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26. Thompson and Strickland, op. cit., pp. 50-51
27. Ibid.
28. Dess and Miller, op.cit., pp. 363-64
29. Thompson and Strickland, op.cit., pp. p.55

iii) Building and developing core competencies and capabilities of business units.

iv). Action to deal with strategic issues of the particular business.

A term that comes into focus in any discussion on the business level strategy is Strategic Business Unit (SBD). In fact, a multi-business firm is managed through business units that have been referred to as SBUs (Strategic Units). Fitzroy and Hulbert have defined SBU as "a un-it of the firm that is relatively autonomous, an entity responsible for developing its own strategy."[30] SBUS of a multi-business firm formulate their business level strategies in the light of the basic guideline provided by the corporate level strategy.

Functional level strategy—Functional level strategy is the plan of action aimed at performing functional activities (Marketing, Finance, Production, Human Resources, etc.) in the light of the guideline of corporate and business level strategy. The functional-level strategy tries to address "How will of the firm's functional areas support the business and corporate level strategies?" You can probably understand that this level of strategy is narrower than the business level strategy. The task of implementing these strategies is primarily in the hands of the functional managers. But functional strategies should support the corporate and business level strategies. Moreover strategists should remember that corporate and business level strategy can be successful only if the functional strategies are successfully implemented.

Many authors prefer to include another level of strategy below the functional level strategy in the form of operating-level strategy. According to Thompson and Strickland, an operating strategy concerns the approach of managing key operating units (plants, sales area, distribution centers), carrying out the operating tasks that are significant from a strategic management perspective (purchasing, inventory control, maintenance etc.) and are basically sub-divisions of functional level strategies.[31]

30. Fitzroy, P and Hulbert, J., Strategic Management : Creating Value in a Turbulent world, New York : John Wiley, 2005.

31. Thompson and Strickland, op. cit., pp. p. 57.

1.6 Mission and Objectives

We have already developed a model on strategic management and analysed the benefits of strategic management in the second section of this unit. From the model it is probably clear to you that the process of strategic management emanates from the strategic intent that experts believe, can be stated in terms of a hierarchy of vision, mission, business definition and objectives. We shall however restrict our discussion within the perspective of mission and objectives only. Mission and objectives provide a guideline, on the basis of which the different phases of strategic management follow. So there is a necessity to judiciously formulate mission statement and set objectives of the firms. Jauck and Glueck have stated two basic questions that are related to the mission and objectives of a firm. They are :

"(i) What business are we in?"

"(ii) Why are we in the business?"

The relationship between a firm's mission, objectives and strategies is shown below—

Mission : A firm's basic purpose.

↓

Objectives : Specific measurable targets that a firm seeks to reach on the basis of the areas covered by its mission statement.

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Strategies : Means through which a firm accomplishes a mission and objectives.

Source : Adapted from Barney, J. B., Gaining and Sustaining Competitive Advantages, New Delhi : Prentice Hall of India, 2002, p. 3.

Mission

Mission is the basic reason or purpose that tells us why a firm exists. In the opinion of David,[32] "the *mission statement* is a declaration of an organization's reason for being" and acts as an "enduring statement of purpose that distinguishes one organization from other similar enterprises". Firms need a clear mission statement to set objectives and formulate strategies in an effective manner. According to Peter Drucker.[33] "A business

32. David, F. R. op. cit., p. 59

33. Drucker, P., Management : tasks, Responsibilities, and Practices, New York : Harper & Row, 1974, p. 61.

mission is the foundation for priorities, strategies, plans, and work assignments. It is the strating point for the design of managerial jobs and, above all, for the design of managerial structure." A mission statement gives a description of the firm's basic products/services and a statement of its market and activities.

An ideal mission statement is expected to answer the following questions[34]—

- What is the reason for the firms's existence?
- What is the basic purpose of the firm?
- What are the unique or distinctive competencies of the firm?
- What is the business going to be in the future—3 to 5 year from now?
- Who are / should be the firm's principal customers, clients etc. ?
- What are the principal products / services of the firm?
- What are the principal economic concerns of the firm?
- What are the basic beliefs, values, aspirations and priorities of the firm?

Let us now have a lock at the mission statements of two Indian companies

Mission statement of BSNL :

i) To provide world class state-of-art technology tetecom services on demand at affordable price

ii) To prodive world class telecom infrastrncture to develop country's economy

Mission statement of ITC Ltd. :

To enhance the wealth generating capability of the enterprise in a globalising environment, delivering superior and sustainable stakeholder value

You can now compare the above mission statements and see how far they answer the questions that have been stated above.

Let us now dis.cuss the importance of a mission statement. The importance of a mission statement can be stated as follows—

(i) A mission statement specifies the purpose of the firm that can be translated into measurable objectives. This helps in monitoring and assessing performance in terms of cost, time, resource usage, production etc.

(ii) Mission statement provides a direction regarding the unanimity of purpose of firms and helps to establish the organisational climate in a better way.

34. Dess and Miler, op. cit., p. 26

(iii) Mission statement serves as a focal point to align individual purpose with the firm's purpose and direction.

(iv) Mission statement helps to formulate objectives on the basis of which individuals and units are assigned tasks.

(v) Firms take decision relating to allocation of resources on the basis of the guideline provided by the mission statement[35].

(vi) Moreover, in the opinion of Fred David, a mission statement is a "declaration of attitude and out look" and a "declaration of social policy" of a firm[36].

A firm's mission statement has a long-term perspective and should not be changed frequently. However, when a firm faces new significant opportunities, in the light of changing environment, it may change its mission. Experience suggests that many firms start with a simple and narrow mission statement. As it grows, it broadesn it mission statement to incorporate it growing competencies, emerging opportunities and the mission statement may also include several additional dimensions[37].

Objectives

Objective is a statement of what a firm seeks to achieve in a given time period. It is the translation of a firm's mission statement in a measurable form. Objectives are "clear, quantifiable, and measurable targets to be achieved by the firm, or a unit of the firm, within a defined time"[38]. In setting objectives, firms are required to carry out the following tasks[389]

(i) *Identification of the key result areas of the firm*—The key result areas that are relevant for a particular firm depends on the firms environment/industry and resource capabilities. Firms may have multiple key result area and hence there can be multiple objectives on the basis of the key result areas.

(ii) *Determination of the time frame on the basis of which objectives are to be achieved*—The time frame for achieving objectives is very critical for the firm. A firm setting an objective of enhancing sales by 15% in the next 6 months is quite different from reaching the same objective in the next 5 years.

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35. King, W.R. and Cleland, D.I., Strategic Planning and Policy, New York : Van Nostrand Reinhold, 1979, p. 124
36. David, F.R., op, cit., pp. 263-68
37. Fitzroy and Hulbert, op. cit., 166
38. Ibid, p. 168
39. Rue and Holland, op. cit. pp. 294-301

(iii) *Determination of the magnitude of the objectives*—Firms need to assign values to objectives in determining their magnitude. In this context, experts suggest that objectives should be challenging on one hand but realistic on the other.

(iv) *Putting identified objectives in written form*—The last task is to put the objectives in a written format. The magnitude and the time frame should also be mentioned Glueck has mentioned certain points that bring out the nature of objectives in a better way. They are[40]—

(i) Firms pursue a number of objectives at a time. Even a small firm will have more than one objective and the objective set by firms depend on the internal resources and environmental factors.

(ii) Firms can have short-run and long-run objectives. This will depend on the firm's priority areas.

(iii) Some objectives are weighted more highly than others. Executives give weights to objectives in terms of resource and time commitment.

(iv) Firms can measure and define the achievement of objectives in different ways. Efficiency, employee satisfaction etc., can be measured in different ways. The measurement and definition of achievement of objectives should be clarified during the phase of implementation.

(v) Firms may have official and operative objectives. Official objectives are stated in official occasions (e.g. while giving public statements). Operative objectives are the targets that a firm actually seeks to achieve and are stated internally.

Supplementing to the above points on objectives as stated by Glueck, some of the additional points / desirable qualities of objectives as stated by experts are[41]—

- A good objective should force a firm to 'stretch' so that it can reach it. By 'stretching', a firm can take extra amount of effort to reach it. This doesn't however imply that the objective should be set at a high level.
- Objectives should have a time dimension—All objectives are required to have a time dimension in the some that a specific time-frame should be stipulated for reaching them.
- Objectives should facilitate reasonable tradeoffs—There may be different objectives that set by a firm that are conflicting in nature. The top management

40. Glueck, op. cit., p. 35
41. Dess and Miler, op. cit., pp. 30-32

of a firm is to proritise the objectives by making trade off among conflicting objectives.

- Objectives should ideally be measurable—Objectives should be measurable in quantifiable terms as far as possible. It is essential for firms to monitor and measure progress by using measurable objectives as yardstick.
- Objectives help in minimising conflict amongdifferent members of the firm when they are clearly stated.

Some areas where firms can set objectives are[42]

- Profitability
- Social Responsibility
- Market Share
- Resource utilisation
- Contribution to employees in terms of benefits, security, etc.
- Cost minimusation.
- Growth (enhancing sales, assets etc.)
- Shareholders' wealth in terms of dividend.

Finally, the following reasons justify why objectives are important to a firm[43]—

(i) *Objectives provide measurable targets that help the top management of a firm to quantify the mission statement—You* have already learnt that the long-term purpose of a firm is stated in the form of a mission statement. The mission statement can be translated into long-term and short-term goals with the help of objectives. This helps executives to formulate course of action to operationalise the firm's mission statement.

(ii) *Objectives establish the firm's relationship with its external environment*—By stating what the firm wants to do, objectives justify the firm's existence in the eyes of the society, government, customer, etc. Thus the firm is able to attract the attention of key external stakeholders, who get an idea as to how the firm is going to serve their purpose.

(iii) *Objectives provide a standard to evaluate organisational performance*— Firm's performance can be measured with the help of objectives. The gap in performance

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42. Hunger and Wheelan, op. cit. p. 7

43. Kazmi A., Business Policy and Strategic Management (2nd edn.), New Delhi : Tata McGraw-Hill, pp. 77-78., 2002

is ascertained and units and individuals are made aware of their respective performance.

(iv) *Objectives help in developing the basis for decision-making*—Objectives attract the attention of the top management of a firm about the areas where attention is required to be given. This provides the basis on which executives make decision.

Factors that affect the formulation of mission and objectives of a firm

You can easily understand that all firms will not necessarily have the same type of mission and objectives. Mission and objectives of firms differ to a considerable extent. You can understand that the mission statement and objectives of a renowned educational institution cannot be the same as that of a business organisation. Likewise mission and objective of two different typs of firms offering different types of products cannot be same. There are a number of factors that affect the formulation of mission and objectives of a firm. In the opinion of Jauch and Glueck, the important factors that influence the formulation of mission and objectives of firm are[44] :

(i) Forces in a firm's external environment—

You are probably aware that several forces such as, government, suppliers, competitors, customers, etc act in a firm's external environment. Each of these forces has an influence in the formulation of mission statement and objective setting. In setting a mission statement or an objective, firms are therefore required to consider the requirement of the different actors in its external environment and especially the requirements of the powerful actors. Firm's objective can be restricted by government rules, competitors' move, customers' expectation, suppliers' bargaining power etc. Firms should therefore consider the requirements of these forces in formulating their mission statement and setting objectives.

(ii) Realities of the firm's internal resources and power relationship—

A firm should ascertain whether there is adequate internal resource to achieve the objective. Big firms have more resources to pursue a course of action. Hence they set objectives at a higher level compared to small firms that suffer from resource constraints. Moreover, the internal power relationship in a firm affects the formulation of mission and objectives. "Mission and objectives are affected by the power relationship among strategists either as individuals or as representatives of units within the organization". As

44. Jauch and Gueck, op.cit., 6-71

the power of different internal forces changes, a change in objectives may be noticed. The extent of support that members of top management have from different stakeholders within the firm, latent power of bottom level executives to holdback information etc. are important issues that should be considered in this context.

(iii) Value system of the top management team—

Mission and objectives are also affected by the value system of the top management team. The perception and beliefs of memebers top management and their ability to differentiate between what is good and bad affect the formulation of mission of objectives of a firm. Change in value system of top management affects the mission and objectives of firm. Two sets of members of the top management having different value preferences will formulate mission and set objectives in two different ways. In this context, top management can be "extremely passive", "risk aversive", "autocratic", emphasise "personal goals" or "group goals" and can prefer quality versus quantity. This will be reflected in their way of formulation of mission and objectives.

(iv) Managerial awareness about past development and strategies—

Past development and strategy may act as yardsticks of setting objectives of future. Top management team of a firm tries to set same or similar objectives and pursue same strategy if the strategy and objectives have been successful in the past. Moreover awareness of the past objectives and strategies leads to the setting of those objectives that were emphasised in the past due to a variety of reasons.

1.7 Strategic Intent & Core Competence

Introduction

Hamel and Prahalad have analysed the issue of strategy from a different perspective. In their book *Competing for the Future,* they have stated "competition for the future is competition to create and dominate emerging opportunities to state out new competitive space."[45] So firms are required to understand future in a better way and prepare a blueprint for the future. In this perspective, firms are required to—

a) Realise how future competition is going to be different.

b) Determine the opportunities that will be available in the future.

c) Enthuse the members about the long and difficult journey towards the future.

d) Possess the capability to outplay competitors without taking unwanted risk.

45. This section is based on Hamel, G. and Prahalad, C.K., Competing for the Future, New Delhi : Tata McGraw-Hill, 2002

In this this perspective interesting concepts such as strategy as stretch and leverage, strategic intent, core competencies have been put forward by the contemporary stalwarts of strategic management, Hamel and Prahalad. In their opinion, firms should have an industry foresight that gives them an idea about the new types of customers they are going to serve in the future and the competencies that are required. For this firms should try to escape the "myopia 'of the served market and current product" because they may be thinking of serving a market or offering a product that may be non-existent at present. Hamel and Prahalad have coined the term "strategic architecture" and have difined it as a "high-level blueprint for the deployment of new functionalities, the acquisition of new competencies or the migration of existing competencies and the reconfiguring of the interface with customers". According to Michael Colenso, a successful modem strategy is based on the following components—

- Strategic purpose—What the firm's purpose for existence
- Strategic intent—Where the firm will concentrate its effort keeping the future in mind.
- Critical success factors in terms of what the firm should do to achieve its strategic intent.
- Core competencies—What are the strengths that the firm needs to develop keeping its strategic intent in mind[46].

In the above perspectives we shall now discuss the twin concepts of strategic intent and core competence.

Strategic intent

Basically strategic intent "is a statement or a series of statements which outlines what the organisation is trying to achieve in the long term"[47].

In the opinion of Hamel and Prahalad, "Strategic intent is strategic architecture's capstone... and "strategic architecture is the brain; strategic intent is the heart." According to them, strategic intent coveys three things—

a) **A sense of direction**—The strategic intent gives a direction about the market or competitive position of the future.

b) **A sense of discovery**—The strategic intent provides a point of view about the future that is unique. Thus members of a firm can determine the area where they want to work, keeping the future in mind. Hence a strategic intent provides

46. Colenso, M., Strategic skills for line Managers, Oxford : Butterworth-Heinemann, 1998, p.2

47. Ibid. p. 51

members of the firm the attractive framework of a new place where the firm wants to reach.

c) **A sense of destiny**—Strategic intent has a touch of emotion in the target that members of a firm try to value and strive to achieve. The strategic intent is required to attract the attention of every employee who must consider it as "worthwhile"[48].

Moreover Przybylowicz and Faulkner are of the opinion that a strategic intent,

- must generate a sense of urgency,
- should be competitor focused,
- should determine the weaknesses in competitors' positions that can provide competitive advantage if properly considered, and
- must remain stable over time while being flexible in the context of the course of action pursued to achieve the intended goals[49].

Firms are required to translate the strategic intent into reality that can be understood by all within the firm. All employees should understand the intent first. Unless they understand it they cannot be motivated to achieve the intent. In doing this the firm should be able to attract the attention of all towards the key advantage or capability that the firm should utilise or build. For this, the top management has a vital role to play. Moreover, the strategic, intent of the firm should exhibit an "ambition that stretches far beyond the current resources and capabilities of the firm". Stretch is basically a misfit between resources and aspiration" of the firm. This idea of stretch according to Hamel and Prahalad, is different from the traditional concept of strategy as a 'fit' between the firms resources and its environment. Strategy as a 'stretch' is formulated by the top management of the firm keeping the future of the firm in mind. Firms are required to "leverage" their resources in such a way that a small amount of resource can be applied and "stretched" to reach the aspiration level of the firm.

Strategic intent should be expressed in a simple and unambiguous manner. It can be in the form of mission statements or long-term objectives capable of initiating and motivating actions that can be translated into competitive challenges[50]. It can be

48. Hamel and Prahalad, op. cit., 142-148.

49. Przybylowicz, E.P., Faulkner, T.W., *"Kodak applies strategic intent to the management of technology"*, Research-Technology Management, 36, 1, 1993, pp. 31-38.

50. Proctor, T., "Establishing a strategic direction : a Review", *Management Decision*, Volume 35(2), 1997 pp. 143-154.

expressed in terms of a competitive challenge that identifies a gap betw~en the actual competencies possessed and those required in order to achieve the strategic intent. The steps involved are quite simple[51] :

1. Identification of the competitive challenge of the firm and statement of its the strategic intent.
2. Listing of a firm's core competencies in terms of :

   managerial skills ;

   technological competencies that are necessary to attain the strategic intent.
3. Listing of a firm's core competencies in terms of :

   managerial skills ;

   technological competences that are currently possessed by the firm.
4. Identifying the nature of the gap between actual competencies and competencies necessary to achieve the strategic intent.
5. Determining the best way to improve managerial skills and technological competencies by :

   internal development ;

   external acquisition.

Core Competence—

Hamel and Prahalad, in their outstanding paper published in Harvard Business Review, *"The core competence of the corporation"*, coined the term core competence. Since then leading firms like Sony, Honda, Canon, Kodak, 3M, etc. and other big and small firms, have been pursuing the course of action to acquire and develop core competence. Keeping the perspective of strategic intent in mind, a firm should try to perform well in a competitive environment. It may be required to carry out certain activities effectively and efficiently. However, it may not be able to carryout all the activities with equal efficiency and effectiveness. In this perspective, "a core competence is something that a company does well relative to other internal activities"[52]. A competence according to Hamel and Prahalad "is a bundle of skills and technologies rather than a single skill or technology". Core competencies are based on intangible assets that constitute and represent a firm's capabilities, skills,

51. Ibid.

52. Thompson and Strickland, op. cit., p. 122

knowledge, experience, human resources, physical resources etc. However, all competence may not be considered as core competence. A competence in their opinion must pass three tests in order to be considered as a core competence[53]. They are—

i) **Customer value**—Core competencies must give perceived benefits to the customers. Customers must perceive a benefit that is unique to a particular firm. When a firm provides a particular benefit that is valued by the customer with the help of certain skills then we may consider those skills as core competencies. The important fact is that the ultimate benefit should be judged by the customers.

ii) **Competitor differentiation**—A particular competence may be considered as a core competence if it is possessed by a particular firm and not by its competitors, i.e., it should be "competitively unique". There may be certain skills that are necessary to under take operations in an industry. These skills are just "business requirements". These are not core competencies. The core competencies should have an inherent quality to differentiate between a firm that possesses them and the one that doesn't possess them.

iii) **Extendibility**—If a skill is able to pass the tests of customer value and competitor differentiation, even then a firm may not consider it as a core competence. A firm may consider a particular competence as core competence if it can be utilised to produce goods and services in the future. Thus executives try to analyse whether a competence can be utilised to develop new products / services.

Moreover, Prahalad and Hamel have categorised core competencies as follows[54].

1. *Market access competencies* : The competencies that help firms to move closer to its customers. Examples could be brand management, sales and marketing, distribution and logistics, technical support.
2. *Integrity-related competencies* : Competencies that help firms to carry out activities more quickly, with superior flexibility or with a higher standard of reliability than competitors. Examples of this type of competencies ate Just-In-Time, cycle time management etc.
3. *Functionality-related competencies* : Competencies that facilitate firms to add inimitable functionality to its products / services that provide unique customers benefits, rather than merely making them better to a moderate extent.

In the the opinion of Hamel and Prahalad~ a core competence cannot be considered

53. Hamel and Prahalad, op.cit., pp. 224-228
54. Gilgeous, V. and Parveen, K., "Core competency requirements for manufacturing effectiveness", Integrated Manufacturing Systems, Volume 12, Number 3, 2001, pp. 217-227

as an asset and cannot be shown in a firm's balance sheet. Moreover according to James B. Quinn, core competencies possess four qualities[55]—

i) Core competencies are not narrow skills that are possessed by a particular department of a firm. These are groups of skills that are possessed by the firm as a whole and arise out of concerted and combined endeavour of different groups and departments of a firm.

ii) The task of building core competencies is not the sole responsibility of departmental heads. It is the task of the top management team to build, develop and nurture core competencies. The departmental heads or group heads can playa supportive role in it.

iii) Firms should take effort in developing and strengthening the core competencies so that they can be used to gain long-term competitive advantage.

Moreover, as stated earlier, a firm needs to have broad based core competencies so that they can be used in future to cater to the changing needs of the market in a better. Core competencies should have an in-built flexibility that can be effectively utilised in face of an unpredictable future. So, there is a need for firms to build and strengthen core competencies in the following areas—

i) Managing and nurturing human skills, knowledge bases etc.

ii) Coordination of activities of different departments and groups that may contribute towards development of core competencies.

iii) Allocation of resource on activities that help in developing core competencies[56].

Let us now take the example as to how a company states its core competencies. Here we have considered the core competencies of the engineering and construction division of Larsen & Toubro. This Division is engaged in a number of activities in engineering & construction like providing turnkey solutions in civil, mechanical, electrical and instrumentation engineering. Some of the core competencies of the division as stated by the company are :

- State-of-the-art Information Technology facilities at Design and project offfices, sites linked to each other through L & T's own LNTNET.

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55. Quinn, J.B., Intelligent Enterprise, New York : Free Press, 1992, pp. 52-57

56. Thomp, on and Strickland, op.cit, p. 367

- State-of-the-art 2-D and 3-D CAD facilities with sophisticated plant design systems such as Intergraph-PDS and Autoplant, advanced project management software and high-end Computer Aided Engineering software in different engineering disciplines.
- Basic engineering and detailed capabilities through the Front-End Engineering & Design (FEED) Group, engineering joint ventures with Chiyoda, Japan and Sargent & Lundy, USA.
- Technology centres at Mumbai and Vadodara backed by laboratories for research and development, technology assimilation and absorption as well as design analysis.
- Modern world-class heavy engineering manufacturing complex in Mumbai, Hazira, Kansbahal, Chennai, Vadodara and a open yard facility for Modular Fabrication (MFY) at Hazira with an unimpeded passage to the Arabian Sea.
- Dedicated procurement team having excellent business relations with a wide range of suppliers within India and globally, supported by an extensive database and an online e-procurement platform.

SOURCE : www.Intenc.com/Intenc/services/corecomp/corecompetencies.htm

1.8 Review Questions

1. Explain and analyse the concept of strategy.
2. What is strategic management? What are the different phases of strategic management? Mention the benefits of strategic management.
3. Explain the levels of strategy in a firm having multiple businesses.
4. What is a mission? Discuss the importance of a mission statement.
5. What are the tasks that firms are required to carry out in formulating objectives?
6. What are the factors that affect the formulation of mission and objectives of a firm?
7. What is strategic intent? What are the three senses that strategic intent tries to convey?
8. What is a core competence? What are the three tests that a competence must pass in order to be considered as a core competence?

Unit 2 ❑ Analysis and Diagnosis

Structure

2.1 Introduction

If you recollect the model of strategic management that we have developed in the first unit, you can easily see that a firm's strategy has to be formulated in the light of the external and internal factors. The external and internal factors have an impact on a firm's strategy formulation or modification process. So, a firm should remain aware of its internal and external factors and for this, it has to carry out analysis and diagnosis of external and internal factors. We shall discuss these two issues in this unit. We shall first take-up the issue of external environmental analysis and then we shall discuss internal analysis and diagnosis. In doing this, we shall follow Jauch and Glueck's approach to analysis and diagnosis.

Many authors prefer to break the whole environment of a firm into internal and external environment. They argue that most important influence on a firm's strategy is the environment outside and inside the firm. At the same time a number of authors consider environment to be external to the firm and define it as the factors outside the firm that result in opportunities for or threats to the firm. So whenever we will use the term "environment" we will consider it as external environment. We will also use the term internal environment to signify internal factors and influences within the firm. In this perspective, Steiner, Miner and Gray have highlighted some important issues about environment[1]. They are :

- A number of factors operate in a firm's environment. In recent years executives have been trying to expand the range of environmental factors. Moreover different environmental factors influence one another and development in one sector may influence factors in another sector.
- Forces acting in a firm's environment can affect different parts of the firm. Some impacts can be direct and some may be indirect in nature.
- The response of firms to the environmental factors depends on a number of factors like managerial attitude, perception of external dependence, internal resources etc.
- Since innumerable number of factors act in a firm's environment, it is impossible even for large firms to consider and evaluate all the factors. So there is a need to identify the most important environmental factors.
- The influence of environmental factors on firms is not unidirectional. Even firms (individually and collectively) try to influence environment.

2.2 Internal and External Factors : A Prologue

During the analysis of the whole environment (internal and external), it is more effective to deal with the external forces before the internal ones (however, some feel that the opposite order is more helpful). For example, analysis of the internal environment may show excess cash; the top management may then decide to look for an investment opportunity in the external environment[2]. Even in that case it is vital to study the external environment in order to determine whether it is appropriate to indulge in any such activity at that point of time. While deciding on this order of internal-external analysis, it is important not to overlook aspects that might work well in a particular situation, but may change in another. For example, a large production capacity may be an internal strength in a growing economy; but during a recession it could turn out to be a huge burden and an internal weakness.

1. Steiner, G.A., Miner, J.B. and Gray, E.D., *Management Policy and Strategy : Texts, Readings and Cases,* New York : Macmillan Publishing Company, 1989, pp. 24-25
2. Rao, V.S.P. and Krishna, V.H., Strategic Management : Text and Cases, New Delhi : Excel Books, 2003, p. 126

You can easily understand that it is essential for firms to clearly understand and appreciate the internal and external environment in which they operate. The importance of the environment to the firm is reflected by the fact that it must understand the chief elements of its environment before it can decide whether to continue its current course of action or to alter the course of action. In practical situation, it is better for executives to consider both internal and external factors simultaneously since both sets of factors interact and have an effect on growth, survival and profitability of firms. The external environmental factors offer opportunities and threats, whereas the internal factors consist of strengths and weaknesses. Rao and Hari Krishna have defined these terms, as "An opportunity is a favourable condition in the environment of an organisation that enables it to consolidate and strengthen its position. A threat is an unfavourable condition that has the potential of giving rise to risks and causing damage to the organisation. A strength is an in-built capability that an organisation can use to gain strategic advantage over its competitors. A weakness is an inherent limitation that creates a strategic disadvantage"[3].

The next issue in the context of understanding the environment is environmental analysis. So what is environmental analysis? According to Jauch and Glueck, "Environmental analysis is the process by which strategists monitor the environmental sectors to determine the opportunities for and threats to the firms"[4]. Analysis can be described as the process of identifying the source of an opportunity or threat. It consists of "breaking the whole into its parts to find its nature, function and relationship." As a strategist you have to search for opportunities and threats and determine where they come from and which ones are coming. A related process involves diagnosing the environmental changes and occurrences. Once again, we can quote Jauch and Glueck, who say, "Environmental diagnosis consists of managerial decisions made by assessing the significance of the data (opportunities and threats) of the environmental analysis"[5].

2.3 External Environmental Factors

A number of factors in each sector of the firm's external environment affect a firm's strategy formulation process. Firms are required to remain aware of the changes that are taking place in the vital sectors of its external environment. Moreover these

3. Ibid, p. 127
4. Jauch and Glueck, Business Policy and Strategic Management, McGraw-Hill, p. 85
5. Ibid

factors interact with each other and have a combined effect on a firm's strategy formulation process. In this context, the main sectors of the external environment that should be taken into account for undertaking analysis and diagnosis are the socioeconomic, technological, supplier, competitor, and governmental sectors. The summary of Jauch and Glueck's approach of the analysis of the different environmental sectors is presented below—

(i) Socio-economic sector

Various factors influence the demand for products and services and the costs of offering them. These include economic, demographic, geographic and social factors that facilitate or restrict a firm in the attainment of objectives through the selection of an appropriate course of action.

(a) *The economy*

The situation of the economy at present and in the future can affect firm's success and its strategy formulation. According to Jauch and Glueck,[6] the specific economic factors to be considered during analysis and diagnosis include :

1. Inflationary or deflationary trend in the prices of goods and services. The general perception is that if inflation is very high, the government may undertake wage and price control exercises.
2. Monetary policies, interest rates and devaluation or revaluation of the currency vis-a-vis the currencies of other countries.
3. Fiscal policies : Firm's would be interested to know the tax rates for business organisations and individuals.
4. Balance of payments situation of the country—Firms are interested to know whether there are surpluses or deficits in balance of payments.
5. The stage of the business cycle (i.e. depression, recession, recovery, or prosperity). Each of these stages has an effect on business.

In the opinion of Fred David, it has been observed that as domestic and global economies gradually recover from recession, consumer confidence and disposable income are low, whereas unemployment and consumer debt are high.[7] He has further stated some

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6. Ibid, pp. 100-101

   See also Glueck, William, *Business Policy and Strategic Management (3rd edn.)*, Auckland : McGraw-Hill International Book Co., pp. 93-102

7. David, F. R., *Strategic Management : Concepts & Cases (9th edn.)*, New Delhi : Pearson Education. 2005, p. 82

important economic variables that firms need to analyse in the context of analysis of the economic factors of the environment. Some of them are[8]—

- ✓ Propensity of people to spend
- ✓ Availability of credit
- ✓ Income differences by region and consumer groups.
- ✓ Policies of Organisation of Petroleum Exporting Countries (OPEC).
- ✓ Economic policies of coalition formed by developing countries.
- ✓ Demand shift for different categories of goods / services.

You can realise very well that the above-mentioned aspects of the economy can facilitate or restrict the achievement of the objectives of a firm and can lead to success or failure for the course of action pursued by the firm. Each of them can be an opportunity or a threat. Executives must determine the key economic factors that are most important for the business. Accordingly, they should attempt to predict the changes that are likely in these conditions and react accordingly through the selection of an appropriate course of action. Pattern of demand, the availability of capital, inflation, balance of payments, etc. affect different industries in different forms and perspectives. A changes in economic factor may be favorable for one firm but unfavourable for another. Moreover, you are probably aware that fluctuation in the price of oil results in inflation in our country as well as other countries of the world. This has effect on the economy as a whole.

(b) *Demographic factors*

You will agree that there are a number of important conditions that are connected with the general population, which affect the demand for goods and services. Experts prefer to call them as "primary demand factors". The more important ones (as per Jauch and Glueck[9]) are

- Changes in population

The general trend is that with a change in the total population, the demand for products and services varies. If only few people buy goods or services, then the primary demand for goods and services offered by firms will be reduced. Population growth can influence a firm's "location strategy". When population declines in a particular area, business may move to a growing region. Similarly, if the city's population is expanding or shifting to the suburbs, it can concentration of activities.

8. Ibid, p. 83
9. Jauch and Glueck, op. cit., pp. 100-101

• Age shifts in the population

The age distribution changes with change in the total population. We can cite an instance from the demographic factors that has a direct impact on firms. As there is decrease in the birth rate alongwith increase in life expectancy, an increase in the average age of population is noticed. An automatic result of this will be enhancement of demand of particular types of goods and services for a particular section of the society (eg. elderly section of the population). Moreover, demographic change has an impact on the availability of a particular type of manpower[10]

• Income distribution

In certain parts of the world, there is concentration of wealth in the hands of a few. There are fewer differences between upper, middle and lower income individuals, and between races in other places. Changes in the size of the income groups can lead to corresponding changes in the primary demand for goods and services. You can easily understand that this phenomenon has nation-wise variation. Hence firms trying to set-up business in a particular country or expanding sale of goods in different countries should consider the changes in demographic conditions in those countries.

(c) *Geographical factors*

Firms are required to assess the geographic factors in search of opportunities and threats. Basically, the objective of an executive in this case is to find whether the conditions in some you can easily understand that geographical factors are more important for those firms whose demand for goods and services, production process, input availability etc are dependent on geographic location. Firms scan the geographical factors to identify location for setting up plants. Firms also look for locations for adding to existing ones or relocate their business production set-up. In line with this, firms may even a change the location of corporate headquarters to a new region. In our country, firms are more interested to locate their headquarters in Mumbai. Change may arise out of conditions such as alteration in the population, the intent to attract a particular segment of customers, lower cost of production at the new location. Geographical factors connected with environmental protection and protection of endangered species can affect plant location and other strategic decisions of firms. You can also understand that there are many firms that offer products (i.g. woollen clothes, air-conditioner etc.) whose demand may very according to climatic condition. For these firms, geographic conditions are more important. Thus unforeseen weather conditions may be looked upon as threats by those firms that offer seasonal products.

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10. Dess, G. G. and Miller, A., Strategic Management, New York : McGraw-Hill, pp. 47

(d) *Social factors*

These refer to the values and attitudes of people in general and customers and employees in particular, that can affect a firm's strategy. Changes in lifestyle affect the demand for products and services or the way the firms relate to employees and customers. Presently with changes in lifestyle, we are witnessing the higher demand for particular type of products, e.g. cellular phones. Different firms are trying to consider this as an opportunity. Firms should keep up with the changes in educational levels and social values to as to study their impact on their strategies. They generally react by changing nature and type of products / services offered. They also utilise their public relations department to respond according to change in social values and attitudes. Socio-cultural values, attitude, culture change over time and have a direct impact on a firm's strategy. Some on the trends in the socio cultural sector that firms needs to consider are[11]—

i) Increase in the number of working women.

ii) Health and fitness awareness that have resulted in the increase in demand for eco-friendly products, low-calorie foods, exercising, fitness equipments, etc.

iii) Increasing usage of modern technology and equipments in houses and offices.

iv) Drug addiction leading to loss of productivity in some cases.

v) Literacy and educational levels of the population.

vi) Consumer protection, awareness and issues relating to environmental protection.

Firms are required to consider the changes and trends in social factors in formulating their course of action in terms of offering new products / services.

Technological Factor

Many experts argue that the technological sector has changed more rapidly compared to other sectors of the environment. Firms should scan the environment for changing technology that can affect the firm's raw materials, operations, products and services, etc. It must be quite obvious to you that changing technology can provide the opportunities for improving the achievement of objectives. Again, you will also agree that such changes can also present threats to the existence of the firm. Some areas where technological developments have affected a firm's strategy formulation are creation

11. Dess and Miller, op. cit. p. 46

of new products, changes in the level of investment for technological upgradation, changes in production cost etc. It is also clear that change in technology affects the life cycle of the product or service. Firms spend a lot of effort in trying to determine their position in the life cycle so that they can decide on how to organise their efforts. It may be necessary to invest in R&D so as to improve products with a view to extend the life cycle or to replace the products near the end of their life cycle. Environmental analysis and diagnosis can also help firms to identify what technological change implies for the production process of the existing products. According to Jauch and Glueck, another important issue in the context of technological factors is the willingness of the firm to innovate and take risks. Beside, a receptive socio-economic climate is required for accepting and adapting to technological change and innovation. The important factors that influence firm's in the context of the technological sector are[12]—

- Source of technology and related issues such as identification of source, cost, nature of acquisition etc.
- Issues relating to communication and infrastructure related technology. Stages of technological development.
- The impact of technology no production process like manpower usage, its effect on environment, etc.

You are probably aware that presently information technology has been playing a vital role. It is affecting the product life cycle, helping in the creation of new types of products and services, reducing the number of intermediaries etc. We are all witnessing how the importance of IT companies is increasing day-by-day. It is also holding a significant place in non-IT companies as well. Firms are required to remain aware of the opportunities in information technology.

Supplier Fector

Executives of successful firms always consider and monitor supplier related issues in the environment. Strategists are always interested to know the cost and availability of all the factors of production employed in business. The power relationships between the firm and the supplier influence the cost and availability of raw materials, subassemblies, money, energy and employees. According to Porter,[13] the relative power of the supplier arises from a number of factors such as—

12. Kazmi, A. Business Policy and Strategic Management, New Delhi : Tata McGraw-Hill, 2002, p. 103
13. Porter, Michael, *Competitive Strategy*. The Free Press, New York, 1980, pp 27-28

whether the buyer is an important customer, how far the supplier is from the free competition model—the farther away the supplier, the greater is his power,

The type of market where the buyer firm is operating;

availability of substitutes;

whether the suppliers can integrate forward, i.e., whether it can purchase or control the channel in front of it or produce

where the buyer can integrate backward;

You may realise that the power of the buyer also affects the cost of supplies. Buyers have maximum power when the concerned industry is concentrated; he represents a significant part of the supplier's business. His power is maximum when his industry is competitive, the cost of switching to a substitute is high, the supplier's product it a particularly important part of the production process, and if the supplier can integrate forward.

Further, the following supply-related factors can influence strategic decision- making (as given by Jauch and Glueck[14]) :

Availability and cost of raw materials and subassemblies

Alongwith the bargaining with suppliers of raw materials relating to cost and availability, firms should scan and monitor the environment to assess the long-run trends in the accessibility and cost of raw materials and sub-assemblies.

Availability and cost of energy

If suppliers stop providing fuels like petroleum, the long-run costs of energy will rise. Firms should make a decision whether to use substitutes or withdraw from a business that is dependent on energy or to expect rising costs of energy. The fact that prices of alternative energy sources like natural gas, nuclear power and hydroelectric power are also rising implies decreasing potential for substitution.

Availability and cost of finance

Availability and cost of finance from suppliers like banks, financial institutions and other lenders are dictated by the decision and actions of govt., and central banks. Firms should have to stay updated on the conditions in the money market and capital market and how they will influence current and future strategy.

14. Jauch and Glueck. op. cit., pp. 105-106

Availability and cost of labour

Any strategy requires determining whether skilled employees are available and the cost of employing them. This however depends on the nature of business that the firms are in and the type of technology used. A particular type of business and technology requires a particular type of manpower (e.g. knowledge worker in IT companies, R & D staff in pharma companies). Availability and the cost of these types of manpower are crucial issues for the concerned firms.

Market and Compètitor sector

You will accept that the state of competition faced by a firms is an essential determinant of strategy; since it will decide whether a firm will remain in its current business and what strategies it will follow in order to achieve its business goals. With reference to competition, the following factors require due consideration (as per Jauch and Glueck[15]) :

Entry and exit of major competitors

It must be obvious to you that when competitors leave, it often leads to better achievement of corporate objectives. On the other hand, new competition makes it more difficult to achieve objectives unless the existing and new firms can together increase primary demand. Entry depends on the case, of entry and the barriers to entry.

Availability of substitutes

You will accept that the profitability and success of a firm's depend partly on the availability of quality and less costly substitutes for the products and services of the firm. The viability of the substitute is determined by the competitiveness of the substitute industry. Successful firms also monitor the environment to ascertain the loss or potential loss of business to substitutes.

Major strategic changes of current competitors

Firms carefully monitor the competitor sector to find out when major competitors change their strategies in substantial ways. However, the degree of importance varies with the structure of the concerned industry that is governed by a number of forces.

Government / Political / Regulatory sector

Government (whether central, state or 'local), political and regulatory sector influence the way businesses undertake operations. This sector frames and enforces laws regarding

15. Ibid, pp. 106-107

wages and price controls, condition of employment-safety and health at work, capital and money market regulations, credit management, plant location, environment protection, etc. The laws and regulations affect business operations on a day-to-day basis.

Government actions also affect the strategic choices of business. They can increase a business's opportunities or threats or both. Opportunities or greater ease in competing may result in the following ways (vide Jauch and Glueck[16]) :

Government itself is a major purchaser of goods and services and its policy decisions have implications for existing or new firms and emerging industries.

Government provides subsidies in different forms that have effect on firms and industries and thus enable them to survive and thrive.

Government places import restrictions, tariffs etc. Government also helps exporters by participating in trade related agreements with other countries.

You will agree that government policy changes can lead to increases in opportunities and new businesses for firms. If firms are willing to search the government environment and respond to changes, business can increase. (Thus, for example, in our country by allowing banks and financial institutions to participate in the insurance market, the central government has provided them opportunities for more business and profits.)

Political and regulatory factors playa vital role in restricting or facilitating a firm's strategy selection process. Political and regulatory forces provide business friendly or hostile environment to a considerable extent. In India we are witnessing how political parties have tried to run the government and their beliefs and ideologies have been reflection in the way in which government has taken decision and action relating to regulations of business.

There are different legal provisions relating to regulation of employment, industry, capital market, etc. in our country. Firms have to follow the different legal provision for running their business effectively. At the same time, industry leaders try to maintain regular contact with government decision-markers and try to influence them so as to take decision beneficial to their industry.

Alongwith the above mentioned sectors, experts prefer to include another sector, namely the international sector as a vital component of a firm's environment. Presently we are withnessing a trend where factors are operating beyond the border or a particular

16. Ibid, pp. 107-109

country and capital, production, management, markets, labour, information and technology are omni-present across national boundaries. Globalisation has further increased the role of international sectors vis-à-vis the environment of firms. Successful firms have been trying to utilise opportunities in the international sector. You will probably agree that the international sector encompasses all the above-mentioned environmental sectors in different forms and perspectives.

Firms are required to analyse how each of the environmental sectors/factors affect their business. At the same time, the different environmental factors are interrelated with each other. In assessing the influence of the environmental factors, firms are required to consider three important issues[17]—

i) Same type of environmental factor may affect different industries in different degrees. A particular environmental factor may be an opportunity to firms in one industry and threat to firms in another industry.

ii) The degree of influence of a particular environmental factor within the same industry can be different. A particular firm may be successful in utilising a particular environmental factor whereas another firm in the same industry may consider the factor as a threat.

iii) All environmental factors may not have the same influence on a specific industry. For example, in the context of Indian pharmaceutical industry, the legal, technological and international components of the environment have been more .important than others.

2.4 Environmental Threat and Opportunity Profile (ETOP)

We have already learnt that diagnosis of the environment, can be regarded as an evaluation the information created through its analysis. The important question revolves around the extent of difference between the present and future environments with respect to the strategy for achieving objectives. In this perspective, a firm's diagnosis process basically requires a statement of problems and opportunities presented by the environment. Keeping the strategic planning perspective in mind, executives should to take into account multiple situations, consisting of "best-case", "most likely scenarios", and "worst-case". Accordingly a number of diagnoses are to be made.

17. Dess and Mier, op.cit., pp. 53-54

Effective diagnosis demands systematic technique. Among the many available techniques, one of the most widely used method involves the preparation of an Environmental Threat and Opportunity Profile (ETOP) that has been proposed by Jauch and Glueck. Here the different environmental sectors are included in a synoptic, manner. Alternatively, in case of a more detailed diagnosis, each sector may be further broken down into the corresponding sub factors; the diagnosis would then begins with an examination of these sub factors, followed by the summary diagnosis.

This summary has to be prepared in such a manner that it is easy for the top management to identify the most important sectors of the economy so that the strategy of the firm can be prepared keeping in mind the possible effects of these sectors on the overall strategy as well as on the major areas in which the firm undertakes its operations. Jauch and Glueck[18] have suggested that the top management should pay attention to those areas that are regarded as "more developed, more volatile, and more hostile (or favourable) and where organisational dependence exists". While it is clear that such an approach favours the recognition of the influence of long-term signals, in reality, the short-term factors generally get greater attention.

An ETOP can follow the pattern shown below :

Environmental Sector	**Impacts**	**Reasons**
Listing of the important sectors operating in the firm's external environment	*Putting a +, – or O sing signifying opportunity, threat or neutral impact respectively for the concerned sector*	*Why we consider it as an opportunity, a threat or having a neutral impact respectively*
Socio-economic sector		
Govt. Regulatory / Political sector		
Technological sector		
Marke / Competitive sector		
Supplier sector		

A detailed ETOP, which incorporates data and estimates for revenue and cost effects of these factors alongwith the probability estimates on the likelihood of occurrence of certain events and their timing, can help to focus the diagnosis more effectively. During analysis each factor can be assigned a positive or negative score or zero to indicate not just the extent of it effect on the overall strategy, but also the nature of such an effect.

18. Jauch and Glueck, op. cit., p. 121

Finally the significance of each factor and its impact are together considered to create the comprehensive picture for the future strategy of the firm. It is obvious that all the factors considered under the ETOP may not be equally significant. For this some prefer to put quantitative scores at the side of each sector.

2.5 Techniques of Environmental Analysis and Forecasting

You would obviously expect that the development of an effective ETOP would make it necessary to adopt useful techniques for correctly forecasting the various possible situations in the environment. There are a number of qualitative and quantitative techniques for environmental analysis and forecasting. According to F.

Cherunilam, some of the more important ones are as follows[19] :

(a) Econometric techniques

These techniques use models to forecast major economic indicators. This technique can help to predict the future environment in a better way, when there is a clear-cut relationship between two or more variables. Moreover, the econometric models may "utilise complex regression equations to relate economic occurrences to areas of corporate activity. These are especially useful when information available on causal relationships and when large changes are anticipated."[20]. Multiple regression analysis and time series regression models are the most preferred environmental forecasting techniques.

(b) Trend extrapolation

A major assumption of time series analysis is that the future is a continuation of the past and hence historical data is extrapolated to the future. The technique uses either simple linear relationship or more complex non-linear relationships in order to forecast trends.

(c) Scenario development

Development of alternative scenarios constitutes a very popular and useful forecasting method. This approach is particularly beneficial when accurate forecasts of the future are not possible.

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19. Cherunilam, Francis, *Business Environmeflt- Text and Cases,* Himalaya Publishing House (2002), pp. 36-39.

20. Pearce II, John A., and Robinson Jr., Richard B., *Strategic Management,* Illinois, Homewood. Richard D. Irwin Inc., 1988, p. 184.

According to P. Shrivastava[21], "Scenario analysis is a technique used, to forecast the occurrence of complex environmental events. It is particularly useful for forecasting events in which many variables playa role. Scenarios allow the integrated consideration of these multiple variables in explaining the emergence of future conditions. A scenario is a detailed description of how certain events may occur in the future and their consequences for the organization."

Shrivastava suggests the following steps for developing scenarios[22] :

1) Identification of the important environmental issues that are expected to influence the industry or the firm.

2) Selection of the most vital issues as the centre for scenario development. Listing the firm's assumptions in the context of these issues and identifying the possible changes in these assumptions are important exercises in this context.

3) Preparation of a basic description of these issues and how they develop. Important economic, social, political and technological influences that affect firms are included. This can be done in a better way with the help of outside experts.

4) Implications of the issue are to be drawn out for organisational performance. Firms are required to identify the variables that shape the issue that management can control. Firms are also required to identify those variables over which the management has no control.

5) Development of detailed descriptions of the future through scenarios. Scenarios are constructed under a set of assumptions based on the worst case, best case, and most likely alternatives. Implications of these scenarios. for future performance of the firm are drawn out accordingly.

6) Discussion of the developed scenarios with top management of the firm and refining them, if required.

7) Development of a contingency plan of action for each scenario.

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21. Shrivastava, Paul, *Strategic Management,* Cincinnati, South-Western Publishing Co. 1994. p: 34
22. Ibid

2.6 Benefits of Environmental Analysis

According to experts like Jauch and Glueck, effective analysis and diagnosis is helpful to firms in different ways :

(i) Firms should methodically analyse and diagnosis the environmental factors because on the basis of the influence of environmental factors, a firm's strategy formulation and modification takes place.

(ii) A methodical analysis and diagnosis the environmental factors, gives executives sufficient time to make preparation to exploit the opportunity or opportunities. They also get enough time to build an "early warning system" to neutralise a threat or convert threat into an opportunity.

(iii) Experience suggests that firms that carry out environmental analysis and diagnosis in a systematic manner are more successful and achieve goals in an effective manner.

(iv) Environmental analysis and diagnosis reduces the time constraints of the executives because the process gives an idea about the priority areas where executives are required to concentrate.

(v) Executives are required to ascertain the factors present in their firm's environment that pose a hurdle or facilitate the process of goal achievement of the firm.

2.7 Internal Analysis : Need and Scope

After the external threats and opportunities have been delineated, the next step is to study the internal factors and operations of the firm with a view to recognise the important strengths and weaknesses of the firm. While formulating strategies for competitive advantage, managers should identify the strengths that have to be built upon and the weaknesses that have to be repaired. In fact, some experts believe that the overall strengths and weaknesses of the firm and its ability to pursue strategies are more basic and fundamental to its performance compared to the environmental factors. Even when the industry has been unattractive and generally unprofitable, firms that developed superior products enjoyed better profits. Systematic internal analysis can help a firm in the following ways (as given by Rao and Had Krishna[23]) :

- To understand where the firm stands in terms of its resources and capabilities.

23. Rao and Hari Krishna, op. cit., p. 209

- To exploit the environmental opportunities that are in line with its internal resources and capabilities.
- To determine and evaluate the gaps in capability and take steps to enhance in capabilities in order to achieve objectives in a better way.

Every firm has some advantages and disadvantages in terms of the internal resources and competencies. If a particular strength can be utilised to develop and support other areas then it becomes a distinctive competence. Successful business strategies emerge when the distinctive competencies of firms are properly translated into competitive advantages. For this firms should effectively carryout internal analysis and diagnosis.

Internal analysis and diagnosis is the process by which the strategists examine the firm's marketing and distribution, research and development, production and operations, corporate resources and personnel, and finance and accounting factors to determine where the firm has significant competencies so it can most effectively exploit the opportunities and meet the threats the environment is presenting.[24]

In this perspective, the following activities are to be carried out by a firm as part of the internal analysis and diagnosis process[25] :

i) The classification of the existing capabilities of the firm.

ii) Listing the capabilities that are 'to be developed.

iii) Identifying the areas of "key vulnerability".

There is no firm that is equally strong in all its functions. Within a firm, each division has varying strengths and weaknesses. That identification of distinctive competencies and resources is important. Such an identification process helps in decision-making about how to use these abilities now and in the future as well.

2.8 Important Internal Factors

The important internal factors that should be taken into consideration by the firm as a part of its analysis are as follows (mainly based on the inputs proposed by Jauch and Glueck[26]) :

24. Glueck, op. cit., pp. 154
25. ??
26. Analysis of internal factors is mainly based on Jauch. L. R. and Glueck, Strategic Management and Business Policy, New York : McGraw-Hill, 1989 pp. 158-165; and Glueck. W. *Business Policy and Strategic Management (3rd edn.),* Auckland : McGraw-Hill International Book Co. pp. 158-162

(i) Marketing and distribution factors

The factors connected with the means to offer products / services according to the needs of the buyers and facilitate the buyers to purchase the products/services by making them aware come under marketing and distribution factors. The sub-factors are :

(a) The market share of firm's products / services

(b) Determination of marketing mix in terms of

1) Product, i.e., quality, features, reputation of the products, etc.

2) Price—by adjusting the prices, firms control the funds available for effectively carrying out other elements of the marketing-mix.

3) Promotion, i.e., advertising, sales promotion, personal selling, etc.

4) Place, i.e., distributors, retailers, direct selling locations, etc.

(c) Positioning, I.e., positioning at the lower end, in the prestige segment, or in a number of segments.

(d) Market research, product differentiation and product development.

(e) Completeness of product / service mix and product / service line; `phase of life cycle of the main products / services.

(f) Efficient and effective packaging of products or services

(g) Efficient and effective sales force

(h) Efficient and effective after sales service.

(ii) Finance and accounting factors

Accounting and Finance factors give an idea about the effective utilisation and control of financial resource and identification of sources of funds by the firm. These factors give an idea about

- The strengths or weaknesses in other functional areas, from the operational and strategic perspective
- The financial strength of the firm under consideration in relation to similar firms or competitors. The issues that need to be considered are :

  (a) Total financial resources and strengths of the firm

  (b) Working capital management

  Describes the capital requirement of the firm for carrying on its activities.

  (c) Profitability, growth, leverage

  These are used to evaluate the internal performance of the firm and in relation to other firms

(d) Low cost of capital in relation to the industry and competitors arising out of the firm's stock price and dividend policy.

(e) Effective capital structure, allowing flexibility in mobilising additional capital whenever required.

(f) Amicable relations with owners and stockholders reflected through effective corporate governance practices of the firm.

(g) Advantageous tax conditions and risk coverage enjoyed by the firm.

(h) Inventory valuation policies followed by the firm.

The points mentioned here may be useful to carryout internal assessment of strengths and weaknesses in the context of accounting and finance factors. Firms can have strengths or weaknesses from each of the factors mentioned above. In the opinion of Jauch and Glueck, strengths in the above factors lead to better "cushion of resources" that facilitates firms to be "flexible" and adaptive "internally or externally". In this situation firms can select from a number of alternative strategies. Moreover, cash-rich firms must decide how long existing strengths will offer a continuous flow of funds and must come to a decision on how to invest them sensibly.

(iii) Production and operation factors

Factors connected with the production and operation related activities that are necessary in the conversation of inputs into products/services are to be analysed by firms. The different aspects are :

(a) According to Jauch and Glueck, a firm's capacity to produce goods and service at a lower cost and its ability to meet the demands of the market give it strength in production and operation factors.

(b) Plant – Location and layout, performance, facilities, equipments and machineries, environmental responsibility, etc.

(c) Process – available skills, nature of demand, cost restrictions, safety of operations, flexibility etc.

(d) Programme and procedure – time taken for purchase, transformation, transport, maintenance, design, quality control etc.

(e) Relative cost of operation, low cost inputs, relationship with suppliers etc.

(f) Efficient and effective inventory control systems.

(g) Effective vertical integration.

(iv) Personnel and HR factors

Factors related to the acquisition and effective utilisation of human resources within firms fall under the personnel and HR factors. The issues that need to be addressed are :

(a) Workforce planning

1) Required stock of HR at different levels vis-à-vis available stock

2) Matching schemes in case of imbalance

(b) Relative labour cost and quality of employees

(c) Productivity, Labour turnover and Absenteeism of employees within firms

(d) Performance Management

(e) Training and development facilities

(f) Effective relations with trade unions

(g) Efficient and effective personnel rotation policies

(h) Firm's capacity to attract and retain talents

(i) Welfare and safety provisions of the firm

(j) Compensation policies of the firm.

(v) R & D and engineering factors

According to Jauch and Flueck, R & D and engineering function can be a strategic advantage for two main reasons :

1) It can help in finding new and improved products for marketing.

2) It can result in the development manufacturing and materials processes so as to achieve cost advantages through efficiency (which, in turn, can help to improve pricing policies or margins).

Moreover in the opinion of Jauch and Glueck, firms are required to analyse the following factors in the R & D and engineering area :

(a) Basic research capabilities of the firm

(b) Firm's excellence in product design, process design and improvements

(c) Firm's capacity to carry out improvements in the use of old or new materials

(d) Firm's ability to meet design goals and requirements of customers

(e) Well-equipped laboratories and testing facilities alongwith trained and experienced technicians and scientists

(f) Work environment suited to creativity and innovation

(g) Ability to perform effective technological forecasting.

R & D can obviously provide significant strength to the ongoing business. While there can be various categories of R & D work (e.g. exploratory research, new product or process research, cost reduction research, etc.), one or more of which can be taken up by the firm. The process is generally regarded to proceed through the stages of basic research, developmental research and commercialisation.

(vi) Corporate Resource Factors

(a) Core competencies – ability to identify, cultivate and exploit such competencies

(b) Corporate image and prestige – the degree of image that the firm enjoys gives it a solid strength in formulating its course of action.

(c) Relationship with regulatory and government bodies – ability to move in line with government, to appreciate the regulatory mechanism

(d) Maintenance of corporate resource – information flow, adequate analysis and diagnosis

(e) Effective organisation structure and climate

(f) Company size in relation to industry (barrier to entry)

(g) Strategic management system

(h) Effective corporate staff support systems

(i) Effective management information and computer systems

(j) Balanced functional experience and track record of top management.

Many of the factors become especially important when managers try to determine whether a strategy can be implemented. If there are weaknesses in these areas, then the firm may have to leave a particular strategy, as it may be unable to carry it out effectively.

2.9 Strategic Advantage Profile (SAP)

Once the key areas for the diagnosis of internal strengths and weaknesses have been analysed, it is useful to prepare a Strategic Advantage Profile (SAP) for the firm being analysed. SAP, proposed by Jauch and Glueck follows a pattern similar to ETOP, and provides a picture of the more critical areas, which can be related to the future strategic position of the firm.

SAP can follow the pattern shown below :

Internal factors	Impacts	Reasons
Listing of the important internal factors of the firm	*Puting a +, – or O sing signifying strength, weakness or neutral impact respectively*	*Why we consider it as an strength, a weakness or having a neutral impact*
Finance & Accounting		
Marketing & Distribution		
Production & Operations		
R & D and Engineering		
Personnel & HR		
Corporate Resources		

Relative strengths of impacts may be indicated with the help of qualitative scores.

In the perspective of strategic planning, it is necessary to take into account several probable alternative scenarios, which can be classified into best-case, worst-case and most-likely situations. Based on this, several diagnoses of internal factors are to be prepared.

As in the case of ETOP, several stages may be required before the final SAP is displayed. This part of the "analysis is probably the most crucial and most difficult. Comparative analysis requires simultaneous consideration of environmental factors and time. For example, you would ordinarily regard a "high" inventory position as a weakness for a firm. However, if demand seems to be growing or if a strike is most probable, you would realise that this is actually strength for the firm. Firms should try to utilise the resource and capabilities so that they can exploit the environmental opportunities of the environment. However a firm should not depend too much on a particular strength. It should try to develop strengths in other areas as well.

2.10 Swot Analysis

By now you must have understood that the formulation of business policy is based on the identification of threats and opportunities in the environment and strengths and weaknesses of the firm. These factors with help to determine course(s) of action that will ensure the survival and / or growth of the firm.

The environment may present many opportunities; but the firm might not have the strengths to utilise all the opportunities. Similarly, a firm may not have internal resources and capabilities to meet all environmental threats. In this way, if a firm finds that it does not have the capacity to survive by continuing in a particular business, it will be strategically correct to quit from that area and concentrate on such business(es) where it is more capable[27].

The environmental opportunities and threats should be assessed in the light of the strengths and weaknesses of internal resources and capabilities (like marketing, human resource, production and R&D capabilities). The capability of a firm to exploit the environmental opportunities or to meet the challenges depends on the strength of these factors[28]. One way of doing this is by SWOT analysis where the opportunities and threats (as obtained through ETOP) are compared against the strengths and weaknesses (as given by SAP). The SWOT analysis helps executives to generate a number of alternatives in the light of the match between internal and environmental factors[29]. This matching is shown in the diagram 2.1. From the diagram it is probably clear to you that there can be four combinations : *Strength-Opportunity, Weakness-Opportunity, Strength-Threat and Weakness-Threat.* A firm is in the most favourable position in the "growth quadrant" where it has internal strength and environmental opportunity. Firms can pursue an intensive growth strategy by increasing sales of its existing products; enter into new businesses where there are opportunities by utilising its internal strengths or pursue merger and acquisition strategy. If a firm is in "overcome weakness quadrant" it has internal weaknesses but has opportunities. It should take steps to overcome weaknesses. It can therefore pursue strategies such Joint venture, Vertical integration, Conglomerate diversification and merger/acquisition. In "shrink quadrant", the firm is having unfavourable internal and external environment. It is better for firms lying in this quadrant to reduce their activities and pursue a retrenchment strategy of turnaround, divestment or liquidation. Finally, firms in "transport strength quadrant" have internal strength but environmental threats. It is better for firms to transport strengths in other areas where there are opportunities. It can pursue strategies of concentric diversification, merger /acquisition etc.

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27. Cherunilam, op. cit., p. 23-24
28. Ibid
29. Stahl, M. J. and Grigsby, D. W., Strategic Management For Decision Making, Boston : PWS-KENT Publishing Company, pp. 46-47

ENVIRONMENTAL OPPORTUNITIES

"OVERCOME WEAKNESS QUADRANT"

Joint venture

Vertical integration

Conglomerate diversification

Merger and Acquisition

"GROWTH QUADRANT"

Concentration

Merger / Acquisition

INTERNAL WEAKNESSES

"SHRINK QUADRANT"

Turnaround

Divestment

Liquidation

INTERNAL STRENGTHS

"TRANSPORT STRENGTH QUADRANT"

Concentric diversification

Merger and Acquisition

ENVIRONMENTAL THREAT

Source : Adapted from Stahl, M. J. and Grigsby, D. W., Strategic Management For Decision Making, Boston : PWS-KENT Publishing Company, p. 47

How a firm carries out the relative comparison between the external opportunities and threats and the internal strengths and weaknesses will depend on its general outlook towards risk. Risk-oriented planners usually match positive scores for the internal factors (as obtained through SAP) with the positive scores for the external factors (as given by ETOP). On the other hand, risk-averse planners try to take care of the negative scores first. Moreover, success in corporate endeavours can generally by related with a number of critical success factors (CSFs). According to Johnson and Scholes, Critical Success Factors (CSFs) are those areas that are valued by customers and therefore firms must excel to outperform rivals in those areas[30]. The procedure for SWOT requires precise identification of the CSFs in a market segment[31]. Weightages can then be assigned to these factors according to their relative importance to the customers. This helps to give scores to every major competitor such that this score reflects the competitor's performance against each CSF. By multiplying the each score with the corresponding weight it is possible to derive a quantitative assessment of the relative strengths of each competitor.

30. Johnson, G. and Scholes, K., *Exploring Corporate Strategy*, Essex : Prentice Hall, 2002, p. 151
31. Rao and Hari Krishna, op. cit., pp. 218-219

SWOT analysis enables managers to get a brief picture of the strategic situation of the firm. As a result firms can measure the extent of 'fit' existing between internal resources and capabilities and the external environment. Moreover the analysis has the following benefits[32].

(a) It helps executives to think ahead when future changes are likely to take place the corresponding opportunities and threats that the firm may face.

(b) It challenges the manager's mind-set about when to consider a particular change as an opportunity of a threat.

(c) By matching internal resources and capabilities with the environmental factors, the SWOT analysis helps executives to determine "key priorities for strategic attention".

(d) The SWOT provides a format to think in terms of competitive positioning of a firm by comparing the impact of changes of environmental factors and internal resources and capabilities with that of its competitors.

It has however been criticised on the following grounds[33].

(a) SWOT analysis provides a long list of observations and offers no clear-cut solution about the required action..

(b) It relies on subjective judgements – since it is difficult to have objective measures of all the components. Moreover in general, executives do not give weights in a SWOT. Using weights would provide an idea about the priority areas of the firm.

(c) Another criticism against SWOT analysis is that there is a tendency of not verifying the points raised in the analysis with data or analysis.

(d) Many experts believe that there is no method of increasing the precision of the analysis.

(e) Moreover there is no logical link to a firm's strategy formulation process.

Despite the above-mentioned criticism, SWOT analysis has been very popular because of the simplicity and completeness of the framework of analysis.

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32. Jacobs, T., Shephard, J. and Johnson, G. Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. In V. Ambrosini, G. Johnson and K. Scholes, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, London: Prentice Hall Europe, 1998, pp. 122-133.

33. Hunger, A. J. D. and Wheelan, T. L., Essentials of Strategic Management (3rd edn.), New Delhi : Prentice Hall of India, 2003, p. 72.

2.11 Questions

1. Define the term 'environment'. In this context explain why environmental analysis is necessary in strategic management.
2. What are the important environmental factors that affect the business? Discuss their relative importance.
3. What is an ETOP? What information can you get from an ETOP? How can you construct an ETOP?
4. What is a SAP? What information can you get from a SAP? How can you construct a SAP?
5. What do you mean by internal analysis? How does it influence strategy formulation in a firm?
6. Explain the importance of marketing and distribution and production factors.
7. Write a short note on SWOT analysis.
8. Explain the importance of assessing the relative importance of a firm's strengths and weaknesses.

Unit 3 Strategic Options

Structure

3.1 Introduction

Before starting this discussion on strategic options, it would be better for you to recollect the basic model on strategic management that we have developed in the first unit. From the model, it is probably clear to you that in the light of the strategic intent, a firm analyses the external and internal factors in order to get an idea about the course of action that it needs to pursue. The SWOT analysis is an effective tool that can be utilised to get an idea about the different strategic options that are available to a firm. In analysing the strategic options, the firm should consider its current level of business and also the expected level. It is also required to keep in mind the basic guideline provided by its mission statement. On the basis of the current activities and business(es), the strategic options of growth or expansion, stabilisation or consolidation and retrenchment or reduction of the firm's activities can be considered. This is shown in figure 3.1.

Thus from the above figure it is probably clear to you that a firm has to select a

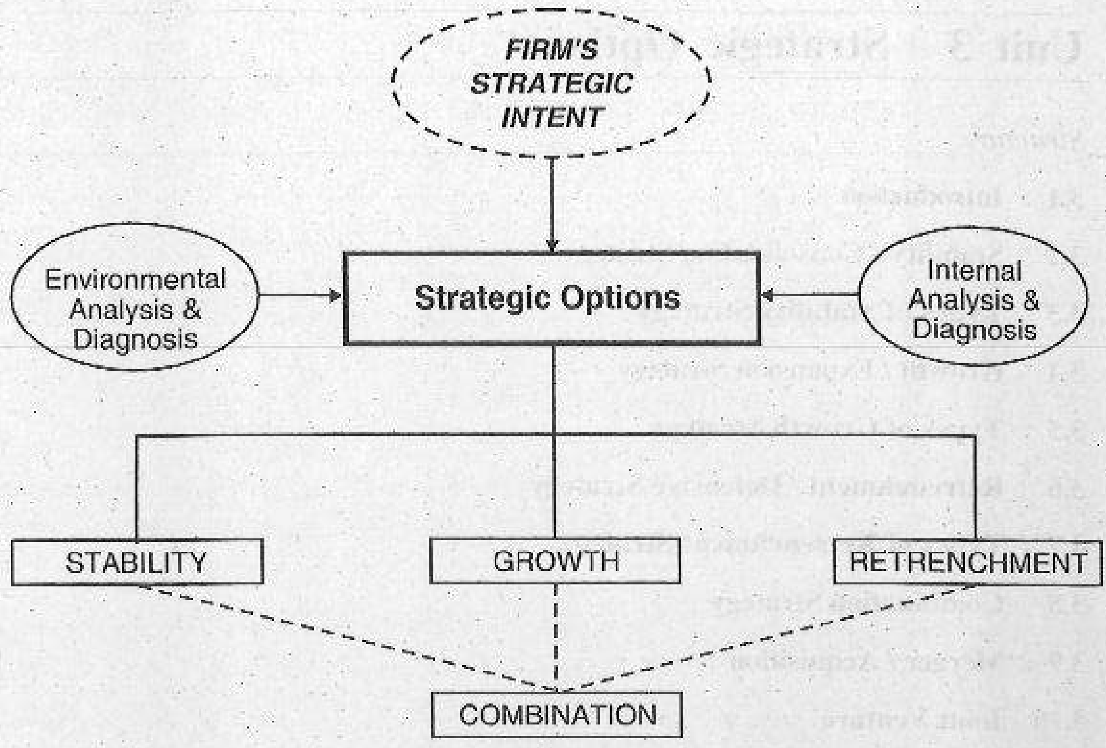

FIGURE 3.1.

particular strategic option in the light of the strategic intent and the information gathered from environmental and internal analysis and diagnosis. In this perspective the different strategic options available to a firm are[1] :

Stability, where the firm prefers to remain in the same business or businesses with the same level of effort.

Growth, where the firm prefers to expand its business into new areas with an enhanced degree of effort.

Retrenchment, where the firm prefers to reduce activities and enhance efficiency, reduce its business(ess) or move out of business in totality or partially.

A firm can combine the above options and when it is done, then it can be referred to as *Combination.*

1. Jauch, L. R. & Glueck, W. F., Strategic Management and Business Policy (3rd edition), New York : McGraw Hill International, pp. 199-217.

3.2 Stability / Consolidation Strategy

When a firm offers the same or similar products or services and undertakes the same or similar type of activities, it is said to have pursued a stability strategy. Experts believe that in this case, the firm tries to set same or similar objectives with the same level of endeavour and carries out same type of activities and functions. Students should however keep one thing in mind, stability strategy is not synonymous with a "do nothing" strategy. It means continuing with the same activities and functions. In fact, it undertakes activities in a slow and steady manner and tries to concentrate on its present activities. It prefers not to make major change in its products/services and functions. The firm tries to do this in the light of its existing resource constraints. However, firms trying to follow this type of a strategy, should be aware of the developments in their respective environment as well. According to Rue & Holland, the reasons behind stability strategy are as follows[2]—

(i) When the firm is performing well and believes "If it works well, don't fix it". The firm however doesn't exactly know the source from which it is able to perform well. Thus managers prefer not to disturb the existing set-up.

(ii) The firm's current level of performance is acceptable to the management and is therefore not interested to venture into new areas that may involve additional inconvenience. Small and medium firms prefer to pursue stability strategy because of this reason.

(iii) Following the same course of action helps in minimising the degree of risk that a firm is subject to. Changing a particular course of action involves some additional amount of risk. In order to minimise risk, it is better for firms to pursue a stability strategy.

(iv) Some managers prefer routine activities and develop an affinity in undertaking those routine activities. For them, pursuing an alternative course of action involves doing differing things that are quite different from the routine ones. They try to avoid doing different things.

(v) Managers of some firms pursuing stability perceive that growth prospects may be low. They are of the opinion that adding new product of expanding the present activities will not be beneficial to their firm.

2. Rue, L. W. and Holland, P. G., *Strategic Management : Concepts and Experiences,* New York : McGraw-Hill International, 1986. pp. 129-130.

(vi) Some firms prefer to follow stability strategy because they have utilised their financial and non-financial resources in pursuing expansion strategy in the past. To pursue further expansion, they try to consolidate their position and "regroup".

3.3 Types of Stability Strategy

Experts have tried to classify stability strategy in the following manner[3] :

Profit strategy :

When a firm's objective is to support profit in an artificial manner for its survival then, the type of strategy pursued is known as profit strategy. When a firm faces a type of a situation, where it has to generate additional amount of cash for its survival it then pursues a profit strategy (also known as harvesting strategy). This type of a strategy is useful in case the product / service segment is unable to make positive contribution to the firm's stability, sales and image[4]. Here executives reduce expenditure, or defer them so as to meet the challenge of generating profit. Managers may even prefer to increase price or reduce investment by sacrificing a portion of their market share.

According to Hunger and Wheelan a firm pursues profit strategy to "artificially support" profit even though it is facing decline in sales. In pursuing this type of a strategy, the executives of the firm should be aware that it is a "stop-gap" type of an arrangement to enable a firm to meet the current and temporary challenge by artificially, generating profit or additional cash. A conscious application of this type of a strategy in the long-run is going to have a negative influence' on the firm's sustenance.

No-change strategy :

This is a type of strategy where a firm prefers not to do anything new. It concentrates in undertaking its existing activities because of a guaranteed profitability. Here the firm believes that it is worthwhile not to change the present set up by pursuing an alternative course of action. This is so because the firm may not have significant strength that it can utilise or serious threat for which it has to shrink its activities. At the same time the environment may not present considerable opportunities

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3. Hunger, J. D. and Wheelan, T. L., *Essentials of Strategic Management,* New Delhi : Prentice Hall of India, 2004, p. 11.

4. Kotler, P., "Harvesting Strategies for Weak products" Business Horizon, August. 1978, pp. 17-18.

that can be effectively exploited or serious threats that need to be countered. Firms that undertake their operation in a fairly known market prefer to pursue a no-change strategy. However pursuing a no-change strategy doesn't imply that the firm remains inactive. In fact, after effectively analysing and diagnosing its environmental factors and internal resources and capabilities it prefers not to alter the current strategy.

Pause strategy :

When a firm tries to consolidate its position after pursuing a past expansion strategy, it is said to have pursued a pause strategy. Firms prefer this type of a strategy when they face an uncertain environment of the future. According to Glueck, pause strategy is the one where a firm reduces its level of objectives from the past growth level to the stable growth level so that it can focus on improving the efficiency of operations. Many firms prefer pause strategy to "test the ground" before expanding activities. This type of a strategy is also known as "breathing spell" strategy signifying the question of taking rest or stopping for a while after a past expansion activity. Like the profit strategy mentioned earlier, this type of a strategy is a temporary one. Firms prefer a pause strategy after a past expansion or to "test the ground" before pursuing an expansion. A pause strategy is also pursued by a firm that wants to defer the plan of growth plan for a favourable future condition[5].

3.4 Growth / Expansion Strategy

In case of a growth strategy the firm sets objectives at a higher level compared to the last level. It either offers the same products / services or adds new products/ services in addition to the existing product/services. Let us now analyse the different reasons behind a firm pursing growth/expansion strategy[6]—

i) Growth is an essential ingredient for a firm's success. Experts believe that the fastest way to succeed in a complex environment is through expansion and growth. Stability strategy is appropriate for a short period of time. It is not a long-term solution. For long run survival and success of a firm, growth strategy is necessary.

5. Kazmi, A., Business Policy and Strategic Management, p. 172, 2002, New Delhi : Tala McGraw Hill
6. Rue and Holland, op. cit., p. 121

ii) Managers expect higher salary, high bonus, and continued employment if they pursue growth strategy for their firm. For this reason, managers try to increase sales of their existing products or adds new products/services.

iii) Managers want to be remembered for their services rendered. They believe that if they can sell more of the firm's current products/services or add new products, they will be remembered and valued. Thus with a view to keep an everlasting effect, managers try to pursue, growth strategy.

iv) The next reason that has been put forward by Rue and Holland behind a firm's decision to expand is due to pressure from investors. At the same time, banks and other financial institutions consider growth in sales as one important condition for granting loans. Security analysts recommend growth oriented companies for investment.

v) Growth is necessary for a firm's long run survival. The different types of stability strategy viz. Profit strategy, Pause strategy or No-change strategy are useful to meet short term needs of the firm. They cannot be used for longterm purposes. In this context, growth has a vital role to play.

Having discussed the reasons behind growth strategy, we shall now briefly discuss the different types of growth / expansion strategy.

3.5 Types of Growth Strategy

On the basis of the above discussion, we will classify growth strategies in the following categories :

Concentration strategy

Diversification strategy

Vertical Integration strategy

Let us now discuss each of these strategies.

Concentration strategy : In this case, the firm tries to concentrate on a single product / service or a few number of closely related products and services. This requires intensive efforts that should be taken by the firm in concentrating on the single product / service. The various approaches that can be pursued by a firm as part of the concentration strategy are[7]—

7. Ibid., 122

i) *Market Development*—Here the firm tries to expand the market of the current product/service for which it wants to pursue a concentration strategy. Firms can do this by increasing sales of the existing product/service in new geographic areas and entering into new market segments. Many firms want to expand the sales of the existing product/service beyond the geographic boundary of a particular country. This is done with the help of market development strategy. According to David the guidelines/conditions that need to be considered in market development are[8]—

Using the new unexplored channels of distribution.

Exploring Untapped or unexplored market and opportunities for increasing sales of the product/services beyond a particular country.

Adequate availability of internal resources and capabilities.

When the firm has excess capacity.

ii) *Product Development*—Under product development as a concentration strategy, the firm's basic objective is to change or modify the existing products/services.

This may also involve addition of closely related product / service that can be sold with the help of the existing distribution channels. Firms try to develop closely related products by utilising the platform developed by the reputation of the current product / service. In this perspective, David has mentioned the following guidelines that need to be considered as part of product development[9]—

When the existing products/services are in the maturity stage and they have already satisfied the customers who would be interested to purchase an altered version of the product.

When the firm has capacity to carryout effective R & D and invest in R & D.

When the industry has been able to utilise rapid technological developments and its growth rate is high.

iii) *Horizontal integration*—When a firm's objective is to have greater control on the sale of product / service, it may add additional business producing same product / service by acquiring the business of its competitors. Experts believe that this strategy is a popular growth strategy since the firm has perfect knowledge about the resources and environment of the product/service where it wants to horizontally integrate.

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8. David, F. R., *Strategic Management : Concepts & Cases (9th edn.)*, New Delhi : Pearson Education, p. 166, 2005.
9. Ibid, p. 167

According to David, the conditions / guidelines for horizontal integration are[10]—

When the firm has been able to maintain a dominant position in the area where it wants to horizontally integrate.

The industry is marked by high growth rate.

When the firm has required resources and capabilities to horizontally integrate.

When there are drawbacks of the firms offering same product / services in terms of effective utilisation of resources and capabilities. This doesn't however mean that they are performing poorly.

Concentration strategy is preferred by many firms that do not want to add new products but want to pursue growth by expanding sales. It is used by firms that want to minimise the risk of venturing into new areas or entering into new business.

However, in the context of emerging technology, product obsolescence etc., this strategy is not effective. Therefore in the light of a turbulent environment and emerging opportunities, firms are forced to add new products/services through diversification.

Diversification strategy : In case of diversification, a firm adds new products / services in addition to its existing products / services. Here the firm enters into areas that are clearly differentiated from its current business. However, when the firm enters into multiple businesses it would require competencies and resources in different forms and dimensions. It should therefore take stock of its internal resources and strengths before venturing into diversification.

A firm can diversify in the following cases[11]—

When the growth prospect in the current business in declining.

When there are perceived opportunities of adding value in other areas of business.

When there are perceived opportunities where resources and capabilities can be employed.

When there are perceived opportunities to save cost by expanding business into related areas.

When the firm is financially strong to undertake diversification strategy.

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10. Ibid, p. 165
11. Thompson, A. A., Jr. and Strickland III, A. J., *Strategic Management : Concepts and Cases (13th edn.)*, New Delhi : Tata McGraw-Hill, 2003, p. 294.

On the basis of the above cases when a firm tries to diversify, we can generalise the reasons for diversification as follows[12]—

To spread the risk arising out of over dependence on a particular product/ service. This over dependence can lead to a firm's failure if there is sudden change in the environment or if the product / service reaches the saturation stage.

When there are extraordinary opportunities in other business that the firm can exploit. Managers are tempted to pursue growth strategy by moving into new areas that may be challenging and they may be interested to takeup the challenge.

To balance seasonal and cyclical fluctuation in demand of its products. A firm may offer a product whose demand is high in one period and low in another. In order to counter this effect it may introduce a related product whose demand is high when the existing product's demand is low and vice-versa.

When the firm's product / service is on the verge of obsolescence. In order to meet this challenge, a firm has no other alternative but to add new product / service.

Many firms believe that through diversification, it can reduce per unit fixed cost by adding more products / services.

There can be miscellaneous reasons like : to enter the international market, avail tax concession, to acquire technical and managerial competencies etc.

Ansoff has develop a matrix that helps us to understand diversification strategies in a better way. This matrix is shown below :

	NEW PRODUCTS	
NEW MISSION	*Related Technology*	*Unrelated Technology*
Firm its own customer	Vertical Integration	
Same type of product	Horizontal diversification	
Similar type of product	Marketing and technology-related concentric diversification	Marketing-related concentric diversification
New type of product	Technology-related concentric diversification	Conglomerate diversification

ANSOFF'S DIVERSIFICATION MATRIX

Source : Ansoff, H.I., Corporate Strategy, New York : McGraw-Hill, 1965, p. 132

12. See Rue, L. W. and Holland. op. cit., p. 124 and Glueck, W., Business Policy and Strategic Management (3rd Edn.), McGraw-Hill International, p. 211.

From the above matrix, it is probably clear to you that the analysis in the context of diversification has to be done on the basis of new product(s) and new mission (new functions). Accordingly new product(s) can be made through related or unrelated technology. The new mission can be in different perspectives namely the film being the customer of the new product, firm offering same / similar / new type of product. We shall be discussing the different type of diversification strategies in this section. While vertical Integration will be discussed in the next section. Experts have classified differentiation strategy in two broad categories namely, concentric and conglomerate diversification. In case of concentric diversification, the new product(s) / service(s) offered is / are in different areas but is/are similar to the existing product(s) / service(s) in terms of marketing, technology, customer etc. If a shoe company starts producing other leather goods then we can consider it as a simple case of concentric diversification. Following Ansoff's diversification matrix, we can have three types of concentric diversification :

a) *Marketing-related concentric diversification*—When the firm adds a new product that has marketing related similarities with the current product(s) but dissimilar in terms of technology.

b) *Technology-related concentric diversification*—When the firm adds a new product that has technology related similarities with its existing product(s).

c) *Marketing & Technology related concentric diversification*—When the firm adds a new product that is related to the existing product(s) in terms of technology as well as marketing aspects.

There are a number of advantages of concentric diversification[13] :

This type of diversification helps a firm to utilise its resources and competencies in areas that are related to its current business.

It is a useful tool to disperse risk.

Firms that carry out their activities in related businesses through concentric diversification outperform other firms.

When the firm adds a new product or business that is not related to the current product(s) / business(es) in terms of technology, market or function, then the type of diversification is known as conglomerate diversification. A textile company diversifying into the hotel industry can be considered as an example of conglomerate diversification. Compared to concentric diversification where the firm moves into related areas, conglomerate diversification takes a firm into a new unrelated areas where it has not ventured earlier. Hence, it should try to add only those products that will not have a

13. Rue and Holland, op. cit., p. 125

negative effect in terms of enhancement of sales of the existing products. There should be considerable growth potential in the industry where the firm wants to enter. Moreover, it should take stock of its resources and competencies before entering into a new unrelated area. This is because it is moving into areas that are totally unknown to it. Research suggests that firms that have been able to carry conglomerate diversification in right direction have been more successful. However, there is a need to clearly identify the opportunities that can be utilised by a firm.

Vertical Integration Strategy :

In case of vertical integration, the firm combines activities related to its present activity. Some authors consider vertical integration as a division of diversification strategy[14]. We shall however consider vertical integration strategy as a separate division of growth / expansion strategy.

In vertical integration, the firm extends its current business in two possible directions. Vertical integration takes place when a firm moves into "areas that serve either as suppliers to or customers for its current products or services"[15]. Students can probably understand on the basis of the above definition, that we can have two types of vertical integration—*backward integration* and *forward integration.* In case of backward integration, the firm enters into the business of supplying some of the products that are used as inputs in producing the existing products/services. If a soft drinks company starts producing bottles for supplying its drinks, then we can consider it as a backward integration. A firm carries out backward integration, when its present suppliers are unreliable, expensive and do not have the capacity of satisfying the firm's requirements. In case of forward integration, the firm enters into the business of distributing its output by entering the channels close to the ultimate user of the product. A shoe company starting a retail outlet can be considered as an instance of forward integration. A firm carries out forward integration, when its present distributions are expensive, unreliable and are unable to satisfy the needs of the firm. Vertical integration enhances the risk of firms since resources are invested in areas that serve either as suppliers to or customers for its current products or services. Moreover in the current business scenario, it is better for firms to pursue outsourcing rather than vertical integration.

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14. Kazmi, A., op. cit., p. 175. This has also been shown as a division of diversification in Ansoff's diversification matrix
15. Rue and Holland, op. cit., p. 123.

Advantage and disadvantages of vertical integration strategies :

Kriken in an interesting article has analysed the issue of vertical integration and discussed the advantages and disadvantages of forward and backward integration strategies[16]. The summary of the advantages and disadvantages of forward and backward integration strategies mentioned in Kreiken's article is presented below :

Advantages of Backward Integration :

1. Firms use backward integration to assure regular supply of materials or components from sources which otherwise might be controlled by powerful suppliers.
2. Firms use backward integration to improve the quality of inputs used in production process, especially when these inputs affect the quality of the final product or its brand image.
3. Firms can increase the ROI in the expectation that its effort of vertical integration will be greater than others in efficiency and profitability.
4. Firms prefer backward integration to develop the "negotiating power" by carrying out those activities that were not undertaken earlier.
5. An important advantage of backward integration is that it reduces the cost of buying compared to a situation when separate firms carry out the different steps of converting inputs to final products[17].

Disadvantages of backward integration :

1. Backward integration reduces the flexibility of purchasing inputs at lower cost when such opportunities come.
2. There can be difficulties in integrating different types of specialisations that are required in backward integration.
3. Backward integration reduces the flexibility in applying emerging technology in the 'upstream' units.
4. High investment in conventional plant can retard the advancement of succeeding stages of the manufacturing process and of the final product and may put unwanted pressure on sales effort and pricing.

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16. Kreiken, J., Effective Vertical Integration and Disintegration Strategies, in J. Glueck, Business Policy and Strategic Management, New York : McGraw-Hill International, pp. 256-262.
17. Dess, G. G. and Miller, A., Strategic Management, New York : McGraw-Hill, 1994, pp. 181-182.

Advantages of Forward integration :

1. Forward integration helps to develop the quality control and protection of the product in the downstream channel units (e.g., freshness, reliability etc.).
2. Forward integration helps firms to have better control over sales volumes and prices.
3. An important advantage of forward integration is that it reduces the cost of selling compared to a situation when separate firms carry out the different steps of taking the product closer to the ultimate consumer[18].

Disadvantages of Forward integration :

1. An inherent disadvantage of forward integration is that it may result in a competition between a firm and its distributors.

   This is because the firm tries to carryout some of the activities that it were previously performed by the distributors.
2. A second disadvantage of forward integration is that it results in the reduction of the flexibility of outlets. In the opinion of Kreiken, changes in technology, character, size and number of downstream channels can result in obsolescence or incompleteness of the forward integration system.

3.6 Retrenchment / Defensive Strategy

When a firm intends to reduce its level of operation from the past level then it is said to have pursued a retrenchment or defensive strategy. In this case, the firm may offer the same product / service or reduce the product/services or the units/ businesses that are running at a loss. When a firm faces problems in different magnitude and forms, it follows a retrenchment strategy. Based on the nature of the problem, a serious type of retrenchment strategy has to be followed. This type of a strategy is quite difficult to undertake. At the same time, recent research suggests that reduction in activities of a firm can also improve its performance. You should remember one thing in mind in the context of retrenchment strategy and that is retrechment doesn't always imply closing down. A firm can earn profit after pursuing a retrenchment strategy. However, when all other options are exhausted, the firm tries to close down or sell either in parts or in its entirety. The different indicators that would force firms to pursue retrenchment strategy are[19] :

18. *Ibid.* 19
19. Kazmi, A., cit. p. 201

i) Continuing negative trend in cash, flows

ii) Uncompetitive products / services

iii) Excess manpower, high turnover and absenteeism and low employee satisfaction

iv) Weak, ineffective and inefficient facilities and mismanagement

v) Declining trend in market share of the firm's major products.

Along with the above indicators, the different reasons put forward by experts as to why firms pursue a retrenchment/defensive strategy are[20]—

i) When the firm is having resource problems (especially financial resources) that force it to reduce Its activities and functions. The problems generally emanate from the poor performance of the entire firm or some of its units.

ii) When the executives of the firm feel that the firm is facing or is likely to face an adverse environment. Many firms undertake operations in a highly favourable environment and are unable to face a sudden change in environment. Many Indian firms that were once enjoying a stable environment, could not meet the challenges of the changed environment in the postliberalisation period. Hence firms have been forced to pursue a retrenchment strategy.

iii) When the owners are not interested to continue the current business and perceive positive returns by selling the firm.

iv) Many firms prefer to pursue a retrenchment strategy when there are perceived opportunities in other areas that the firm can exploit by utilising its internal factors.

v) When firms are unable to succeed by following stability / consolidation or growth / expansion strategy, they pursue this strategy as a *strategy of last option.* A retrenchment strategy can vary from a range of *low-medium-high* degree of seriousness. On the basis of the degree of seriousness a particular type of retrenchment strategy is to be pursued by the firm. In the opinion of Jauch and Glueck, in case of a "minor crisis, pace retrenchment will do. For moderate crises, divesture of some divisions or units may be necessary. For serious crises, a liquidation may be necessary"[21].

20. See Rue and Holland, op. cit., p. 131; Jauch and Glueck, op. cit., p. 209.

21. Jauch and Glueck, op. cit., pp. 209-210.

Corporate Decline in the Context of Retrenchment Strategy :

Any discussion on retrenchment strategy remains incomplete without an analysis of the issue of corporate decline. In this backdrop Slatter and Lovett's analysis of the different causes of corporate decline is worth mentioning. We shall try to get an understanding of this issue on the basis of their approach[22].

Slatter and Lovett have mentioned 13 principal causes of decline of which 10 are internal and 3 are external. Let us briefly discuss take up each of these—

Internal factors

i) *Poor management*—This is the first reason for the down fall of a firm. According to Slatter and Lovett, reasons such as "autocratic rule", combined chairman and chief executive of the same firm, ineffective board of directors and management, lack of managerial skills etc. have an overall impact on firm's performance.

ii) *Inadequacy in financial control system of the firm*—An important consequence of inadequate financial control system is the inability of the firm to manage financial resource that ultimately results in firm's loss. Firms are also unable to generate revenue due to faulty policy.

iii) *Ineffective work capital management*—Apart from inadequate financial control system, a firm may not be able to undertake operations effectively because of faulty management of working capital.

iv) *Higher costs*—Many a times firms are unable to reduce / minimise cost. Inability of a firm to reduce cost results in reduced profit and hence the firm is unable to make necessary investment for pursuing a concentration or other types of growth strategy. Moreover firms that are producing at higher cost are in a strategically disadvantageous position in terms of protecting their respective market positions.

(v) *Ineffective effort in marketing products / services*—This is another reason behind a firms downfall. Faulty marketing effort acts as hindrance in reaching the product / service to the customer. Experts believe that faulty marketing efforts may not be a result of defective operating decision but may be related to strategic decision.

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22. This section is based on J. I. Moore, Writers on Strategy and Strategic Management, London : Penguin Books, 2001, pp. 294-303. You can also see Stuart Slatter and David Lovett, Corporate Turnaround, Penguin Books, 1999.

(vi) *Negative effects of overtrading*—This takes place when the firm's sales grow at a rate higher than the rate at which they are to be financed. This occurs as a result of unplanned concentration strategy.

(vii) *Capital and revenue projects causing decline*—Under this category, Slatter and Lovett have mentioned issues such as cost of entering into market, underestimated capital needs, expansion of capacity etc. related to big project that ultimately result in decline.

(viii) *Acquistitions*—Many a times acquisitions may lead to a firms decline. Though a firms basic objective for acquisition is to pursue external growth strategy, an acquisition may lead to firm's failure also.

(ix) *Ineffective financial policy*—According to Slatter and Lovett, reasons such as high debt equity ratio, conservative nature of financial policy, ineffective usage of source of finance may result in an ineffective financial policy.

(x) *Firm's tendency to do nothing or remain indifferent*—Firm's tendency to do nothing in the light of a changing environment leads to its downfall. When a firm is required to make decision and take action, due ineffective and faulty decision it is unable to react.

External Factors

(xi) *Changing market demand*—Changes in demand for the goods/services, that a firm offers may lead to its downfall. Demand can change due to a variety of reasons.

(xii) *Competition*—A firm may surrender in the face of tough competition. There can be reasons such as price, quality, promotion, after sales service, etc., that enhance competition. When a firm in unable to meet the challenge of competition it is unable to survive.

(xiii) *Unfavourable movement in the price of commodities*—Slatter and Lovett have mentioned that prices of raw material, capital and land are largely beyond the control of a firm and hence their fluctuation can be a major reason for a firm's decline.

The above analysis of corporate decline is useful for firms pursuing a retrenchment strategy. Keeping this in mind firms can pursue a successful retrenchment strategy. Moreover many firms pursuing growth or stability strategy should be aware of the factors that lead to corporate downfall. A better understanding of the above causes will help firms to develop and early warning system so that it doesn't face decline.

3.7 Types of Retrenchment strategy

When a firm faces a decline, it has to pursue a retrenchment strategy. Let us now discuss the different types of retrenchment strategy—

(i) Turnaround

(ii) Divestment

(iii) Liquidation

Turnaround strategy

In this type of a retrenchment strategy, the firm tries to alter the declining trend in sales and profits. Here the ultimate objective is to enhance firm's profitability that has been retarded for some reason. The firm pursuing a turnaround strategy tries to improve the efficiency of operations. According to Glueck, a firm follows a turnaround by following the approaches mentioned bellow[23]—

(i) *Cost Reduction*—With a view to reverse the negative trend, a firm can reduce cost by reducing the size of workforce, reduce cost in less critical maintenance areas, unnecessary equipments etc. Firms try to meet only the critical expenditures and keep away the expenditures that are avoidable.

(ii) *Asset reduction*—Firm can reduce some unnecessary assets that are not currently required. Firms can sell land, equipments, buildings etc. that are presently not required or that would have been required if the firm would have pursued an expansion strategy.

(iii) *Revenue generation*—By reducing the price of its products, following stricter inventory control, and making efforts aimed at selling more product / service etc, firms can generate additional revenue without incurring additional cost.

A firm pursuing a turnaround should possess some latent internal strengths that have not been utilised and employed effectively. As part of the turnaround strategy, some firms try to reorder its internal set-up.

Prof. Pradeep Khandwalla has short listed a set elements that are necessary for an effective turnaround strategy on the basis of his study on some selected firms[24].

The identified elements / courses of action are :

(i) By bringing changes in the top management of firms

(ii) By developing an early control mechanism

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23. Glueck, op. cit. p. 224

24. Khandwalla, P.N. : "10 Elements in Turnaround". Businessworld, June 7-20, 1989, pp. 18-19

(iii) By meeting environmental challenges in a better way

(iv) Actions aimed at building initial credibility

(v) Effort aimed at faster reduction in cost

(vi) Identification of activities that give rapid returns

(vii) By improving the internal coordination of the firm

(viii) Undertaking activities aimed at faster cost reduction

(ix) Reduction / utilisation of assets for generation of additional cash

(x) Undertaking activities that help in generation of additional revenue.

Another study by Mirchandani identified three distinct ways of pursuing a successful turnaround[25] :

(i) 'In the first case, the CEO and the top Management Team (TMT) manage the entire issue of turnaround with the assistance of an external agent.

(ii) A turnaround specialist carries out the process of turnaround instead of the CEO and the Top Management Team

(iii) The third approach involves replacement of the CEO and the Top Management Team or merger of the firm that has to be turned around with a firm that has internal competencies and resources.

Divestment :

When the firm sells or liquidates a unit or major part of a unit then it is said to have pursued a divestment strategy. In the opinion of experts, it is extremely difficult to pursue a divestment strategy. A firm may be reluctant to divest a loss making unit since closing that unit may be strategically disadvantageous to the firm. There are several reasons that force a firm to divest. Many executives prefer divestment because they perceive better alternatives in other areas that can be exploited only if the firm sells some of its current businesses that are not profitable enough. So for supporting these new projects or for supporting current projects in a better way, firms divest a part of their business. Moreover, many firms prefer divestment when an earlier diversification strategy resulted in a misfit with the firm's culture[26]. Another reason for divestment put forward by experts is the issue "loss of appeal" of a particular business / product / service.[27]

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25. Mirchandani, G. A. "Turning a business around", Business India, March 7-20, 1988. pp. 110-111
26. Durcker, Management : Tasks. responsibilities, Practices, p. 709
27. Thompson and Strickland. op. cit. p. 315

According to David. the guidelines / conditions for pursuing a divestment strategy are[28]—

(i) When the firm's earlier attempt to reverse the negative trend by following turnaround strategy has not been successful.

(ii) What a division/unit of a firm requires more resources that can only be met by divesting another unit and reinvesting the capital in the division / unit under consideration.

(iii) When the overall loss of the firm is due to a particular unit / division.

(iv) When a particular unit/division is not compatible with the current course of action of the firm.

(v) When there is rapid change in the government/regulatory factor of the firm's environment.

Liquidation :

In case of liquidation, the entire assets of the firm are sold or the entire firm is closed down. Liquidation is the least attractive strategy among the strategic options. This strategy is pursued by firms when there is a likelihood that it will become bankrupt if it continues its operations and owners consider that closing down the firm is better than continuing to run it at a loss. This strategy has been referred to by experts as the "strategy of Last Option". This course of action is preferred when executives and owners think that simply running the firm involves wastage of resources. However, all stakeholders of a firm do not favour this strategy of last option. Top executives of a firm are disinclined to support it because it signifies their inefficiency. Government does not permit firms to liquidate easily and certain legal guidelines are to be followed by firms in pursuing liquidation. Trade Unions oppose liquidation since it results in loss of employment. As already stated, firms try to pursue liquidation when they have tried to pursue both turnaround and divestment strategies but have failed in their endeavour. Moreover, for the concerned firms, liquidation is the only viable alternative course of action for obtaining cash by selling assets firm's assets[29]. When a firm is forced to follow liquidation, the seller is in a weak bargaining position.

28. David, op. cit. p. 173

29. ibid, 174

3.8 Combination Strategy

In case of a combination strategy, the firm simultaneously uses different grand strategies for its different units. The basic objective of using a combination strategy is to enhance firm's earnings and reduce cost. It is employed in transition phases and in multidivisional firms?[30] A combination strategy can be used in two of the following ways[31] :

(i) Using alternative grand strategies for each of the units / businesses of the firm in the *same period of time.*

(ii) Using alternative grand strategies for unit/entire firm in the *different time period.*

Reasons for pursuing retrenchment strategy—

(i) When a diversified firm's products / services lie in different phases of the life cycle. Moreover different businesses may be performing differently and hence a single approach may not be effective for the diversified firm.

(ii) When the firm's different businesses are influenced by different sets of environmental factors. Thus on the basis of the degree of influence of the environmental factors, different strategies need to be pursued. If a particular business has a number of opportunities firm can pursue a growth strategy. If a another unit / business has less number of opportunities, a stability strategy is most appropriate. In case of a unit / business having more threats, then retrenchment strategy is the appropriate course of action. Hence the firm has to combine the different grand strategies.

3.9 Mergers / Acquisition

External growth strategies are dominated by mergers / acquisitions and joint ventures. Merger takes place when two or more firms (generally with similar sizes) combine through the exchange of cash or stock or both. Megers usually take place in two ways. viz. :

Purchase of a firm by another that is comparatively larger than the former—Acquisition.

Both firms dissolve their identity to create a new firm—Consolidation :

30. Rue and Holland, op. cit, p 120
31. Jauch and Glueck, op. cit p. 210

The combination may take place through a cooperative or hostile approach. A merger can be said to be friendly if both firms decide to combine their strength so as to gain advantages from synergies. Such synergies may relate to marketing (e.g., use of common distribution, sales force, sales promotion, etc.), operations (e.g., better utilisation of facilities), investments (e.g., better resource utilisation during the mergers of banks and financial institutions) or management (judicious use of existing managerial talent). You can say that a friendly merger can lead to a carefully negotiated acquisition of one firm by another[32].

In contrast to the friendly approach, an acquisition (also known as a takeover) involves a surprise attack by a company to acquire control of another (through the purchase of a share of voting stock in a publicly traded company) against the will of the existing management. You may be aware of the fact that there specific situations where firms make themselves vulnerable as targets for takeovers. These situations can arise when, for example, when performance is below potential so that the stock price is adversely affected though the firm still remains an attractive target for acquisition.

The following conditions state the situation when merger / acquisition should be pursued[33] : For accepting merger between firms A and B, the following condition should be satisfied NPV (A+B) > NPV (A) + NPV (B)

Where, NPV (A) = net present value of firm A as a stand alone entity.

NPV (B) = net present value of firm B as another stand along entity.

NPV (A+B) = net present value of firm A and B as a combined entity.

Types of mergers

Different classes of mergers can be recoginsed according to the activities that are added by the process to the existing product or service lines. Accordingly, the following types of mergers can be distinguished[34] :

Horizontal mergers

This type of merger takes place when a combination occurs between two or more firms in the same business, or in the same aspects of production or marketing processes.

32. Rao and Harikrishna, Strategic Management : text and Cases, New Delhi: Excel Books, 2003, pp. 302-303

33. Barney, J.B. Gaining and Sustaining Competitive Advantage, New Delhi ; Prentice Hall of India; 2002. pp. 487-488.

34. Kazmi, Azhar, *Business Policy and Strategic Management,* Tata Mc Graw-Hill Publishing Company Ltd (2002), p. 183-184.

Vertical mergers

This type of merger involves two or more firms, which may not necessarily be in the same business; rather, they should complement one other with regard to supply of materials or marketing of goods services.

Concentric mergers

Here there is a combination between two or more firms, which are related to one another in areas like customer functions, customer groups or alternative technologies used.

Conglomerate mergers

In this case there is a combination between two or more firms, which are unrelated to one another in areas like customer functions, customer groups or alternative technologies used.

In addition, we can also consider demergers or spin-offs, which can simply be described as the process that is the reverse of mergers. It involves spinning off an unrelated business/ division in a diversified company into a separate company.

Reasons for mergers

You will easily accept the fact that a merger always involves a minimum of two firms. Let us describe them simply as the buyer and the seller. Each of them has own reasons for entering into the merger. Jauch and Glueck identified them as follows[35] :

(A) *In case* of a buyer—

i. To increase the value of the firm's stock
ii. To increase the growth rate of firms
iii. To make a better investment by purchasing than investing in internal growth
iv. To enhance a firm's stability of earnings and sales
v. To balance, fill-out, or diversify the firm's product line
vi. To reduce competition by purchasing a competitor firm
vii. To acquire necessary resources quickly that may not be possible to generate internally.
viii. To avail tax concessions and benefits provided by the government
ix. To take advantages of synergy arising out of the combined operation of two firms undertaking operations together.

35. Jauch and Glueck, op. cit. p. 209

(B) In case of a seller—

i. To increase the growth rate by using the resources of the purchasing firm
ii. To increase the value of the owner's stock and investment
iii. To acquire resources that are required for stabilising operations
iv. To benefit from tax legislation
v. To deal with problem arising out of top management succession.

Reasons for failure of mergers

Evidence from research shows that in general, mergers have not been successful from the viewpoint of shareholders similar evidences also suggest that they have also been unsuccessful from the managerial viewpoint. This will obviously prompt you to enquire about the causes for such failures. In this context, P. K. Ghosh has mentioned the following mistakes of managers that lead to failures of merger strategies[36] :

(i) Inability of top management to establish merger objectives which fit into the firm's strategy

It has been found that acquisitions are often mostly accidental. They are not part of any plan for overall strategic growth. Even when they were found to be a part of a well-planned programme (and hence not just a knee jerk reaction to an opportunity), the thinking involved in the process may be very narrow. The objectives of the merger should emerge from the corporate strategy. This is because merger or acquisition is, after all, one way of achieving corporate-level objectives.

(ii) Failure on the part of top management to consider the comparative merits of internal and external means of achieving corporate goals.

Mergers should be treated as a more risky alternative compared to internal growth strategies due to the low success rate of the former. In spite of this fact, managers consider a merger as a major objective in itself, rather than a means to achieve objectives.

(iii) Inability of top management to give serious thought to the aspect of financial stake.

Often firms show a hasty attitude while pricing acquisitions. Sometimes there is considerable overpricing so that the acquiring firms pay high prices.[37]

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36. Ghosh, P. K. *Strategic Planning and Management*, Sultan Chand and Sons, New Delhi (2004). pp. 255-256 .
37. Lester. T., "The Business of Marriage Brokers", *Management Today*, October 1969, p. 58.

Often impractical assumptions regarding future earnings may lead to such overpricing. It is quite obvious that this arises from lack of sufficient scrutiny of the merger plan. In fact, the time gap between the first discussion of the possibility of a merger and the public announcement barely permits a serious consideration of the financial prospects and other fallouts of the merger scheme[38].

(iv) Unfamiliarity of the top management of the acquiring firms with the business of the acquired firms.

The simplistic assumption that management expertise can be carried over from one type of activity to another also results in failed merger strategies. This is because the management of acquiring firms sometimes cannot deal with human problems and the complicated issue of human relations. Once again this may point towards the lack of an in-depth analysis of the merger proposal.

(iv) Deficient preparation in the context of post-merger planning, organisation and control. It must be clear to you that the .success of a merger depends not only on the activities preceding the actual merger, but also on those that follow it. Due to over-enthusiasm or hasty action, there may be serious deficiencies in the postmerger activities.

Guidelines for effective mergers

You will agree that any process of merger or acquisition consists of a set of complicated decisions relating to financial arrangements, organisational changes and various types of adjustments. Consequently any such process necessitates consideration of the following[39] :

(a) Formulation of a separate plan and programme for ensuring smooth transition from the pre-merger to the post-merger phase

(b) Realignment of the executive responsibilities for the required implementation of the plan and programme

(c) Redesign of the management information system for effective top management control.

38. Newbould, G.D., *Management and Merger Activity*, Liverpoll ; Guthstead, 1970, p. 117.

39. Ghosh, P. K., op. cit, k p. 257.

3.10 Joint Ventures

A joint venture can be regarded as a business venture set up between two or more independent firms by contributing together to the total equity capital and establishing a new organisation. According to Glueck, a joint venture can be treated as a hybrid of internal and external growth[40]. A joint venture may involve firms in the same or different countries. However, the latter case is more common.

As we have seen earlier, a merger can take place either through acquisition or through consolidation. A joint venture can be thought of a special case of consolidation where "two or more companies form a temporary partnership (also called a 'consortium') for a specified purpose"[41].

There are four main conditions under which joint vuntures can be used for gaining access into new businesses viz.,[42]

(i) When it is uneconomical for a firm to carryout vital activities alone

(ii) When it is better to share the risk of business and hence. The risk decreases for the participating firms

(iii) When the aim is to achieve a convergence among the distinct competencies of the two or more firms

(iv) When establishment of a firm involves overcoming barriers like import quotas, tariffs, nationalistic political interests and cultural roadblocks.

So it must be apparent to you that the joint venture approach is most effective when it is necessary to share the cost of development, to increase the dispersion of risk and to combine expertise so that resources are utilised effectively.

Types of joint ventures

While joint ventures are common within industries and in various countries, they are particularly useful for gaining entry into international markets. When looked at from this angle, joint ventures can be separated into the following types[43].

40. Willam F. Glueck, *Business Policy and Strategic Management.* 3rd., Me Graw-Hill International Book Co., Tokyo. 1980, p. 219.
41. Thomas, J. G., *Strategic Management - Practices and Cases,* New York: Harper and Row, 1988, p. 215.
42. Thompson, A.A. Jr and Strickland III, A. J., Strategic Management-concepts and cases, 3rd ed., (Plano, Taxes : Business Publications, 1984), p. 92-93.
43. Kazmi, Azhar, *Business Policy and Strategic Management,* Tata McGraw-Hill Publishing Company Ltd (2002), p. 189.

(a) Joint ventures between two firms undertaking operations in the same industry.

(b) Joint ventures between two firms undertaking operating in different industries

(c) Joint ventures between an Indian firm and a foreign company operating in India

(d) Joint ventures between an Indian firm and a foreign company in that foreign country

(e) Joint ventures between an Indian firm and a foreign company in a third country

An alternative classification of joint venture is given by Gullander in the following manner[44] :

(a) *Spiderweb strategy*—A small firm forming joint venture with a number of firms in order to survive in a turbulent environment.

(b) *Go together and split strategy*—Here a firm forms a need-based joint venture with another firm for a specific project time period. After the completion of the project or agreed time frame the joint venture becomes non-existent.

(c) *Successive integration strategy*—In this type of a joint venture, the firms initially start with a joint venture for specific purpose and then develops a number of joint ventures that ultimately results in merger.

Justification for promoting joint ventures

A Joint venture strategy can provide many advantages. In general, joint ventures inside a country are based on the following logic[45].

(a) More convenient introduction of new technology;

(b) Reduction of the high degree of risk characteristic of new ventures;

(c) As a means for the small firms to get together for taking on the might of larger firms

On the other hand there is a different type of logic behind joint ventures between firms in separate countries. Some of these are as follows[46].

(a) Reduced capital requirements on individual firms;

(b) Advantage of convenient financing of significant elements of the project through foreign equity participation;

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44. Gullander, S., Joint Venture and Corporate Strategy, Columbia Journal of World Business, II (1), Spring, 1976, pp. 104-114

45. Ghoush P. K., op. cit., p. 259

46. Ibid, pp. 259-260.

(c) Easier entry route for MNCs in developing countries where governments do not usually support the establishment of branches or subsidiaries by foreign companies;

(d) Decrease in production and marketing cost through increased sales facilitated by joint ventures[47].

Thus, in general, you can say that joint ventures provide the following strategic strengths[48] :

(a) Increased market share;

(b) Diversification of operations (when the joint venture covers a number of industries);

(c) Adoption of latest technologies (specially if the joint venture involves foreign participation);

(d) As a means of overcoming legal and regulatory hurdles in foreign or third countries;

(e) Environmental threats inside a country or availability of opportunities outside it.

Despite the above-mentioned advantages of joint venture, experts have mentioned the following problems that causes failure of joint ventures[48] :

(a) Increased market share;

(b) Diversification of operations (when the joint venture covers a number of industries);

(c) Adoption of latest technologies (specially if the joint venture involves foreign participation);

(d) As a means of overcoming legal and regulatory hurdles in foreign or third countries;

(e) Environmental threats inside a country or availability of opportunities outside it.

Despite the above-mentioned advantages of joint venture, experts have mentioned the following problems that causes failure of joint ventures[49] :

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47. Kricken, J, "Joint Selling across National Frontiers", *Proceedings of International Marketing and Distribution Congress.* May 6-9, 1964, Barcelona, Spain.

48. Kazmi. Azhar, *op. cit.* p. 189

49. David, F. Strategic Management : Concepts and Cases (9th edn.), New Delhi : Pearson Education, p. 179, 2005

(i) Non-involvement of the concerned executives (who are expected to manage of the affairs of the joint venture) in the formation process of the joint ventures.

(ii) Inability of the joint venture to satisfy customers' needs.

(iii) Unequal support from the concerned partners in the joint venture.

(iv) Competition between partners in the joint venture.

3.11 Questions

1. Briefly describe the four alternative strategic options that firms pursue.
2. What is a stability strategy? State the conditions when a firm pursues this type of strategy.
3. What is a growth strategy? State the conditions when a firm pursues this type of strategy. What are the different types of stability strategy?
4. What are the different ways through which a firm pursues a concentration strategy?
5. Explain the difference between diversification and vertical integration
6. What is a retrenchment strategy? What are the different causes of retrenchment strategy?
7. Explain the different causes of corporate decline
8. What is merger? State the reasons for failure of merger.
9. What is a joint venture? Explain the advantages of joint venture.

Unit 4 □ Choice of Strategy, Portfolio Analysis, Porter's Approach

Structure

4.1 Introduction

In the last unit we have analysed the different strategic options of stability, growth, retrenchment, combination, merger / acquisition and joint venture that firms can pursue. Next comes the issue of choice of strategy. According to Jauch and Glueck, choice of strategy "is the decision which selects from among the alternative grand strategies considered, the strategy which will best meet the enterprise's objectives. The decision involves focusing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria and making the actual choice"[1]. The process of choice of strategy has to be carried out in the light of the mission and objectives, information form environmental & internal analysis and diagnosis and the current course of action of the firm.

In carrying out the process of choice of strategy, firms do not consider all the alternatives that they can pursue, since there can be a large number of courses of action that can be followed. So the firm should determine a "manageable set of the most attractive alternative strategies". Then the advantages, disadvantages, trade-offs,

1. Jauch, L.R. and Glueck W.F., Strategic Management and Business Policy, New York : MCGraw-Hill International, 1989, p. 263

costs and benefits of the alternative strategies are to be ascerataained[2]. Firms should therefore strive to determine a reasonable strategy as part of strategic choice process.

4.2 Process of Strategy

The process of choice of strategy involves four basic steps that are shown below :

Considering the alternatives

↓

Consideration of selection factors

↓

Evaluating the alternatives

↓

Making the strategic choice

↓

Let us now briefly discuss each of these steps[3] :

Considering the alternatives—

We have stated at the end of the introductory section of this unit that firms cannot consider all the alternatives and should therefore consider only the "reasonable" alternatives in the light of the mission statement, objectives and information from environmental and internal analysis and diagnosis. Experts opine "You can choose alternatives by trying to work forward from the present to the future state and see how you can get there from where you are now." Moreover, according to Jauch and Glueck, executives can utilise the gap analysis to select a particular strategy in the light of the gaps in objectives. In case of gap analysis, the firm may be interested to know how well the strategy is working. For this, the firm at time t_1 may carryout evaluation of the current course of action. With a view to examine the need for change in the strategy the firm would be interested to know the gap between the "expected outcomes" if it continues with the

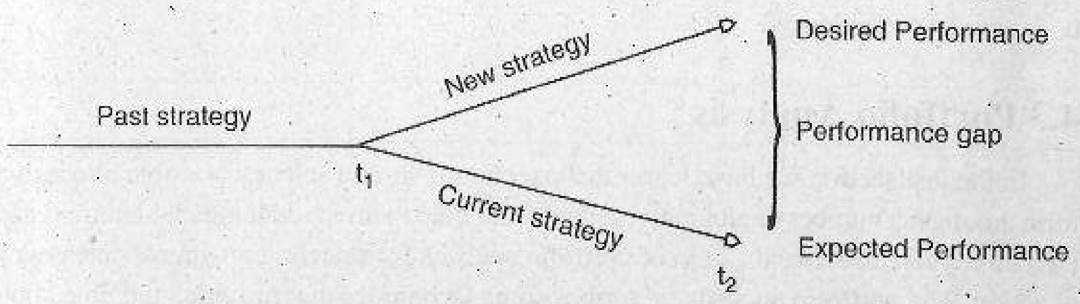
2. David, F. R., *Strategic management : Concept & Cases (9th edn.)*. New Delhi : Pearson Education, 2005., p. 197.
3. A. Kazmi. Business Policy and Strategic Management, 2nd Edition, New Delhi : Tata. McGraw Hill. 2002. pp. 250-252.

current strategy and the "desired outcomes" if it pursues a new strategy in future in time t_2. This is shown in the figure 2.1.1 Moreover according to Jauch and Glueck, a number of conditions must exist relating to the nature of the gap so that executives can change a proposal for carrying out some new activity or strategy. The conditions are[4] :

(i) The gap must be significant—If the gap between desired outcome and expected outcome is very small, there is no need to change the strategy.

(ii) Decision makers are to be motivated to reduce the gap—Executives should ascertain where the gap is significant in the light of an important objective that the firm seeks to achieve. If activities aimed at reducing the gap in one area increases the gap in another area decision-makers may not be motivated to reduce the gap.

(iii) The decision-makers must be convinced that they will be able to reduce the gap-When executives feel that if they carryout an alterative course of action then the gap can be reduced, only then should seriously consider the gap.



Source : Adapted from Jauch L. R. & Glueck, W.F., Strategic Management and Business Policy (3rd edition), McGraw Hill International, p.-24

In the light of the size of the gap, executives can pursue a particular course of action. In the opinion of Kazmi, if the gap is narrow, firms can pursue a stability strategy. If the gap is large and there are environmental opportunities, growth strategy is suitable. Finally if the gap is large and there are environmental threats and internal weaknesses, the firm should follow a retrenchment strategy. In generating the number of alternatives, executives can compare the ETOP and SAP in their effort to identify the gap. On the basis of the combination of ETOP and SAP, a number of alternatives can be generated.

Consideration of selection factors—

Firms can reduce the number of alternatives with the help of gap analysis. Once the firm is able to reduce the number of alternatives, these are to be further analysed with the

4. Jauch and Glueck op. cit., p. 25

help of selection factors. These factors provide a guideline based on which the criteria for assessing the alternatives are to be determined. There can be objective and subjective factors that can be used by firms. Objectives factors are based on data and facts and are based on analytical techniques. Subjective factors on the other hand are based on executive's personal judgement.

Evaluating the alternatives—

On the basis of the selection factors stated in the previous step, firms try to evaluate the manageable number of alternatives. The evaluation process is carried out with the help of subjective and objective factors. Firms can combine objective and subjective factors for the purpose of evaluation. The selection of the subjective and objective factors is mainly based on the preference of the concerned executives of the firm.

Making the strategic choice—

After the different strategies have been evaluated, the strategists are now in a position to select one or more than one course of action the details of the selected strategy should be examined meticulously.

4.3 Portfolio Analysis

In the last section we have learnt that executives should select a possible alternative form amongst a number of alternatives that would help them in reducing an identified gap. Executives can also take the help of portfolio analysis for selecting an appropriate course of action. The portfolio analysis prescribes some techniques that provide guideline about decisions that are to be made for each of the individual products or businesses of a firm having multiple products or businesses. In this context, the two basic questions that need to be asked in case of a multi-product / business firm are[5]—

- How much time and money should the executives spend on the best products / services of the firm for the achievement of the firm's objectives?
- How much time and money should be spent in developing new products that may or may not be successful?

In answer to the above two questions, executives take the help of portfolio analysis. In this analysis, "top management views its product lines and business units as a series of investments from which it expects profitable returns"[6]. The different products or businesses

5. Hunger, J. D. and Wheelan, T. L., *Essentials of Strategic Management*. New Delhi : Prentice Hall of India, 2004, p. 98.
6. Hunger and Wheelan, op. cit, p. 98.

make-up a firm's portfolio. The top portfolio in terms of the returns they are going to give to the firm. Diversified firms take the help of portfolio analysis to distribute resources to different business units in terms of the potential of the respective business units to give returns to the firm. Boston consulting Group (BCG) Matrix and General Electric (GE) Matrix are two most popular techniques for carrying out portfolio analysis. Let us now discuss each of these.

4.3.1 BCG Matrix

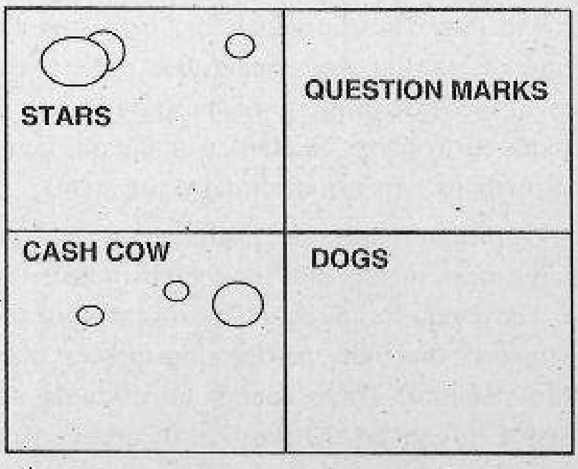
The BCG Matrix also known as portfolio-planning model was developed by the Boston Consulting Group and hence the name BCG matrix. The matrix is based on the experience curve theory, which states that the unit cost of production, marketing etc. decreases by 20-30% each time the production is doubled. It considers two measures in the context of a firm's portfolio—

(i) Relative Market Share.

(ii) Industry / Business Growth Rate

Relative market share is measured in the horizontal axis industry growth rate measured in the vertical axis.

Business Growth Rate
Low High
share
The BCG
Source : Adapted
"Strategy and the
Long Range
1977, pp. 9-15



Relative market
Low
MATRIX
form Hedley, B.,
Business Portfolio"
Planning, 10 (1).

Relative market share is measured in terms of the ratio of market share of the firm's product and the market share of the competitor's product having the highest market share in the industry. So, if the market share of the product of the firm under consideration is 15% and if the market leader has a market share of 45% then the relative market share of the firm under consideration is 15/45 = 0.33. In case of the market leader, the relative market share will be the ratio of its market share and the market share of the firm having second position in terms of market share in the concerned industry. Thus it is obvious that the market leader will have a relative market share of more than 1.0 and non-leaders will have a relative market share of less than 1.00. Coming now to the business / industry growth rate, we find that it denotes the rate of sales growth of the industry under consideration in percentage. A line separating high and low relative market share is placed at 1.5. Others prefer to consider 1.00 or even 0.75 as the dividing line between high and low relative market share. Likewise, the mid value between 0 and the maximum rate of business growth rate considered, will be the dividing point for high and low business growth rate. Thus if we consider business growth rate upto 20%, then the dividing line can be put at 10%. Once we have divided business growth rate and relative market share into high a low dimension, we will get four cells in the matrix. These cells have been given four different names—Stars, *Question Marks, Dogs and Cash cows.* Products lying in each of thee cells will have particular type of characteristics in the context of portfolio analysis. Accordingly firms are required to pursue a particular course of action on the basis of the position of its products / services in different cells. Let us now discuss the features and strategic implications of each of the cells in the BCG matrix.

Stars—You can probably understand that stats have high relative market share and high business growth rate. These products or businesses are growing very fast and require large volume of cash for maintaining their respective position. Experience suggests that products in the growth phase of the product life cycle fall under this category. Firms are required to invest in stars to maintain their position. Moreover firms can pursue a growth or expansion strategy for stars.

Question Marks—Question marks are also known as "problem children" or "wild cats". Products/business in this cell have high industry growth rate but low relative market share. They require large amount of cash but in turn give low cash returns. Experience suggests that new products/businesses that have potential for success fall under this category. There cannot be a single strategy for question marks. So if it is possible to convert the position of question marks into stars then investment can be made on question marks to improve their market share. If on the other hand, firms perceive that they will not be able to improve the position of question marks, it is better to divest the question marks.

Cash cows—Products / businesses in this cell of the BCG matrix have high relative market share but the industry growth rate is low. Their cash requirements are much less but they generate valuable cash that can be reinvested to develop other products that require cash. Cash cows lie in the maturity state of the product life cycle or move towards the decline stage. Experts suggest that firms should pursue a stability or consolidation strategy for cash cows. Cash cows are the foundation of the firm and supply funds for overhead dividends and reinvestment for the remaining portion of the firm. Although cash cows do not require cash for themselves, firms should ensure that cash cows do not slip from their position.

Dogs—Products / businesses in this category have low business growth rate as well as low relative market share. In the context of the product life cycle (PLC), dogs are in the late or declining stage of the PLC. These products/businesses do not have potential to generate cash. Finals should try to minimise the number of dogs from their portfolio by pursuing a retrenchment strategy. If some dogs generate a small amount of cash, they should be managed so that they continue to give the small amount of cash. However some experts argue that a product having a low market share in an industry having slow or negative growth rate can also be profitable to firms. Moreover some firms prefer to continue with dogs to create an entry barrier for the potential entrants. Thus the assumption that dogs should always be divested may not be valid in all cases.

Through the BCG matrix is an effective tool that gives an idea about the choice of strategy for a firm having multiple businesses or products, it has been criticised on the following grounds—

(i) Since the matrix considers only high and low relative market share and business growth rate, moderate relative market share and business growth have not been considered in the matrix.

(ii) According to Jauch and Glueeck, if a firm follows the guideline of BCG matrix, it will desist from introducing innovative products. The reason is that these types of products will start as dogs and question marks and BCG matrix suggests that these should be diversted / reduced[7].

(iii) The BCG matrix gives 'much emphasis on market share and states that firms should try to be market leaders. However, research suggests that the relationship between market share and profitability may not very strong[8].

(iv) The BCG Matrix is too simplistic in the sense that all factors that affect business performance may not be reflected through the four cells of the matrix. In this context the four cells are too few to consider the different aspects of analysing the different aspects of profitability and industry attractiveness.

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7. Jauch and Glueck, op. cit., p. 270

8. Hunger and Wheelan, up. cit., 100

(v) The B.G. Matrix is based on the experience curve and the relationship between cash generation and market share. Hunger and Wheelan argue that the relationship between cash generation and market share is a long-term phenomenon. This has not been properly addressed in the matrix.

Since the BCG Martrix has a number of limitations, experts have tried to propose alternative models of portfolio analysis. In this respect GE matrix can be analysed.

4.3.2 General Electric (GE) Matrix

General Electric (GE) company of the United States has developed an alternative tool for portfolio analysis. In the GE Matrix, the vertical axis denotes long-term industry attractiveness and the horizontal axis represents business strength/competitive position. Industry attractiveness is calculated on the basis of a weighted composite score of factors like market size and growth rate, industry profitability, competitive intensity, economics of scale, environment aspects. Under Business strength/competitive position, one can include market share, profit margin, technological capability, competitive strengths etc. The composite score for industry attractiveness and business strength/competitive position are ascertained and the values are plotted for each product/business of a firm's portfolio. Accordingly, the products / businesses are assigned a particular letter (e.g. A, B etc) and are plotted as circles in the matrix. The area of this circle is proportional to the size of the industry in terms of sales. The pie slice inside the circle represents the market share of the firm's product / business. In constructing the GE Matrix, the following steps should be followed[9]—

Step-1) Selection of criteria for rating the industry of the concerned product or business of the firm. This can be done on a 1–5 scale where 1 would denote that the industry is least attractive and 5 would denote that the industry is very attractive.

Step-2) Selection of the key success factors for each product / business. Firms are required to assess the business strength / competitive position of each product / business on a scale of 1 to 5.

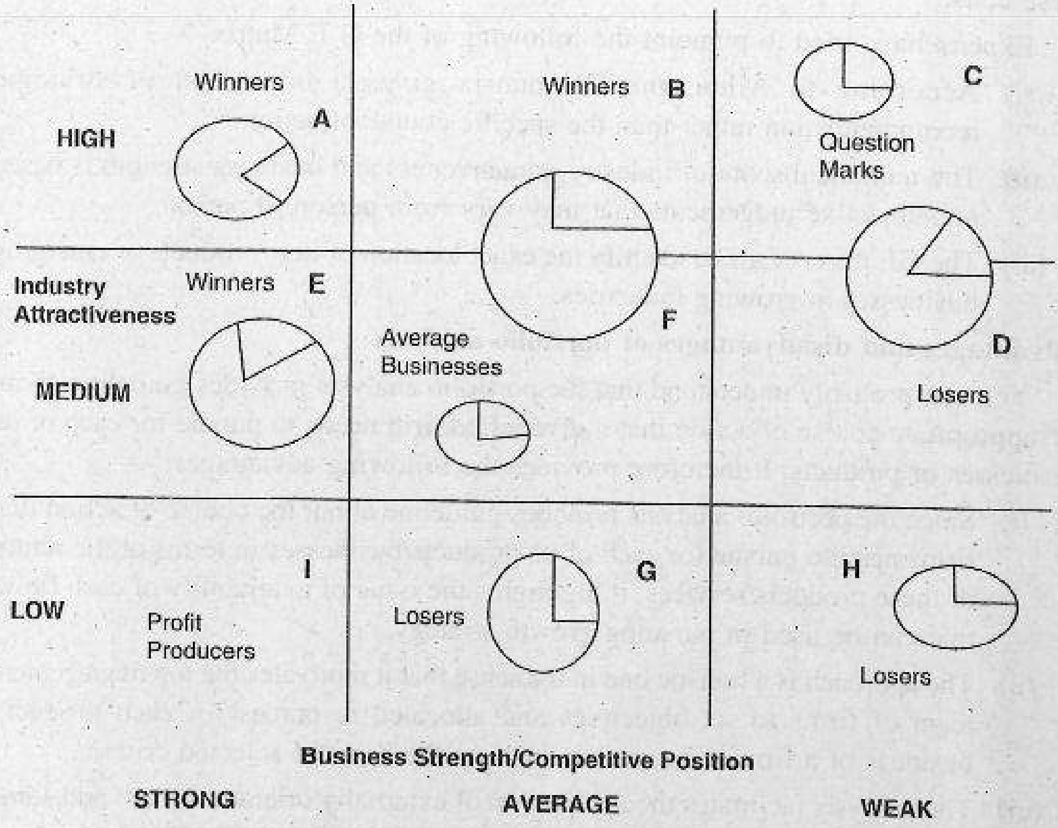
Step-3) Each product's / business's current position is plotted on the matrix.

Step-4) Plotting the future portfolio of the firm assuming that the current courses of action remain unaltered.

9. Hunger and Wheelan, op. cit., pp. 100-101

Following the above steps and dividing Business strength/competitive position and Industry attractiveness into strong, average and weak and high, medium and low respectively, we will nine cells in the GE Matrix.

The GE Matrix is constructed keeping in view the limitations of the BCG Matrix. For example, the GE Matrix considers industry attractiveness from different angles and not from the single perspective of industry growth rate. The GE Matrix is shown in the figure drawn below.



Source : Hunger J. D. Wheelan, T.L. Essentials of Strategic Management, New Delhi : Prentice Hall of India, 2004, p. 101.

The selection of the different criteria for industry attractiveness and business strength is based on the preference of the user of the matrix. From the figure it is clear to you that the matrix has 9 cells. In the first row among the three cells, the first two represent high industry attractiveness and strong and average business strength respectively. These two cells (A & B) alongwith the first cell of the second row (E) represent the *'Winners'*. For winners, the appropriate course of action is to pursue and expansion or growth strategy. For these cells firms can 'grow and build', by increasing the sales of the existing products. The third cell of the second row, (D) second and third cell of the third row (G&H) represent the losers. The firm should pursue turnaround, divestment or liquidation (i.e. retrenchment) strategy for each of these cells. Cell C represents questions Marks, F Average business and I profit producers. For these cells, the appropriate strategy would be to 'wait and see'. Firms can therefore pursue stability or consolidation strategy for these cells.

Experts have tried to pinpoint the following of the G E Matrix—

(i) According to Allen, the GE matrix gives a broad list of strategic recommendation rather than the specific course of action.[10]

(ii) The numerical score of industry attractiveness and business strength is based on subjective judgements that may vary from person to person.

(iii) The GE matrix fails to identify the exact location of new products or emerging businesses in growing industries.

Advantages and disadvantages of portfolio analysis

You can probably understand that the portfolio analysis provides guideline about the appropriate course of action that a diversified firm needs to pursue for each of its businesses or products. It therefore provides the following advantages[11]—

(i) Since the portfolio analysis provides guideline about the course of action that firms need to pursue for each of its products/businesses in terms of the return of these products/services, it highlights the issue of availability of cash flows that can be used in pursuing growth strategy.

(ii) The approach is a holistic one in the sense that it motivates the top management team of firms to set objectives and allocated resources for each product / business of a firm and evaluate them on the basis of selected criteria.

(iii) The analysis facilitates the application of externally oriented data to add some dimensions to managerial judgements. This help to improve the decision making process.

(iv) The graphical representation used in the portfolio analysis improves communication and helps executives and others to understand easily where the firm stands in the context of its products / services.

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10. Alien, M. G., Diagramming GE's planning for what's WATT, in corporate planning-Techniques and Applications, R J. Allio and MW pennigton, Eds., New Your. Amacom. 1978.

11. Hunger and Wheelan, op. cit. p. 102.

Although the portfolio analysis has a number of advantages, it has certain limitations as well. In this perspective, Hunger and Wheelan have mentioned the following limitations of portfolio analysis[12].

(i) If executives use the portfolio analysis in an inappropriate and ineffective manner, It may reduce the profit of firms.

(ii) Experts are of the opinion that it is quite difficult to define market segments.

(iii) The portfolio analysis suggests the formulation of standard course of action that may not be suitable in every situation.

(iv) The portfolio analysis fails to clearly identify the factors that make industry attractive.

4.4 Porter's Approach

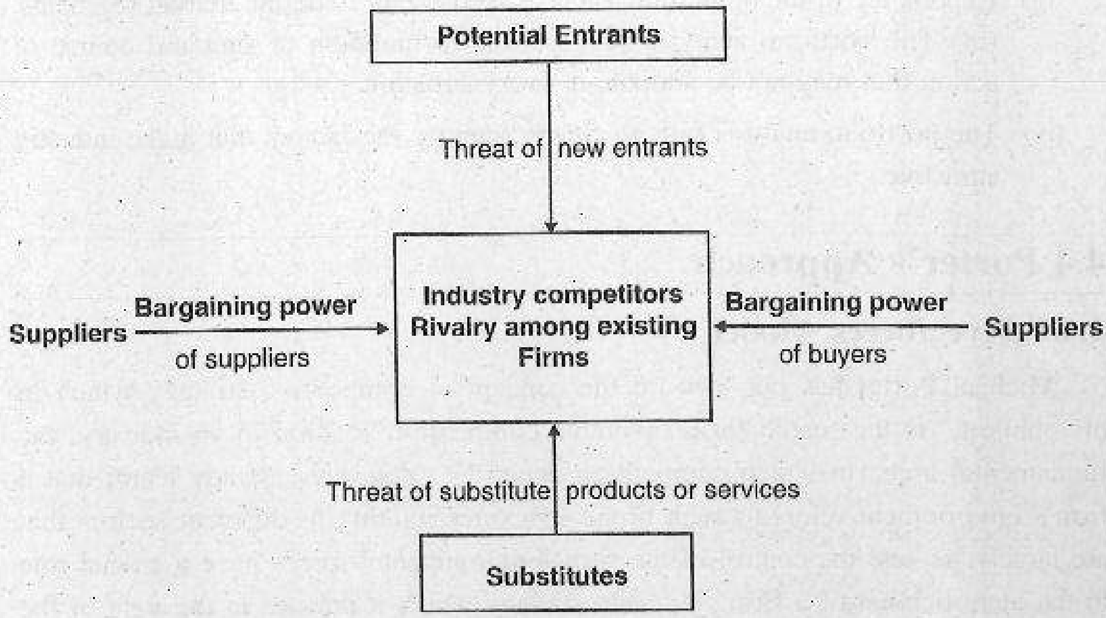
4.4.1 Five forces Model

Michael Porter has put forward the concept of competitive strategy which in his opinion, "is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs"[13]. You have already learnt that a firm's environment refers to such broad structures relating to different sectors that are largely beyond the control of the firm. Environmental forces have a crucial role in the identification of a firm's relevant strategy which it pursues in the light of the linkage between the environmental forces with its potential strengths. However, Porter is of the opinion that for a firm, the forces of a particular industry in which it competes are more relevant. Forces that are outside a given industry affect firms in an industry under consideration. Firm-wise differences can be noticed in the context of their ability to meet the forces. Although the pressure of competition is not always the same in a given industry, the process of competition works similarly within a given industry that provides an idea about the intensity of competitive forces in that industry. In general, it is considered that competition within the industries builds the economic structure and reflects the attitude of different players. Hence, it is assumed that competition is mostly dependent on five basic competitive forces. We can judge the "profit potential in an industry" in the light of the combined strengths of the following five forces :

12. Ibid.

13. Porter, M. Competitive Advantage : Creating and Sustaining Superior Performance, New York : The Free Press, 1985, p. 1.

- Entry of new competitors
- Threats of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry among existing players



FORCES DRIVEING INDUSTRY COMPETITION

Source : Porter, M. *Competitive strategy : Techniques for Analyzing Industries and Competitors,* Now York : The Free Press, 1980, p. 4

These competitive forces differ from industry to industry because there is industry-wise variation in the collective strength of these forces. The basic objective of competitive strategy is to analyse these forces and their impact on profitability and how firms can protect themselves against unfavorable situation. Analysis of the competitive force may indicate the key result areas for developing a strategy and identification of the significant strengths and weaknesses of the firm. Firms may therefore search for priority areas and formulate their course of action.

According to Porter, in an industry, it is assumed that customers, suppliers, substitutes and potential entrants are all competitors in broader sense. The collective power of five competitive forces (i.e., threat of new entrants, bargaining power of supplier, threat of substitutes, bargaining power of buyers & rivalry among existing firms) suggest that competition is not only restricted within the purview of current players. In an industry structure, the collective strength of these competitive forces may differ due to diverse nature the industry. This ultimately affects competition and profitability at large. In the opinion of Porter, "understanding the industry structure must be the starting point for strategic analysis". We shall now try to analyse the details of the five forces that operate in an industry as stated by Michael Porter[14].

Threat of Potential Entrants :

In general, we observe that when there are new scopes, potential entrants are interested to enter into the industry with resources and capabilities with an objective to have market share. However the ease with which a potential entrant can enter into an industry can be restricted by a number of entry barriers that potential entrants need to overcome. The existing barriers to entry and the subsequent reaction from existing competitors determine the degree of threats from potential entrants. In this context, Porter has mentioned the following sources of barriers to entry :

Economics of Scales : This refers to decrease in unit cost of a product or operations as the volume in a given time period increases. In this situation, a new entrant is forced to undertake operations with a large scale and associated risk. Economies of scale may come from all the functional areas or a series of activities under a particular functional area.

Product Differentiation : Differentiation is one of the barriers to entry because existing firms have already created customer loyalty by spending on advertisement, customer service, etc over a period of time. Therefore, entrants have to spend heavily to gain customer loyalty and brand identification. This involves risk on one hand and acts as an entry barrier for the potential entrants on the other.

Capital requirements : When a large amount of financial investment is required risk and uncertainty, the situation becomes more critical for new entrants to enter in the market. Firms have to invest capital for establishing production capacity and undertaking marketing distribution and allied activities. You are probably aware that there are many industries that require large amount of capital for undertaking operations. In this context, it can be aptly argued that the larger the capital requirement in a given industry, the greater the entry barrier for potential entrants.

Switching Cost : Switching cost refers to "one-time costs facing the buyer of switching from one supplier's product to another's". When the switching cost is

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14. The analysis of the five forces is based on Porter, M. *Competitive Strategy : Techniques for Analyzing Industries and Competitors,* New York : The Free Press, 1985, pp. 7-29

high, then new entrants must be in a position to provide additional benefits in a position to provide additional benefits in terms of cost, services so that buyers may be induced to which over from the product offered by a firm to the product offered by the new entrant.

Access to distribution channel : When new entrants do not have access to the channels for distributing products or services then they face an entry barrier. It is to be noted that existing firms have already established themselves by creating their own distribution channel. Thus potential entrants producing new goods or services must establish their own distribution network or try to have access to the existing ones in order to survive in the competitive market.

Cost disadvantages independent of scales : Existing players in an industry enjoy cost advantage from different sources, such as : technology, access to sources of raw material, locational facility, experienced workers, subsidy provided by government etc. But new or potential entrants without experience don't enjoy cost advantage from different sources. They need to match the experience and advantage that existing players enjoy. This acts as an entry barrier for the potential entrants.

Government policy : Govt. has the authority to control or regulate industries by different means such as; imposing tax, providing infrastructure facilities, limiting the access to raw materials, creating regulations that new entrants have to follow etc. Government policy has direct control over business operation, which may become one of the barriers to a new entrant.

Rivalry among Existing Players :

Rivalry occurs in a given industry when one or more competitors feel the urge to improve their status from the present position. They try to engage in price competition, give more emphasis on advertisement for generating awareness among customers, try to provide better customer services etc. to outplay and optperform one another. When existing firms participate in such competition, the rivalry in the entire industry increases. As for example, an existing player may take the help of advertising to increase the demand of its product and establish the brand image to its customers. Competitors may be interested to follow the same path. This results in enhanced rivalry among existing players. In the opinion of Porter, the following factors increase the rivalry among existing players :

1. When large number of existing players are involved or they are equally balanced in terms of capabilities.
2. When the rate of growth in the concerned industry is very slow.

3. When existing players are engaged in the production of goods and services that involve high fixed or strong costs.
4. When there is lack of differentiation or switching cost.
5. When diverse competitors are engaged in competition.
6. When there are high exist barriers in terms of economic, strategic and psychological factors.

Threat of Substitutes :

Substitutes are "those products that appear to be different but satisfy the same needs as another product"[15]. In the opinion of Porter, the presence of easily available substitutes at an attractive price acts as a major threat to the firms offering the current product. Pressure from substitute products depends on the following three factors[16]

- Availability of attractively priced substitutes
- Buyer's perception about the substitute in terms of quality, performance, price etc.
- Ease with which buyers can switch over to a substitute product.

Moreover, in the opinion of Porter, substitute products that deserve attention are those products that are products by industries earning high profits.

Firms in a given industry may respond collectively to counter the threats of a substitute product. Collective or individual response of firms may be in areas the areas like advertisement by all firms facing the threat of substitute products, product quality improvement, marketing efforts, higher product availability etc.

Bargaining Power of Buyers :

Buyers have influence as one of the competitive forces driving industry competition by forcing firms to reduce prices or demanding improved quality. In the opinion of Porter, a buyer group becomes a powerful in the following situations—

1. When the buyer purchases a large amount of product relative to seller's sales.
2. When the amount of product purchased by the buyer from the seller constitutes a significant proportion of the total purchase of the buyer.
3. When the product purchased by the buyer is undifferentiated or standard.

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15. Hunger and Wheelan, op. cit., p. 38
16. Thompson, AA, Jr. and Strickland III, A. J., *Strategic Management : Concepts and Cases (13th edn.)* New Delhi : Tata McGraw-Hill, 2003, p. 87

4. When the cost of switching from the product of one firm to another's is low for the buyer.
5. When the buyer group earns low profit.
6. When the quality of the product purchased by the buyer doesnot affect the quality of product produced by the buyer.
7. When buyers can easily find alternative suppliers.
8. When buyers are partly integrated or pose threat of carrying out backward integration.
9. When buyers have information relating to market, demand price, supplier cost etc.

Almost all the above-mentioned factors are applicable in case of different types of buyers e.g. industrial buyers and consumers. The perspective will obviously depend on the nature of buyer under consideration.

Bargaining Power of Suppliers :

Suppliers are powerful when they have the capacity to raise price of a product / service or affect the-quality of a product / service. In the opinion of Porter, the strength or supplier-seller relationship depends on

- The extent to which suppliers can exercise bargaining power to influence the terms and conditions of supply
- The extent of supplier-seller collaboration in the industry

A supplier becomes powerful in the following circumstances :

1. When suppliers are more concentrated and there are few number of suppliers that supply products to fragmented buyers
2. When suppliers don't face considerable threat from substitute suppliers and they are in a position to compete with other substitutes.
3. When the supplier group supplies products to a number of industries and the purchase of a particular industry is not significant compared to the total sales of the supplier.
4. The supplier's product is an important input to the buyer and affects the quality of the product produced by the buyer.
5. When buyers face high switching cost in switching from one supplier to another.
6. When suppliers have the capacity to pursue forward integration.

In the context of a particular industry, all the five forces may not be equally important. In the opinion of Porter, "Every industry is unique and has its own unique structure. The five-forces framework allows a firm to see through the complexity and pinpoint those factors that are critical to competition in its industry, as well as to identify those strategic innovations that would most improve the industry's-and its own-profitability"[17]. The utility of the five-forces model lies in the comprehensive nature of analysis that gives idea about the exact nature of each of the five forces and the structure of competition. The greater the combined impact of the five forces in an industry, the lower the combined profitability of the firms in that industry. When the five forces are not strong enough, industry may be profitable. The ideal industry structure is one where there is weak bargaining power of suppliers and customers, there is no variable substitute, there are high entry barriers and there is moderate to low rivalry among existing players. In this perspective, executives are required to formulate strategies so that firms can meet the five forces in a better way. Thus the model is a useful tool that provides executives the basic guideline for formulating a course of action so that their firms can gain sustainable competitive advantage.

4.4.2 Three Generic Strategies

In the opinion of Michael Porter, a firm can earn above-average profit if it is able to gain sustainable competitive advantage and in this context, there can be two types of competitive advantage low cost and differentiation. When these two basic types of competitive advantage are combined with the firm's scope of activities, then there can be three generic strategies : **overall cost leadership, differentiation and focus**. A firm has to pursue different strategies to cope up with five competitive focus. The three internally consistent generic strategies helps in creating a defendable position for in the long run competition in an industry. In implementing the three generic strategies there is a need to have total commitment and an appropriate organisational set-up. Moreover, these generic strategies require different routes to competitive advantage. The idea of generic strategies suggests that competitive advantage is the basis for understanding and formulating strategy. In achieving competitive advantage, firms are required to select the type of competitive advantage and the scope that they have. We shall now briefly discuss these three generic strategies as analysed by Porter[18].

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17. Porter. M. Competitive Advantage : Creating and Sustaining Superior Performance. New York : The Free Press, 1985, p. 7

18. This section is based on Porter. M. *Competitive Strategy : Techniques for Analyzing Industries and Competitors*, New York : The Free Press, 1985. pp. 35-40.

STRATEGIC ADVANTAGE

		Uniqueness Perceived by the customer	*Low cost position*
STRATEGIC TARGET	*Industrywide*	**DIFFERENTIATION**	**OVERALL COST LEADERSHIP**
	Particular Segment Only	**Differentiation Focus**	**Cost Focus**
		FOCUS	

Source : Adapted from Porter, M. *Competitive Strategy : Techniques for Analyzing Industries and Competitors,* New York : The Free Press, 1985, p. 39

Overall cost leadership :

In this strategy, a firm is required to take certain steps so that it becomes the lowest cost producer in the industry. A firm can actually become a lowest cost producer through tight cost control and cost minimisation in different areas like sales promotion, distribution channel, R& D etc. In pursuing cost leadership, the firm must utilise all the possible sources of cost advantage so that it can drive down the prices to the level lower than its next potential competitor. From the above condition, it is clear that a firm can achieve a favourable competitive position and counter the five forces stated earlier. The cost leadership strategy gives a firm the following advantages[19] :

- By pursuing a cost leadership strategy, a firm is able to earn above-average profit in the industry.
- The firm is able to defend itself from the competitors in the industry because competitors will not able to beat the firm on the basis of price.
- When a firm pursues a cost leadership strategy, it is able protect itself from the bargaining power of buyer since buyers will only be able to exert pressure to drive price down to the level of the next competitor.

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19. Rue, L. W. and Holland, P. G., *Strategic Management : Concepts and Experiences.* New York : McGraw-Hill International, 1986, pp. 136-137.

- Since a cost leader firm earns above average return, it can defend itself from the bargaining power of suppliers since it can deal with increase in input costs in a better way.
- Since the firm pursuing a cost leadership strategy, enjoys advantage in terms of being the lowest cost producer, it creates an entry barrier for potential entrants.
- A firm pursuing a cost leadership strategy is in a better position to met the threats of substitutes.

In order to pursue cost leadership, firms should have high relative market share, access to raw materials etc. It is required to design products so that there is "ease in manufacturing, maintaining a wide line of related products to spread costs and serving as major customer groups in order to build volume." A firm pursuing a cost leadership strategy should be aware that its competitors can imitate its strategy. Moreover, technological advancements can make a cost leadership strategy ineffective or buyers may be interested to purchase a product with some additional features rather than an undifferentiated product at a law price.

Differentiation :

This is the second generic strategy where a firm aims to have unique position by differentiating its product or service. This form can be achieved through different means. In the opinion of Porter, differentiation can be achieved through design, new technology, distribution channel, adding more features etc. In pursuing differentiation, a firm must pay attention to the demands of its loyal customers. Moreover the uniqueness of the products / services should be perceived by the customers. Differentiation requires high market share and powerful cost position because the uniqueness is mostly related to higher cost including product design, creating distribution network, extensive research or usage of better raw materials. Differentiation strategy provides the following advantages to firms[20].

- A firms pursuing a differentiation strategy can counter the competitors since the strategy generates customer loyalty. Here, customers are ready to pay more for the unique product offered by the firm.
- The customer loyalty enjoyed by a firm pursuing a differentiation creates an entry barrier for potential entrants.
- A firm pursuing a differentiation strategy gets higher margin since it charges higher prices from the customers by offering a unique product.

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20. Rue and Holland, op, cit, 138

- A firm pursuing a differentiation strategy is in a better position to defend itself from the bargaining power of suppliers since it gets a higher margin.
- A firm is in a better position to defend itself from the bargaining power of buyers since buyers will not be able to get the unique product from the competitors of the firm.
- A firm pursuing a differentiation can defend itself from the threat of substitute products because of customer loyalty and higher margin.

Firms pursuing a differentiation strategy should be fully aware of the needs of buyers. Moreover in some cases, buyers may be willing to forego some additional features of a product in order to get the product at a relatively low price. Sometimes competitors of a firm pursuing a differentiation strategy may imitate some of the unique features of the firm's product.

Focus :

This is the final type of generic strategy stated by Porter. This strategy is actually formulated to concentrate on a particular segment of product line or market; or a definite target group. This is different from cost leadership and differentiation strategy on one hand and similar on the other. Contrary to the cost leadership and differentiation strategy that have industry-wide focus, a focus strategy is based on the assumption that a firm is able to satisfy the demands of a particular target i.e., a narrow target. The functional policies of focus strategy are formulated for the particular target whereby a firm can achieve its basic narrow-span objectives more effectively and efficiently rather than its competitors that are undertaking operations in a wide market. Focus strategy can be of two types : cost focus and differentiation focus. We have already discussed how a firm can meet the five forces by pursuing either cost leadership or differentiation. The same logic can be applied in case of a firm pursuing a focus strategy.

The three generic strategies are pursued by firms to meet the different competitive forces. But it is strange that each of the strategy involves certain risks. Moreover, Porter's approach has been criticised in the following grounds[21] :

(i) Instead of becoming the lowest cost producer in the industry, a firm can become the second or third lowest cost producer and still earn above average profit. In the absence of the experience curve effect or economies of scale, and/or if there is competition on dimensions other than price, there would not be any disadvantage from being a second or third lowest cost producer. Hence the logic or advantage of becoming a lowest cost producer in case of a cost leadership strategy completely withers away.

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21. Bowman, C., The Essence of Strategic Management, New Delhi : Prentice Hall of India. 1995, pp

(ii) There can be exceptions to the rule that a firm can become either a low cost producer or a differentiator. When a firm is able to carry out innovation in production processes, it is able to reduce cost and differentiate at the same time.

(iii) Moreover a firm pursuing differentiation strategy effectively is able to increase sales to such an extent that it becomes a cost leader as well. In the opinion of Cliff Bowmen, "... whereas at first sight these two strategies (cost leadership and differentiation) might seem to be distinct and mutually exclusive, on closer inspection they appear to have common elements ; both require a high concern for quality...and they both require close attention to cost control."

(iv) Other experts are of the opinion that Porter's model is static in nature and the nature of industry is not properly defined in the model.

4.4.3 Value Chain

A firm is. considered to enjoy competitive advantage if it has an edge over its rivals' in attracting buyers and defending itself against the competitive forces mentioned earlier. The basic tools for diagnosing competitive advantage, determining means of increasing the competitive advantage and identifying resources and capabilities emerges from a firm's value chain. Value chain can be used as a tools to evaluate the strengths and weaknesses of the firm on the basis of a series of activities performed by it. A value chain is basically a set of interconnected value-generating activities performed by a firm in the figure below, the simplified value chain of activities relating to the sale of oil-based products is shown below—

Activities Relating to exploring crude oil

↓

Activities relating to drilling for crude oil

↓

Activities associated with pumping crude oil

↓

Actitivies relating to shipping crude oil

↓

Activities associated with buying crude oil

↓

Activities associated with refining crude oil

↓

Activities related with sending refined products to distributors

↓

Activities associated with shipping refined crude oil

↓

Activities associated with selling the final product to the customer

Source : Adapted from Barney, J.B., Gaining and Sustaining Competitive Advantage, New Delhi; Prentice hall of India; 2002. pp. 157

Like the above example, most goods / services are produced with the help of a series of activities. In the opinion of Barney, the value chain forces executives to analyse the firm's resources and capabilities at a very micro level. It identifies the distinct activities, functions and business processes that are performed in designing, producing, marketing, delivering, and supporting a product or service. The value chain helps to analyse the "Strategically relevant activities" undertaken by firms so that the exact nature of the current and potential sources of differentiation and cost advantage can be easily understood. The firm therefore tries gains competitive advantage by undertaking those "Strategically relevant activities" in an inexpensive and a better way compared to its competitors and the differences among the value chains of competitors are the important sources of competitive advantage[22].

Value can be considered as the amount that buyers are willing to pay for what they receive from the film. This can measured by total revenue reflected through the price a firm's product / service controls and the amount of the product that the firm is able to sell. Value is generated in a positive manner when the difference between the total revenue earned by the firm and the total cost of all activities carried out by firms is positive,. The greater this difference, the greater is the quantum the value generated. According to Porter, a firm is said to be profitable when the value it is able to generate is higher than the cost incurred in producing the product. Thus, creating value for buyers, which is greater than thee cost incurred, is the objective of any generic strategy. The value chain thus helps us understand whether value is generated or destroyed and how. A firm's value chain and the way in which it undertakes activities provide an idea about the evolution of the firm's business and operations, its courses of action, the policies it uses to implement its strategy, economies of scale enjoyed by the firm, etc.

Machael Porter's analysis of value chain provides two component of value chainvalue activities and margin value activities are the "physically and technologically distinct activities" performed by the firm. The difference between total value and the total cost of earring out the value activities gives the margin. Value activities are associated with purchase and application of inputs, human resources, technology, information etc. Value activities have been sergregated into two parts namely *primary activities and support activities*. Primary activities are those activities of the value chain that deal with activities associated with transportation of inputs, producing the product,

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22 This section is based on Porter, M.E. Competitive Advantage : Creating and Sustaining Superior Performance, New York : The Free Press, 985, pp. 33-61

its sale and transfer of the finished product to the buyer and after sale services. Support activities are the activities that give support to the primary activities. According to Porter, value activities are "the discrete building blocks of competitive advantage. How each activity is performed combined with its economies will determine whether a firm is high or low cost relative to competitors. How each value activity is performed will also determine its contribution to buyer needs and hence differentiation. Comparing the value chains of competitors exposes differences that determine competitive advantage." Moreover, apart from understanding its value chain and that of its competitors' a firm should try to understand and examine the value chains of suppliers', distributors', buyers' etc.

Executives are required to carryout the following steps as part of value chain analysis[23] :

- *Identification of activities*—Firms should identify and analyse activities (primary and secondary activities) in a detailed manner in order to clearly identify the exact nature of activities that are undertaken by them in producing the goods and services.
- *Allocation of costs*—Executives are required to determine cost and allocate resources associated with each of the activities performed by the firm in the line of its identified value chain.
- *Identification of activities that act as sources of differentiation or cost advantage*—Executives of firms are required to identify the sources of differentiation or cost advantage that the firm is enjoying. For this it should meticulously analyse its activities in a detailed manner in order to identify the exact source from which it is able to gain competitive advantage.
- *Examination of the value chain*—When the executives have already identified activities, allocated costs and determined the source of differentiation or cost advantage, they should holistically analyse the value chain in the perspective of the needs of the buyers and the market. The firm should take concerted effort in carrying out each of the activities of the value chain in a better way compared to its competitors. Let us now take-up the details of the activities of the value chain.

PRIMARY ACTIVITIES :

We have already stated that primary activities are those activities of the value chain that deal with activities associated with transportation of inputs, producing the product,

23. Rao, V.S.P. and krishna, V.H., Strategic Management : Text and Cases, New Delhi : Excel Books, 2003, pp. 222-223

its sale and transfer of the finished product to the buyer and after sale services. In this perspective, Porter has categorised the primary activities as follows :

1. *Inbound logistics*—The activities that are associated with receiving, storing and distributing the imputs required for producing the product/service. They include ware housing material handling, vehicle scheduling, distributing inputs from suppliers etc.
2. *Operations*—The activities that are connected with the procedure of converting inputs into final products / services. They include machining, packaging, assembly, testing equipment maintenance, quality assurance etc.
3. *Outbound logistics*—The activities that are related with collection, storage and physical distribution of the finished product to consumer. They include warehousing, material handling, scheduling of finished goods, shipping, order processing, establishing dealer network etc.
4. *Marketing and Sales*—The activities that are connected with means to assist and convince the buyers to purchase the product / service by making them aware of the product / service. They include advertising, promotion, market research, selling etc.
5. *Service*—The activities that are associated with the process of providing service, increase or maintain the value of the product / service and providing assistance to the end users of the product. They include installation, repairing, maintenance, etc.

All the above primary activities can be a source of competitive advantage to the firm and based on the type of industry, emphasis is to be given on each of the primary activities that are to be executed. In the opinion of Porter, "in any firm, however, all the categories of primary activities will be present to some degree and play some role in competitive advantage"

SUPPORT ACTIVITIES :

The support activities help to increase the efficiency and effectiveness of primary activities. All primary activities are linked to the support activities. Apart from providing support to primary activities, they support themselves as well. Porter has divided the support activities into four broad categories :

1. *Firm Infrastructure*—The activities that are connected with planning. Finance, accounting quality control etc. That support the entire value chain rather than individual activities fall under this category of support activities.

2. *Technology Development*—All activities involve technology in the form of 'know-how', procedures etc which can be very broad in nature. The broad range of activities encompasses the effort to enhance the product as well as the process.

3. *Human Resource Management*—The activities that are associated with acquisition, development, motivation and retention functions of managing human resources of the firm. Human resource management activities have the capacity to support individual primary activities as well as support activities. In many firms, human resource is an important source of competitive advantage. Activities such as recruitment, training & development performance management and compensation etc. human resources within firms fall under this category of support activities.

4. *Procurement*—This has been referred to as the 'function of purchasing inputs' and involves the process through which a firm acquires different resources that are used as inputs. This process of acquiring inputs is spread through out the firm. A developed purchasing function can have significant influence on the cost and quality of the input purchased and other activities that are related to the usage of inputs.

Executives should clearly understand the activities of the firm's value chain. A firm may not be able to perform all the activities in the most effective and efficient manner. It should identify and activities that are most critical for its success. This can be done with the help of the value chain analysis. The value chain provides the following advantages to firms :

(i) On the basis of a clear understanding of the value chain, executives can decide on the activities that can be undertaken by the firm i.e. they can decide whether to 'make' or 'buy'[24]. Thus decision relating to the outsourcing strategy can be made on the basis of the value chain analysis.

(ii) Moreover the value chain can be used by firms in carrying out competitor analysis by assessing the competitors and comparing the internal competencies of the firm with that of its competitors. Firms can examine and contrast the cost and performance of its value chain and that of its competitors. This ultimately helps the firm to establish its superior position in the industry[25].

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24. Bowman, C., op. cit., 64-65

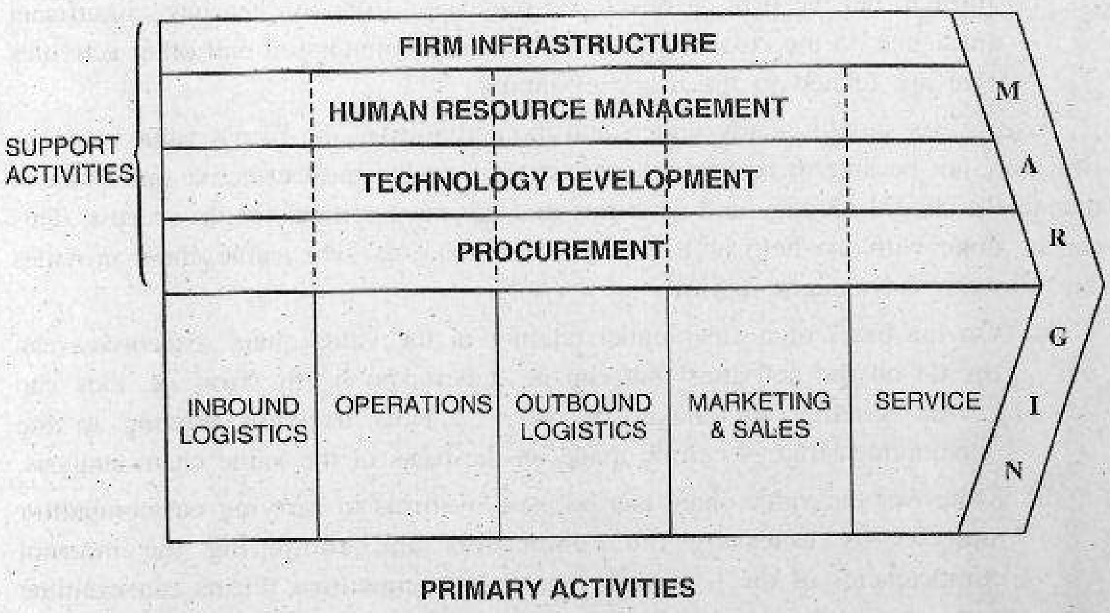
25. Ramaswamy V. S. Namakumari, S., *Marketing Management : Planning, Implementation and Control*, New Delhi : Macmillan, 2002, p. 161

(iii) Linkages among the different activities carried out by firm can act as important sources of strengths. For example, firms can reduce inventory when there is effective communication and linkage between sales, operations and procurement activities carried out by firms. This firm are required to carry out activities in a holistic manner so that it can understand and exploit the interlinkages among the different activities[26].

(iv) In the opinion of Bowman, the linkage between the firm's value chain and the buyer's value chain can be important source of cost or differentiation advantage.

(v) Moreover the values chain "can also be useful in distinguishing between the things we do that help to differentiate, and those features of our product/ service that are merely different."[27]

The value chain is depicted below :



Source : Porter, M.E., Competitive Advantage : Creating and Sustaining Superior performance, New York : The Free Press, 1985, p. 37.

26. Bowman. C. op. cit.
27. Ibid.

4.5 Questions

1. Explain the process of choice of strategy.
2. What is portfolio analysis? What are the advantages and disadvantages of portfolio analysis?
3. Explain the utility of BCG Matrix as a tool for carrying out portfolio analysis.
4. Explain the GE nirie-cell matrix.
5. What are the forces that drive competition in an industry?
6. Explain Michael Porter's concept of generic strategies.

   What is a Value chain? Explain the primary and secondary activities of a value chain.

Unit 5 □ Strategy Implementation

Structure

5.1 Introduction

After a firm has selected a particular strategy or strategies, it has to implement the same in order to get the desired results. Implementation entails operationalising the strategy chosen. According to Hunger and Wheelan, "Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programs, budgets and procedures."[1] It is arguably the most important phase of the strategic management process. A firm may select a strategy but the results can only be achieved if it is implemented properly. Moreover, strategy implementation is a task that has to be performed by the entire firm. The necessary prerequisites of a strategy must be communicated to individuals and groups within a firm. The firm should also support individuals and groups for implementing the strategy. In the context of strategy implementation, the following three questions should be considered[2]—

1. Hunger, J. D. and Wheelan, T. L., *Essentials of Strategic Management*, New Delhi : Prentice Hall of India. 2004, p. 121

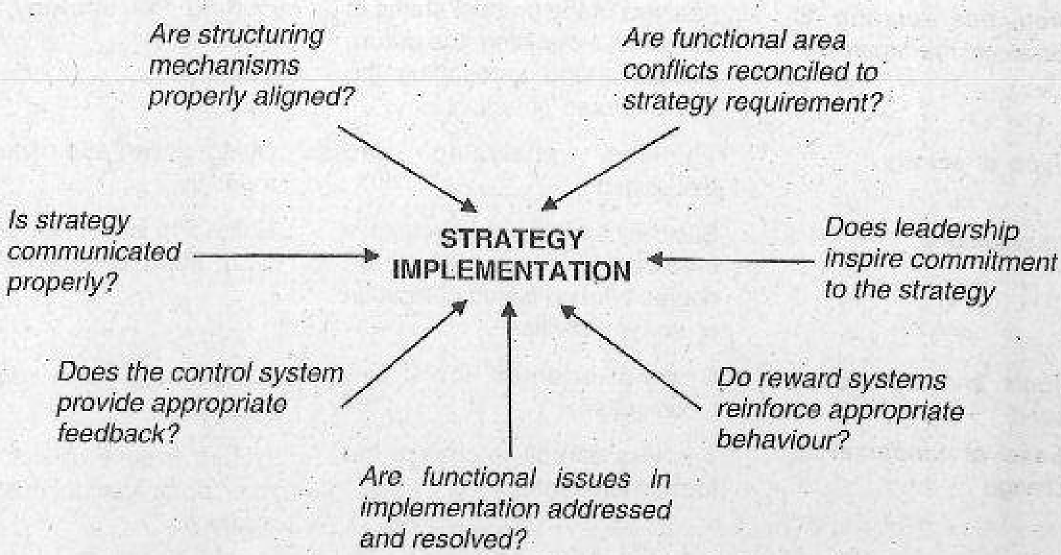
2. Ibid., p. 122

(i) Who are the people who will carryout strategy implementation?

(ii) What must be done to implement the strategy?

(iii) How the necessary actions have to be carried out?

Moreover, strategy implementation involves a number of issues that should be addressed. These have been shown in the figure below—



Source : Rue, L. W. and Holland, P.G., Strategic Management : Concepts and Experiences, New York : McGraw-Hill International, 1986, p. 549

It is essential for strategists to track the progress of the efforts of strategy implementation. They are to be compared with the initial course of action. Firms can use functional area strategies, organisational structure, reward system, leadership, control system etc to implement strategy. We shall consider issues relating to leadership implementation, resource allocation and structural considerations in the context of strategy implementation. Before that we shall discuss the interrelationship between strategy formulation and implementation and McKinsey 7S framework in the context of strategy implementation.

5.2 Interrelationship Between Formulation and Implementation of Strategy

If you recollect the basic model on strategic management that has been developed in the first unit, you can easily see that the implementation phase is preceded by the choice phase. However some authors feel that the division of the process of strategic management into different phases has been undertaken for the purpose of orderly academic exercise. The comparing aspects and relationship between the formulation and implementation phases have been shown below—

	Formulation Phase	**Implementation Phase**
Activities relating to Strategic management	Analysis of the present status of the firm, examining the future prospects and formulating the future course of action	Putting the strategy to work
Type of activity	Thinking, analysing and discussing	Doing, acting and experimenting
Involvement	Basically the top management is involved and there is some degree of need-based delegation of some activities	Entire firm is involved and team effort is essential
Tools and techniques used	Concept-oriented tools and techniques	Behavioural tools techniques
Ease of fundamental change	It is less difficult to change the formulated strategy	Here it is quite difficult to alter behaviour to match strategy

Source : Adapted from Rue, L. W. and Holland, P.G. *Strategic Management : Concepts and Experiences,* New York : McGraw-Hill International, 1986, p. 548

In the opinion of Kenneth Andrews, the formulation and implementation phases are amalgamated. According to Azhar Kazmi, the relationship between formulation and implementation phases of the strategic management process can be understood in terms of two types of linkages that exist between these two phases. These linkages are forward linkages and backward linkages. The forward linkages are concerned with the impact of the formulation phase on the implementation phase. On the other hand, backward linkages are related to the impact of the implementation phase on the formulation phase. Let us now discuss each of these linkages[3].

(i) *Forward linkages*—If you look at the model of strategic management that has been developed in unit I, You can see that the process starts from a firm's strategic intent and then other phases like analysis and diagnosis, strategic option, choice of strategy and strategy implementation follow. When a firm formulates a new

3. Kazmi, A., Business Policy and Strategic management, p. 172, 2002, New Delhi : Tata McGraw- Hill, pp. 291-292

strategy or changes the existing strategy, a number of follow-up actions need to be taken. The leadership style has to be changed, the organisational structure has to be altered and resource allocation should be made to match the strategy. Thus there is a need to make a lot of changes in line with the new strategy or the modified strategy. Moreover, the functional areas (e.g. marketing, production, human resources) should be synchronised with the current strategy. Thus you can easily understand that there should be certain actions that should be linked with the strategy. In this way, we can say that strategy formulation is linked with strategy implementation in forward direction i.e. Forward linkages.

(ii) *Backward linkages—The* strategic choice process is linked with the formulation process in the backward direction also. Past strategy acts as a yardstick for determining the future strategy. Firms try to pursue those strategies that can be implemented with the current leadership, organisational structure and resources. In this sense there is a backward linkage between formulation and implementation phase. Firms have a tendency to continue with its present organisational set-up, leadership, functional area etc. Hence they pursue a strategy that matches with the current set-up. Moreover if you look at the comparison between formulation and implementation phase, that has been discussed earlier, you can see that formulation involves thinking, analysis and discussion and implementation involves doing, acting and experimentation.

5.3 Mckinsey 7-S Framework in the Context of Strategy Implementation

We have already discussed that a well-formulated strategy has to be implemented properly. In implementing a strategy a firm should take into consideration a number of issues. McKinsey and Company has developed a model that states how firms should be organised for effective implementation of strategy. The framework suggests that effective implementation involves the consistency of relationship among seven components-Strategy, Structure, System, Style, Staff, Skills and Super-ordinate goals (Shared values). These components must fit together to make a strategy .successful. Let us now discuss each of the components of the framework[4]—

(i) *Strategy—A* consistent set of actions formulated by firms for gaining competitive advantage.

4. Waterman, R.H., Jr., The seven elements of strategic fit, *The Journal of Business Stretegy*, 2(3), 1982, pp. 9-73

(ii) *Structure*—The organisation chart and related information that show who reports to whom and how tasks are to be divided and integrated.

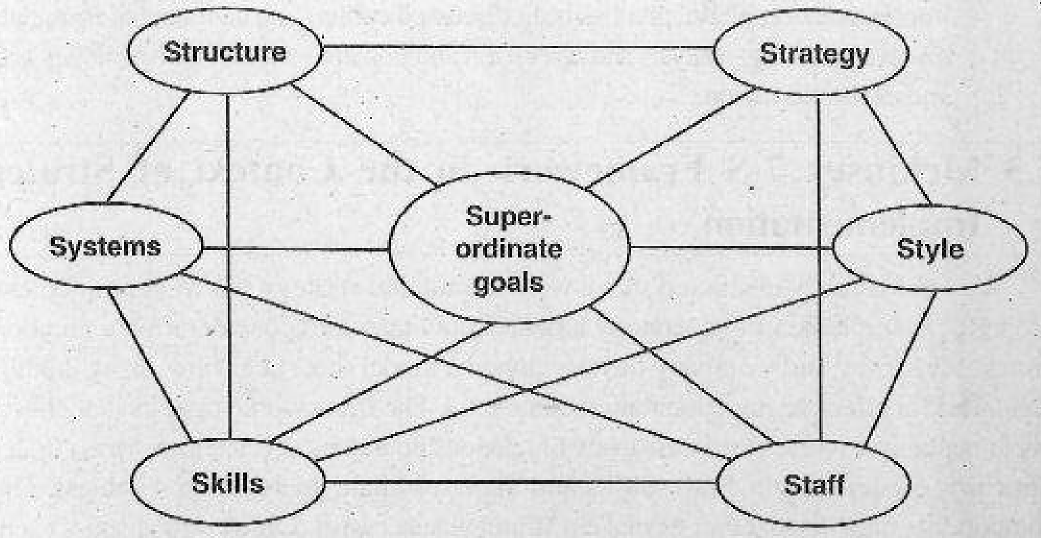
(iii) *Systems*—The processes and flow that provide direction about how daily activities are to be undertaken. Examples of systems are capital budgeting system, information system etc.

(iv) *Style—What* executives consider to be important reflected by the way in which they jointly spend time and attention. The way the executives behave is much more important than what they say.

(v) *Staff—The* human resources of the firm and what firms should do in order to develop human resources.

(vi) *Skills*—The capabilities that are possessed by the firm as a whole.

(vii) *Super ordinate goals*—Also known as shared values. These are values that are shared by almost all within the firm. The values include statement of goals and objectives that determine a firm's future prospect.



The framework suggests that firms should take into consideration the abovementioned issues in the context of strategy implementation. In the opinion of Dess and Miller, the McKinsey 7-S framework conveys four vital ideas[5]—

5. Dess, *G.G.* and Miller, A. Strategic Management, New York : McGraw-Hill, 1994, pp. 234-236

(i) A number of factors affect a firm's ability to change alongwith the nature of change. Apart from strategy and structure, there are five more factors. Thus the framework suggests that in analysing a firm's strategy implementation process, issues can be broken down into 'manageable parts'.

(ii) The seven elements mentioned in the framework are interrelated and it is quite impossible to make progress in one element without making progress in the other elements.

(iii) A meticulously planned strategy may fail because of a manager's inability to pay attention to all the elements mentioned in the framework.

(iv) Firms may not be able to identify the most critical elements in carrying out change. Sometimes strategy can be critical and in other occasions, structure, staff or skill may become more important.

5.4 Leadership Implementation

Leadership has a vital role to play in a firm's strategy implementation process. According to Rue and Holland, leadership is "that part of top management that sets the tone and instills the values of the firms. It builds the culture in which strategy is formulated and reflects that strategy is symbolic behavior and interaction"[6]. You have already seen that 'style' is a vital component of the McKinsey 7-S framework. The way executives behave is vital for the strategy implementation process. Moreover, a particular, a particular type of strategy requires a particular characteristic, skills and attributes of leader. This is shown in the table below—

Strategy	Key characteristic	Specific skill or Attributes Necessary
Concentration	Experience	knowledge of market and technical aspects of business
Verical integration	Experience	Learn new business, financial analysis
Diversification	Experience	Measurement and control, portfolio approach—Technical and knowledge of market; personal contacts
Turnaround and divestment	Personality	Leader's ability to make and implement unpopular decision
Liquidation	Training, experience	Asset valuation and disposal

Source : Adapted from Rue, L. W. and Holland, P. G. *Strategic Management : Concepts and Experiences,* New York : McGraw-Hill International, 1986, p 621

6. Rue, L. W. and Holland, P. G. *Strategic Management : Concepts and Experiences*, New York : McGraw-Hill International, 1986, p 619

Thus you can easily see that a particular type of strategy has to be matched with a particular type of leadership. If firms do note have leaders who do not possess the quality necessary for a particular type of strategy, it has to change the leadership.

Firms without a strong leadership will not be able to carryout successful strategy implementation process. In this context, the following observation of Peters and Waterman is worth mentioning?[7]—"We are struck by the explicit attention (excellent companies) paid to values, and the way in which the leaders have created exciting environments through personal attention, persistence, and direction intervention-far down the line... Every excellent company we studied is clear on what it stands for, and takes the process of shaping values seriously." Peters and Watermen have made this statement in their study of excellent companies. Thus you can easily see that leaders have a vital role to play in a firm's success.

In the context of leadership-strategy match, experts have suggested that successful leadership should effectively carryout three interdependent activities. they are :

(i) Setting a direction for their in terms of mission and strategy.

(ii) Designing the organisation

(iii) Establishing a culture that emphasises excellence and ethics.

Let us briefly discuss each of these[8]—

(i) *Setting a direction for the firm*—

For setting a direction for the firm, a leader has to gather information from different sources and "identify pattern, relationship and linkages." In the context of turbulent and uncertain environment, leaders are required to understand the needs of the firm's stakeholders. The leader should be able to monitor the environment to get information about the firm's stakeholders and intergrade the knowledge in setting a direction for the firm. Successful leaders are able to provide some effective benefits to the firm. They are able to provide a clear direction for the future, formulate the firm's mission and objectives, improve employee communication, participation and commitment. We have discussed the issue of strategic intent in the firmst unit. With the help of the strategic intent; employees can be provided an idea about the firm's future direction. In many firms employees are unable to understand where the firm will move in future. They are mostly confined within the restricted domain of short-term unit performance. In this

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7. Peters, T. J. and Waterman Jr., R. H., In search of excellence, New York Harper & Row, pp. 279-280, 1982
8. Dess and Miller, op. cit., pp. 318-325

context, leaders of firms have a vital role to play in providing an idea about the future direction of the firm. Leaders should have the capacity to form a point of view about the long-term market or competitive position that the firm wants to develop in the coming years.

(ii) *Designing the organisation—*

According to Dess and Miller, leaders must be involved in developing structure, systems, groups and processes for effective implementation of strategy. We shall discuss the issue of organisational implementation in the next section. In this section we are concerned with the role of leadership in designing the organisation. In this context, leaders should—

- Develop an effective coordination and intergration mechanism for effectively carrying out activities.
- Formulate a reward system to motivate individuals for achievement of goals
- Distribute responsibility among executives.

For effectively carrying out a particular course of action, leaders should formulate rules & regulations and design the organisation according to the requirement of the strategy. If a firm tries to reduce costs, the role of the leader is to strictly monitor costs through detailed cost and financial control techniques. Again if the firm tries to offer a unique type of product, then effort should be taken to support innovation and creativity. There is therefore the need to develop an appropriate organisational structure and decision-making procedure.

(iii) *Establishing a culture that emphasises excellence and ethics—*

Culture is a unique set of characteristics that helps us to differentiate one firm from another. If conveys how employees should behave by establishing a value system and by expressing the value system through decision and action. Leaders have a role to play in developing a culture that would fit with the firm's strategy so that it can respond to the changes in the environment in a better way[9]. Experience suggests that a founder or an influential leader establishes the desirable values within a firm. Leaders can organise period meeting with subordinates who directly report to them. They should try to improve the communication process within firms to strive for excellence. Moreover, according to Dess and Miller, a firm's ethical standards determine how it treats its customers and relates to employees, suppliers etc. Alongwith providing direction

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9. Rue, L.W. and Holland, P.G., *Strategic Management : Concepts and Experiences*. New York : McGraw-Hill International. 1986, p. 437.

with the help of codes, principles and inculcating ethic standards, leaders should also set examples that can be followed by employees.

Professor Pradip Khandwalla has carried out an effective research to examine the relationship between leadership styles, the nature of the firm's environment and effectiveness[10]. He has mentioned seven styles-Entrepreneurial. Neoscientific management. Quasi-scientific, Muddling through, Conservative, Democratic and Middle-of-the road styles. Each of these styles has been analysed on the basis of five dimensions. The dimensions are—

(i) *Risk-taking*—This can be expressed in terms of the willingness of top management to make high-risk decisions.

(ii) *Technocracy*—This can be expressed in terms of the degree of commitment in using planning, employing technically qualified employees etc.

(iii) *Organicity*—Extent of loose and flexible organisational structure

(iv) *Participation*—High degree of participation and involvement in key positions.

(v) *Coercion*—This can be measured in terms of the domination by top management of firms.

On the basis of the above classification, the characteristics of the identified management styles along the five dimensions are—

(a) *Entrepreneurial style*—High-risk taking, moderate to low technocracy, organicity and participation and variable degree of coercion.

(b) *Neo / Scientific management style*—Variable risk-taking, high technocracy, moderate to low organicity, high participation and moderate to low coercion.

(c) *Quasi-Scientific style*—Variable risk-taking, high technocracy, moderate to low organicity and participation and moderate to high coercion.

(d) *Muddling-through style*—Moderate to low risk-taking low technocracy, moderate to high organicity, moderate to low participation and moderate to high coercion.

(e) *Conservative style*—Low risk-taking, moderate to low technocracy, organicity and participation and variable coercion.

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10. Khandwalla, P.N. Some Top Management styles, Their context and performance, organisation and Administrative Sciences, 7(4), Winter, 1976-77, pp-21-25. See also Glueck, op. cit. pp. 307-9.

(f) *Democratic Style—Moderate* to low risk-taking and technocracy, moderate to high organicity, high participation and variable coercion.

(g) *Middle of the road style*—Moderate risk-taking, technocracy and organicity, moderate to low participation and coercion.

Khandwala has further categorised the environment along the following dimensions—

(a) *Turbulence or volatility*—In this dimension of the environment, entrepreneurial and non-scientific styles and suitable for high turbulent environment, middle of the road for medium degree of turbulence and conservative style for low degree of turbulence.

(b) *Hostility*—In this dimension of the environment, entrepreneurial style would best suit high degree of hostility, neo-scientific style is appropriate for moderate and low degree of hostility and conservative style for low degree of hostility.

(c) *Diversity*—In this dimension, entrepreneurial and non scientific styles would be appropriate for high degree of diversity, muddling-through and middle of the road style for medium degree of diversity and non-scientific, conservative, entrepreneurial and quasi-scientific style for low degree of diversity.

(d) *Restrictiveness*—This implies the constraints from different sectors of the environment. In this context, neo-scientific and entrepreneurial styles are suitable for high degree of restrictiveness, and conservative and entrepreneurial styles for moderate degree of restrictiveness.

(e) *Technological complexities*—Entrepreneurial, neo-scientific, quasi-scientific and democratic are suitable for high degree of technological complexities.

You can probably understand the implications of the above research of Prof. Kandwalla. It suggests that executives should match their leadership styles to the environment in which the firm lies and also the strategy of the firm.

5.5 Resource Allocation

The strategic direction pursued by a firm is conceptualised in the form of a strategic plan. In order to give a practical shape top such a plan, it is necessary to carryout support activities that would help the firm to implement the strategy in the most effective and efficient manner. An important exercise in the entire sequence of operations is the issue of resource allocation. It is quite obvious to you that without obtaining the required resources and allocating them to the constituent units it will not be possible for firms to achieve the desired objectives. Resource allocation is associated with the procurement and commitment of financial, physical, human and other types of resources for carrying out activities towards the achievement of firm's objectives. According to Jauch and Glueck, resource allocation consists of deciding which divisions, departments of SBUs will receive how much money, facilities and human resources.

A well rounded analysis resource allocation as a strategic component would derland consideration of the following aspects[11]—

(i) *Procurement*

The nature of resources required can vary. At a broad level these resources can be classified into financial, physical, technological, organistional and human resources. Each type of resource will of course originate from a separate source. Generally finance is considered to be the most important resource, since it is used for the creation and maintenance of other resources. The application of financial resources can be divided into short-term and long-term uses. Long-term uses come into play when the requirement is to create capital assets. Conversely, when the aim is to generate resources for meeting the working capital needs, the short-term route will be preferred. A firm needs to have access to both internal as well as external sources for financing options. Among the internal sources, the firm may consider retained earnings, provision for depreciation, provision for taxation and various reserves like those relating to development rebate and investment allowance. On the other hand, external sources can be categorised as capital market sources and money market sources. The first category includes equity and loans. These are used for long-term financing, while the second includes bank credit, hire purchase debt, trade credit, instalment credit and fixed deposits, which are applicable incase of short-term financing. The relevant management policy of a firm determines to a large extent the choice of financial sources. It also requires taking into account the relative cost of capital of different resources. Once the required financial resources have been secured, it is time to start the actual implementation of strategies. The process is initiated with distribution of these resources among the various SBUs, divisions, departments, functions, tasks and individuals within the firm.

(ii) *Approaches*

Resource allocation is primarily implemented through the budget. In the opinion of Azhar Kazmi, there are three basic approaches in this connection, viz.—

(a) The top-down approach.

As the name suggests, the resources move downwards in the direction of the operating levels. The resource requirements are decided and consequently

11. Kazmi, A. Business Policy and Strategic Management, New Delhi : Tata McGraw-Hill, 2002, pp.307-312

these resources are distributed by the corporate management consisting of the Board of Directors, the CEO or managing director, and other members of the top management team. This approach is suitable for entrepreneurial businesses.

(b) The bottom up approach

As and obvious invesion of the top-down approach, this process starts from the operating level, where the resources are accumulated.

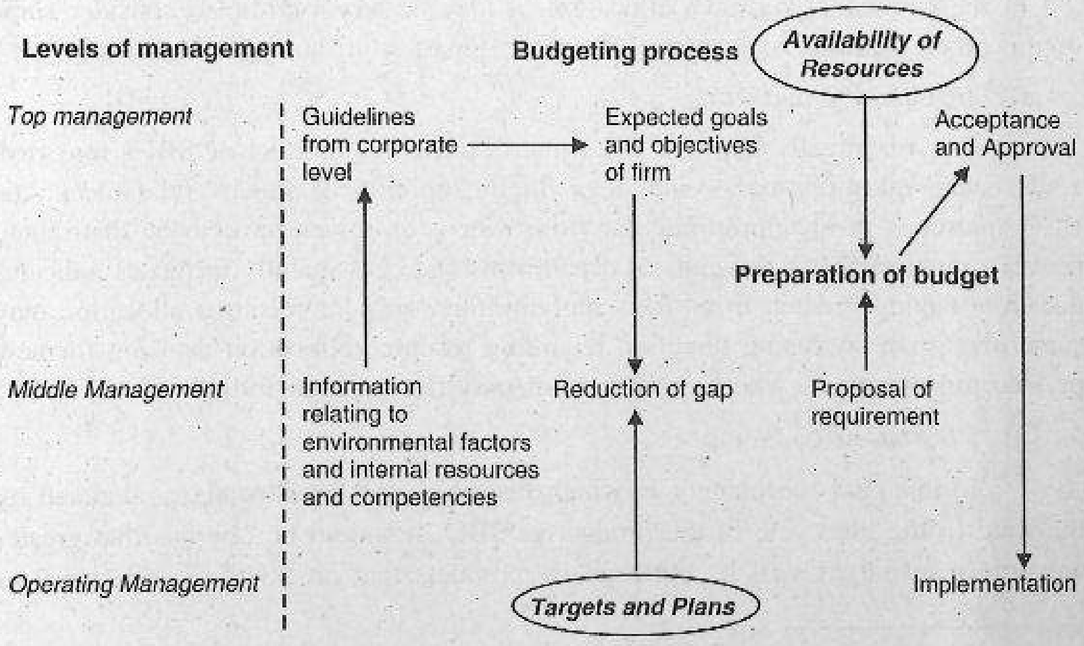
The third approach towards budgeting is a combination of the firs two approaches. Here strategic decision making involves different managerial levels in an iterative manner.

(iii) *Methods*

(a) Strategic budgeting

Budgeting is widely applied as a management tool for planning, coordination and control within the firm. While budgeting has always been used as a traditional instrument it can be used as a tools for allocation of resources in the context of strategy implementation. However, budgeting today is also finding greater use as a method for dynamic management.

One of the possible ways in which a strategic budget could be used is illustrated by the following figure.



Source : Adapted from Kazmi, A. Business Policy and Strategic Management, New Delhi : Tata McGraw-Hill, 2002, p. 309.

In the opinion of Kazmi, the process of strategic budgeting involves preparation of position papers on areas like environment, distinctive competence, marketing, past performance, etc. These are then presented to the top management. The next step is the formulation of guidelines for corporate policy and identification of goals, both for the long and short-term. At the same time, operation plans are developed by personnel dealing with operating-level management. They also establish targets in line with corporate objectives along with the top management. A committee at the executive level now prepares the strategic budget after taking into consideration factors like resource availability and corporate guidelines. This budget will obviously require the approval and sanction of the top management. All components and units of the firm are then made aware of the final budget, so that the process of implementation can be taken up in right earnest.

From this discussion, it must have been clear to you that strategic budgeting,

(a) is an iterative process;

(b) involves multilevel and firm-wide effort;

(c) requires the approval of all participating personnel;

(d) considers aspects related to strategy like environmental changes and internal resources and competencies.

In the context of resource allocation, it may be worth while to consider some of the other methods of resource allocation (apart from strategic budgeting)[12].

(i) *BCG-based budgeting*

As you already know, a BCG matrix classifies product or SBUs into cash cows, stars, question marks and dogs. In the opinion of Jauch and Glueck, the BCG matrix is most appropriate for firms where resources have to be distributed between multiple SBUs divisions or departments and consequently facilitates judicious decision-making in such firms. But applying this tools for resource allocation may sometimes give confusing direction regarding resource allocation decision for new or emerging business where market share may not be high initially.

(ii) *PLC-based budgeting*

In this case the manner in which resources will be allocated is dictated by the state of the life cycle of the product or SBU. It should be obvious that greater amount of resources will be attracted by products that are in the introductory or

12. Jauch L. R. & Glueck, W. F, Strategic Management and Business Policy (3rd edition), New York : McGraw Hill International, pp. 310-313

growth stages of their PLC. If the firm deals in multiple products, then such resource requirements may be adjusted against other products in the portfolio that have attained maturity.

(iii) *Capital budgeting*

You can easily understand that the method of capital budgeting is most suitable when decisions have to made in connection with new projects or product. In this case, capital required for pursuing a growth or expansion strategy is ascertained with the help of a plan. Of course, it is always possible to apply capital budgeting when existing projects call for fresh inputs of resources.

(iv) *Zero-based budgeting (ZBB)* can be described as an operations planning and budgeting process where the strategist has to justify the demand for resource allocation, not on the basis of the previous year's budget, but through a new calculation of costs whenever a plan is to be implemented. In the opinion of Jauch and Glueck, zero-based budgeting is effective for firms that pursue a retrenchment strategy.

Factors influencing Resource Allocation

All of us aware of the fact that resources are almost always scarce. This increases the complexity of the process or resources allocation. The problem faced by strategists relates to the allocation of scarce resources to the completion of activities for the achievement of objectives in the line of the firm's strategic intent. A clearer and broader view of strategic priorities will obviously simplify the task of resource allocation. However, this is easier said than done, since the establishment of priorities is itself a very difficult task. In this perspective, Azhar Kazmi has mentioned the following factors that affect resource allocation process[13] :

(i) Firm's objectives

The process of setting objectives can be very complicated. A firm may have various objectives some of which may be conflicting and some complimentary. Some of these can be regarded as official or explicit, against others that can be treated as operative or implicit. The degree of resource allocation enables employees to decide on the relative significance of different tasks in the eyes of the strategists. The greatest amount of influence on the nature of resource allocation is generally observed in case of operative objectives.

13. Kazmi, A. op. cit., pp 310-311.

(ii) Choice of dominant strategists

There are certain strategists like the CEOs who, because of their dominance in the strategic management process, can influence the manner in which resources are allocated in a major way. Proactive heads of SBUs divisions and departments are aware of this. Accordingly, they try to formulate their demands in such a way that there is a greater probability of the acceptance of their resource requirement proposals.

(iii) Internal Power relationships

The control of resources more often than not conveys a sense of power. In other words, when a particular department appropriates the lion's share of resources, it appears to wield greater political power within the firm. Consequently, those executives who manage to divert a significant percentage of resource flow in favour of specific departments, are regarding to be more successful and influential.

(iv) External influences

External influences like those exercised by government rules and restrictions, shareholder requirements, financial institutions, community, etc. can also have effect on resource allocation.

5.6 Structural Implementation

5.6.1 Introduction

A vital aspect that attracts the attention of strategists in the context implementation is the issue of organisational structure. Strategic management requires that the chosen strategy should be linked to an linked to an appropriate organisational structure. According to Scott "organization are defined as collectivities...that have been established for the pursuit of relatively specific objectives on a more or less continuous basis"[14]. Moreover, according to Glueck, organisation "is the dividing up of the work among groups and individuals (division of labor) and making sure the subparts are linked together to ensure that they will work together effectively (coordination)"[15]. Thus top executives of firms have to divide duties and

14. Scott, W. R. "Theory of organization", in Handbook of Modern Sociology, ed. Robert E. L. Farris, Chicago : Rand Mc Nally, 1964.

15. Glueck, W.F, Business Policy and Strategic Management (3rd edn.), New York : McGraw-Hill. p. 320

responsibilities among different units, groups and individuals so that repetition of work is avoided and goals can be achieved in a better way. There is therefore the need to develop an appropriate orgamsational structure. Organisational structure is, "the distributions, along various lines, of people, among social positions that influence the role relations among these people"[16]. According to Duncan, organizational structure refers to the formalized pattern of interactions that link the tasks, technologies, and people of the firm. They are designed to ensure that resources are effectively utilised for achievement of a firm's objectives. In the opinion of experts, change is strategy of a firm should be supported by an appropriate structure because of the following two reasons[17]—

(i) Structure largely determines the way in which objectives and policies are established by firms. The formal structure for establishing objectives and policies can have significant influence on other issues of strategy implementation.

(ii) Structure dictates how resources allocation is to made by firms. Based on the organisational structure and its emphasis on a particular area, the issue of resource allocation is to be taken up by firms.

Structural characteristics of firms—

According to Richard Hall, organisational structure can be described in terms of three dimensions—*complexity, formalisation* and *centralisation.* These assume greater significance in the context of strategy of firms. We shall briefly discuss each of these dimensions in the line of Hall's analysis[18].

Complexity—

Complexity of firms has important influence on the strategic decision-making process, behaviour of employees, processes and other structural conditions within the firm. Every firm exhibits complexity in different dimensions. Different firms have hierarchical levels encompassing different units specialising in different areas. Complex firms have different subparts that require different forms of coordination and control. Hall has identified the three elements of complexity as horizontal differentiation, vertical or hierarchical differentiation and geographical dispersion.

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16. Blau, P.M., *On the Nature of Organizations,* New York : John Wiley, 1974.

17. David, F. R., *Strategic Management : Concepts & Cases,* New Delhi : Pearson Education, 2003, pp. 243-244

18. This section is a summarised version of Hall, R.H., *Organizations : Structures, Processes and Outcomes (7th edn.)* New Delhi : Person Education, 1999, pp. 50-82

Horizontal Differentiation implies "the way the tasks performed by organizations are sub-divided". Tasks can be sub divided by assigning trained specialists to carryout a range of activities. Tasks can also be subdivided among non-specialists. When tasks are divided among specialists, there is a need to have proper coordination. When tasks are sub-divided among non-specialists, one should ascertain the number of job tiles within the firm.

Firms providing a range of services to customers require specialists. On the other hand when firms carryout a standard type of activity in large scale, there is a need to have more non specialists. Large firms have minute division of labour and more job titles. Horizontal complexity can be assessed from the number of different jobs irrespective of whether they are specialised or routine. It can also be measured by ascertaining the total number of divisions, departments or units.

Vertical differentiation can be measured by counting the number of job positions between head of the firm and the ordinary employee. An idea about vertical differentiation can be gathered from the average number of levels within the firm. Vertical differentiation suggests "the higher the level, the greater the authority". According to experts, horizontal and vertical differentiation create problems relating to communication, coordination and control. If differentiation is greater, firms may face difficulties in communication, coordination and control.

Geographical Dispersion implies dispersion of activities and employees in geographical areas in line with horizontal or vertical functions, separation of power centres or tasks. Geographical dispersion can be considered as a separate component in the context of complexity when firms carryout same functions with the same division of labour in different locations. Experts feel that dispersion of activities on geographic basis enhances complexity. It can be measured in terms of the number of locations where the firm has offices or plants. We may also determine it by calculating the proportion of the firm's personnel who work in piaces other than the corporate headquarter. Moreover, many firms are complex in different contexts of complexity. Firms also become complex as their activities and environment become complex. As complexity in a firm increases there is an increase in the problems of coordination and control. Lawrence and Lorch have found that structural differentiation has an effect on the attitude and behaviour of members of different departments. Moreover, Aiken and Hage have found that firms with a number of joint programmes are more complex. These firms are highly professionalised and have diversity in occupational structure. They have further noted that firms become more complex because of pressure from internal and external forces. Further, in the context of a turbulent environment, it can be aptly stated that firms will continue to become more complex in future. There will also be inter firm relationship that ill further enhance the degree of complexity. According to Hall, complexity is basically a structural characteristic. It is related to the future of the firm and its employees. Firms should therefore adopt an appropriate form in the context of their internal and external architecture and the strategy pursued.

5.6.2 Formalisation

Formalisation represents the application of rules and regulations in firms. It is an important structural variable for an individual employee within firms. The extent to which a firm is formalised gives an indication of the importance of the different decision-makers in the firm. Formalisation is likely to be low if the employees are considered to be capable of exercising good judgment and self control. It will be high if employees are considered to be incapable of making their own decision and require the support of rules, regulations etc. Formalisation has an effect on the different organisational units and communication, innovation, creativity etc. In many firm we notice high degree of formalisation (e.g. in assembly line etc.) We notice low degree formalisation in many firms as well. Firms that have low degree of formalisation deal with new situations every now and then. Formalisation can be considered in the context of other organisational properties. Research suggests that formalisation is weakly related to a centralised decision-making system. When few people at the top make decisions, there is a tendency to use rules and regulations and supervise closely. Conflicts are noticed in firms between individuals, units, processes and structures. Researchers have classified firms into 'routine' and 'non-routine' categories when evaluated in the context of technology. According to Hage and Aiken, firms with routine work are likely to have greater degree of formalisation of rules. Firms can also develop certain characteristics that are inherent in their formal and in formal system. An idea about the exact nature of formalisation of a firm can be gathered from the specific nature of rules, regulations, procedures etc.

5.6.3 Centralisation

According Hall, centralisation "refers to the distribution of power within organizations" Organisational structure can be analysed in the light of centralisation. In case of centralisation, a given distribution of power gives rise of other actions. This distribution also changes according to the change in power of groups and individuals within firms. As there is increase in the level of participation of people the degree of centralisation decreases. Centralisation can also be understood in terms of the extent to which individuals have rights to make decision. When almost all decisions are made by the top management, centralisation is high. Again if lower level employees make decisions on the basis of programmed policies of firms, then also the degree of centralisation is considered to be high. In the context of assessment it has been argued that if the top management carries out all the assessment, centralisation is considered to be high. Centralisation can be considered in the light of firm size, technology and environmental factors. With increase in size, increased delegation and higher decentralisation can be noticed. It has also been seen that firm size is positively related to increase in rules and in this case there can be decetralisation with some degree of control as well. Hall suggests that the linkage between firm size and centralisation is complex and there can be some degree of delegation with larger firm size. However delegation has to be made within the domain of well formulated rules. In the context of technology it can be argued that when a firm has to carryout a variety of tasks, it uses multiple technologies. Technology enables firms to keep track of employee's behaviour "The amount of data entered, the number of telemarketing calls made, or the number of units produced are work output measures that can be monitored." Advanced technology helps to develop participative management within firms through concentration of work flow level. In the context of environmental relations, it has been observed that decentralisation assumes greater significance if firms are operating in to competitive environment. Moreover according to Burn and Stalker decentralisation is more suitable for a turbulent environment. Other researchers have argued that centralisation is more suitable for a period of contraction. In the context of uncertainty of environment it has been felt that decentralisation suits uncertain environment in a better way. Another issue that has been described by experts is the issue of "loose-coupling" that implies low level of interdependence among the units of a firm. In this context expert like Wheten states that loosely coupled firms are in a better position to respond to pressure of the environment. Moreover loosely coupled firms would obviously be decentralised in nature. Hall has effectively summarised the issue of centralisation : "High levels of centralization mean greater coordination, but less flexibility; consistent organization-wide policies, but possibly inappropriate policies conditions; and the potential for rapid decision making during emergencies, but overloaded communications channels during normal operations as communications flow up and down the hierarchy."

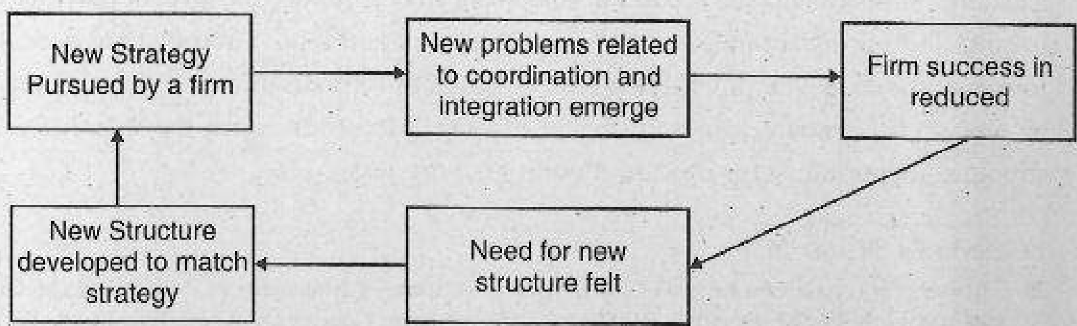
Dess and Miller have effectively summarised the above dimensions of structure (horizontal differentiation, vertical differentiation, geographical dispersion, formalisation and centralisation) in relation to the different forms of competitive advantage th we have discussed in unit 4 (overall cast leadership and diffeentiation). This summarisation is shown below—

Dimension	Definition	Form of competitive advantage Overall leadership	Differentiation
Horizonal differentiation	Extent to which tasks are divided among groups	High	High
Vertical differentiation	Number of levels in a firm's hierarchy.	High	Low
Geographical dispersion	Extent to which firms have location in geographic scopes	Low	High
Formalisation	Extent to which rules and regulations guide firm's activities	High	Low
Centralisation	Extent to which decision making process is centralised at the top level	High	Low

Source : Dess, G. G. and Miller, A., Strategic Management, New York : McGraw, 1994, pp. 234-236

5.6.4 Different Types of Structures Linked to Strategy

We have already stated that firms should develop an appropriate strategy so that activities can be carried out effectively and efficiently by different groups and units without duplication or repetition of tasks. Chandler has carried out an effective research to determine the strategy structure relationship. According to him, organisational structure should be designed in such a way so as to facilitate the strategy followed by the firm. Firms are unable design a structure without strategy. It has been seen that a firm tends to repeat a particular sequence of structure as it grows and its course of action changes. Chandler's strategy structure relationship is shown in the figure below—



Source : Adapted from chandler, Strategy and Structure, Cambridge. MA : MIT Press, 1962.

Structure of firms changes over time with change in strategy. However, some experts are of the opinion that there is no standard organisational structure for a particular type of strategy. A particular structure for a particular firm may not be suitable for another firm. Moreover, there are a number of forces that are acting in a firm's environment. Firms connot change its structure if there is a change in a particular environmental factor. However experience suggests that as firms change their strategy, structures sometimes become inappropriate. This results in a mismatch between strategy and structure. According to Fred David, there can be several symptoms of a mismatch between strategy and structure like too many management levels, too many meetings, too much attention for solving interdepartmental conflict, too large span of control etc[19]. Thus, the general proposition is that structure should follow strategy. Sometimes, firms are unable to pursue a particular strategy because of its inability to develop an appropriate structure. So it is essential for firms to know what type of structure is best suited for what type of strategy. In this context we shall discuss the following types of structures[20].

Simple structure

The oldest form of organisational structure is the simple structure. Firms that offered a single product followed this type of a structure. This structure is more prevalent in those firms where the owner is also the manager of the firm and almost all decisions are made by the owner-manager. There is informal structure and coordination is made through direct supervision. It has been observed that firms that complete in a fragmented industry follow this type of structure. Here entry and exit barriers are low. Experts believe that simple structures have an inherent characteristic of in-built flexibility. Since the organisational structure is quite simple, firms are able to take advantage of emerging opportunities. Here the communication flow is very fast and hence firms can pursue product development strategy. Since the level of formalisation is quite low, firms are able to encourage creativity and innovation that are necessary for new product development. Due to low degree of formalisation, employees may not be able to use resources in an efficient manner. Moreover, since the firm has a flat structure, opportunity for upward mobility is very less.

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19. David, op. cit., 244-245
20. This section is based on Dess, G.G. and Miller, A., Strategic Management, New York : McGraw-Hill, 1994, pp. 25-277; David, F. R., *Strategic Management: Concepts & Cases,* New Delhi : Pearson Education, 2003, pp. 243-244, Jauch L.R. & Glueck, W.F., Strategic Management and Business Policy (3rd edition), New York : McGraw Hill International, pp. 315-321

Functional structure

The simple structure stated earlier is suitable for a firm performing small tasks and where the owner-manager makes all the decisions. As the firm grows in size, the owner-manager is unable to perform all the activities and hence seeks the help of executives in carrying out activities. He takes the help of different functional executives for carrying out tasks in an effective and efficient manner. There can be different departments such as production, accounting and finance, human resources, marketing etc. It is generally seen that firms that carry out large scale production of single or closely related products or services have functional structure. Experts believe that the functional structure helps to maxmise economics of scale and specilisation. Firms that pursue stability strategy or expansion in a very slow pace use the functional structure. In formulating the functuional structure, top management team should develop a mechanism for effective coordination and integration of different units. Moreover, the functional structures generally have high level of centralisation. Centralisation facilitates strong integration and control mechanism that are necessary for pursuing the strategy of concentration on related activities. The functional structure has the following advantages and disavantages[21]—

Advantages—

(i) The functional structure involves simple communication and decision network both in vertical and horizontal directions.

(ii) This structure helps to maximise the interest of different functional units within the departmental units of firms.

(iii) This structure helps to reduce the wastage of resources and facilities effective utilisation of scarc resources.

(iv) Since this structure involves grouping to tasks by business functions, it simplifies the process of training of functional specialists.

(v) The structure helps in measuring functional outputs and results.

(vi) With the help of a functional structure, top management can carry out effective strategic control.

(vii) Functional structure gives status and importance to the activities of different functional areas.

21. Jauch and Glueck, op. cit., p. 316

Disadvantages—

(i) It is quite difficult to maintain coordination between the functional areas of a firm when it is organised by functional departments. Moreover the cost of coordination can also be high.

(ii) This type of a structure gives rise to rivalry and conflict among the different departments of the firm.

(iii) When firms have this type of a structure, there is more emphasis on achievement of functional objectives rather than the achievement of overall corporate objectives.

(iv) This type of a structure sometime limits the scope of development of broadly trained executives of firms.

(v) Many experts believe that the process of change is restricted since employees and identified with specialist groups within firms organised by functional departments.

Divisional structure

When a firm grows in size, it faces difficult in managing diverse products in different markets. In this context firms can have divisional structure that are organised on the basis of products, market or projects. We can also observe divisional structure according to geographic area product / service, customer or process. In a divisional structure, functions are performed by separate divisions and central headquarters. A divisional structure by geographic area is preferred by firms that want to satisfy the needs of customers in different geographic areas. For this, the firm should have similar type of facilities in branches that are located in different geographic locations.

A divisional structure by product / service is preferred by firms that want to emphasise specific products / services. We can also find firms using this type of a structure when their products / services have significant difference or they have few products / services. This type of a structure helps firms to have greater control on their product / service lines. For this there is a need to have a workforce that have necessary skills in managing product / service line.

A firm can have a divisional structure by customers when it tries to serve - a few major customers in a better way and provide a range of services to these customers. You can easily understand that the basis requirement of this type of a structure is to have a well defined set of customers.

Firms can also have divisional structure by process which is somewhat similar to a functional structure that we have discussed earlier. The basic difference between these two structures lies in the fact that in case of divisional structure by process, departments are evaluated on criteria such as profit, revenue etc. In this case operations in the context of specific processes are combined into separate divisions. Each divisions are entrusted with the task of generating profit.

Experts like David Dess & Miller and others have highlighted the following advantages and disavdantages of divisional structure. We shall now discuss each of these.

Advantages—

(i) A divisional structure helps a firm to develop its capacity to respond to the changes in the environment in a better way.

(ii) The divisional structure gives greater emphasis on products and services offered by the firm and the market served.

(iii) In a divisional structure, divisional managers can be held responsible for the achievement of divisional objectives in terms of sales and profit levels.

(iv) It has been observed that employee morale is generally higher in a divisional structure. The divisional structure facilitates delegation of authority to the maximum extent and therefore executives and employee can directly get idea about their performance levels.

(v) In a firm having divisional structure, managers can devote considerable amount of time on a particular product / service line and market. The complexity arising out of reciprocity of resources that is common in a functional structure can be minimised to the fullest extent.

(vi) Since executives of a firm having a divisional structure are given the authority to formulate and implement strategy, they can emphasise the training and development needs and aspects of general managers in a better way.

(vii) It has been observed that the level of internal control is better in a divisional structure. Since responsibilities are delegated to the divisions, the top management of a firm is not required to get involved in the operating level activities. Thus they can concentrate more on strategic and administrative decision areas of the firm.

(viii) The divisional structure generates career development opportunities for the executives of the firm.

Disadvantages—

Although the divisional structure has a number of advantages, it is not devoid of disadvantages. The disadvantages of this type of a structure are as follows—

(i) An inherent disadvantage of divisional structure is that there is a repetition of administrative functions performed by different departments. There is duplication of services, facilities and personnel.

(ii) Experts believe that this type of a structure is costly since cost is involved in initiation and maintenance of this type of structure. Moreover, each division requires specialists in different functional areas who should be adequately paid for the services provided.

(iii) A firm having a divisional structure may find it difficult to maintain a consistent wage for the firm as a whole.

(iv) A product / service that has not been able to satisfy the demand of customers may have its effect on the reputation of another product. Moreover some regions, products or customers may get special treatment and the firm may find it difficult to maintain consistency of practice encompassing the entire firm.

(v) There is over emphasis on short term performance targets rather than long term goal achievement. Divisional managers of this type of firms are subject to intense pressure to meet short term targets. Thus divisions of a firm having this type of structure compete with each other for getting resources from the corporate headquarter. This has an effect on the long-term performance of the firm. Although the divisional structure has the above disadvantages, many big firms and some small firms prefer this structure because the advantages are more than offset the disadvantages.

Strategic Business Unit (SBU) Structure

Strategic Business Units (SBUs) are operating units of a firm that serve a distinct product market segment or a well-defined set of customers or a geographic area. They have autonomy in making decisions relating to the strategic affairs in the line of the guidelines provided by the corporate level. In our first unit we have seen that multibusiness firms are managed through SBUs. In these types of firms there are three levels of strategy where SBU level strategy lies in between the corporate and functional level strategy. In the SBU structure, similar divisions of firms are grouped into strategic business units. Authority and responsibility are delegated to the head of the SBU who reports to the top management of the firm. Firms prefer an SBU structure when there is a need to combine divisions with similar products, market, technology etc. Experts believe that in multi-divisional firms, SBU structure helps in the strategy implementation process in a better way.

The SBU structure has the following advantages—

(i) According to dess and Miller, the SBU structure is helpful in planning and controlling the affairs of different units from the corporate headquarter. A firm that has a number of divisions can combine the divisions that have common features in terms of industry, geographic location into a few number of SBUs. Thus the span of control for the corporate headquarters is reduced to a manageable extent.

(ii) The SBU structure allows each SBU to run independently on the basis of the guidelines of the corporate level strategy. These units can therefore formulate their course of action according to the emerging opportunities emerging from the environmental factors affecting the concerned SBU.

(iii) The SBU structure helps in improving coordination among the different divisions of the firm in terms of commonality of interests.

The disadvantages of the SBU structure are as follows—

(i) The SBU structure involves an additional layer if management between corporate and divisional level that may lead to increased expenses and occasional complication-like slow, and distorted communication etc.

(ii) According to Bettis and Hall, it is quite difficult to group the different businesses of a, firm into SBUs. There may also be difficulty in allocation of resources to different SBUs since top level of the firm may not be able to determine the parameters on a basis of which resources are to be allocated.

(iii) If a firm has a large number of SBUs, it will face difficultly in managing the affairs of these diverse SBUs effectively.

(iv) In the opinion of Dess and Miller many firms find it difficult to utilise the synergies that exist across SBUs.

Matrix structure

Firms, whose products change quite frequently and have short span prefer to have a martrix structure. There are many firms that concentrate on important projects/ products. For these type of firms the suitable type of structure is the matrix structure. In matrix structure, we have a combined line of authority ; a vertical line involving the functional managers and a horizontal line involving the project director or geographic area director. In the matrix structure we also notice double line of budgetary authority, reporting channel and reward and punishment. Form making a matrix structure effective and useful, there is a need to have an effective communication system that will facilitate flow of timely information in vertical and horizontal directions. In the opinion of David, the matrix structure requires "Participative planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence." This type of a structure is preferred by firms that purse strategy of market penetration and development, new product development and technology-based strategy. The top management team is generally kept outside the purview of a matrix. Members of the top management perform the task of coordinating the activities of the projects units in a matrix. In order to make the matrix structure successful, the top management should allow flexibility in carrying out operations. Moreover, matrix structure becomes effective when product, technology, customers, functional areas, business etc. get equal priorities from the concerned firm.

Experts have pointed out the following advantages and disadvantages of the matrix structure[22]—

Advantages—

(i) The matrix structure helps firms to simultaneously react to several changes that take place in their environment.

(ii) The matrix structure is appropriate when there are fluctuating work loads for executives.

(iii) The structure helps to pool knowledge of different functional specialists through interdisciplinary teams.

(iv) Duplication of resources can be avoided in matrix structure since human resources and equipments can be shared by a number of projects. This results in maximum utilisation of scarce resources.

(v) The matrix structure establishes and highlights a person as the focal point concerned with all activities and issues relating to a particular project.

(vi) Since objectives of projects are clear, plan of action can be formulated by executives in the light of resource and time constraints.

22. Jauch and Gluck, op. cit., p. 320.

Disadvantages—

(i) The matrix structure may give rise to conflict arising out of the existence of more than one operating system.

(ii) Some experts feel that the matrix structure slows down the decision making process and enhances cost in some cases.

(iii) Matrix structure may lead to power struggle between head of functional areas and project managers.

(iv) According to davis and Lawrence, some of the inherent characteristics of the matrix structure like dual authority, sharing of resources, teamwork may have negative effect.

(v) The matrix structure may promote narrow and restricted management view point.

Network structure—

This is a type of structure that has attracted the attention of strategists. Network consists of firms linked by a specific type of relation. They are "the total pattern of interrelationship among a cluster of organizations that are meshed together in a social system to attain collective and self-interest goals or to resolve specific problems in a target population"[23]. When the knowledge of a particular industry is complex and expanding, it is better for firms in that industry to form network rather than carryout activities singly[24]. Moreover, when firms face a continually changing and volatile environment, where they have to respond quickly to these changes, then network structure is best suited. These types of firms may contract out some activities relating to production, marketing etc to other firms. In the opinion of Jauch and Gluck, these firm prefer "vertical disaggregation" of some functions and formulate a structure that suits this type of a strategy. This type of a strategy can have the following advantages and disadvantages[25] :

Advantages—

(i) Firms in a network structure are in a better position to utilise outside technology that they do not possess.

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23. Van de Van, A.H. and Ferry, D.L., Measuring and Assessing organizations. New York, John Wiley. 1980, p. 299

24. Hall, R.H., *Organizations : Structures, Processes and Outcomes (7th edn.) New Delhi : Pearson Education,* 1999, *p.* 222.

25. Jauch and Gluck, op. cit., p. 321

(ii) Firms can use low-cost labour with the help of a network structure and the structure carries lower overhead expenses as well.

(iii) Experience suggests that the network structure is more entrepreneurial than other types of structures.

(iv) Small firms can be part of a network structure where they can get need-based resources from other firms in the network.

(v) Firms can concentrate on the core competencies and capability with the help of network structures. Different firms having core competencies in different areas can combine these competencies for gaining competitive advantage.

(vi) This type of a structure gives flexibility to firms so that they can make necessary changes in their structure according to their respective business needs.

(vii) This type of a structure helps firms to move quickly and easily so that they can easily cope with rapid changes in the environment.

Disadvantages—

(i) Firms in a network structure are vulnerable to the threat of competition from supplier.

(ii) Since a number of firms are involved in a network, there is less control and coordination, over production etc.

(iii) Firms in a network can lose design manufacturing expertise since one firm can have access to the expertise of another.

(iv) A degree of over specialisation is observed in a network structure since many tasks are performed by others in the network[26].

Many experts are of the opinion that in the light of rapid changes in different sectors of the environment, future organisational structure should be open, adaptive and flexible. The structure can be complex but should support decentralisation. There has to be flexibility in the following dimensions[27]—

(a) *Strategic flexibility*—The type of flexibility that gives firms the ability to alter the composition of the product market through product renewal, changing markets, divestment etc.

26. Kazmi, A. op. cit., pp 326
27. Jauch and Glueck, op. cit., p. 319

(b) *Structural flexibility*—The flexibility that gives firms the ability to easily change their existing organisational structure.

(c) *Operational flexibility*—The flexibility that gives firms the ability to react to the changes in volume of production. Flexibility should be such that firms can regulate production according to increase or decrease in demand for products / services.

Moreover, in the opinion of Jauch and Glueck, all types of structure work in some context. In their opinion, functional structures are best suited in stable environment where the requirement for inter-departmental communication is much less and their is less emphasis on innovation. Divisional structures are best suited for firms that face a changing environment that needs quicker adaptation and better coordination. Divisional and matrix structures are more suited when firms have complex product line and market. Network structures are suited when there is a need to share resources and competencies that are not possessed by a single firm. In the perspective of the organisational structures of the future, Thompson and Strickland have mentioned the following desirable qualities of firms of future[28]—

(i) There should be fewer barriers between ranks, functions, disciplines and units in different geographic locations. The barriers between a firm and its suppliers, distributors, customers and collaborators should be minimised as far as possible.

(ii) The organisational structure should enhance the capacity for change learning and development of core competencies.

(iii) The structure should be developed in a such a way so as to facilitate collaboration among employees in different functional areas and geographic locations.

(iv) The structure should emphasis extensive application of information technology business. Firms should take advantage of Internet based communication with customers, collaborators, suppliers etc.

5.7 Questions

1. What is strategy implementation? What are the issue involved in strategy implementation?
2. Explain the intenelationship between strategy formulation and implementation.

28. Thompson, A.A., Jr and Strickland III, A.J., *Strategic Management : Concepts and Cases (13th edn.)* New Delhi : Tata McGraw-Hill, 2003, p. 384.

3. Explain the utility of McKinsey 7-S Framework in the context of strategy implementation.
4. In the context of leadership-strategy match, explain how successful leaders should effectively carryout activities.
5. What is resource allocation? What are the different methods that are followed by firms in allocating resources?
6. Explain why change in strategy of a firm should be supported by an appropriate structure.
7. Explain the different dimensions of organisational structure.
8. Explain the important features and advantages of :

   (a) Divisional structure; (b) Matrix structure.

Unit 6 ❐ Evaluation and Control in Strategic Management

Structure

6.1 Introduction

You may perhaps think that the process of strategic management ends in the phase of strategy implementation. But effective strategic management process should include the vital phase of evaluation and control. In the opinion of David, "the best formulated and best implemented strategies become obsolete as a firm's external and internal environments change"[1]. So, there is a need to monitor the implementation process in a routine manner. Any firm interested in carrying out the process of strategic management effectively, should not undermine the issue of strategy evaluation and control. Moreover, evaluation is not a one-time exercise and should be carried out on a regular and continuous basis. This should be based on the imputs gathered from the implementation phase. This phase helps executives to remain aware of the changes and problem areas in the process of strategy implementation. Jauch and Glueck have defined it as "Evaluation is that phase of the strategic management process in which managers try to assure that the strategic choice is properly implemented and is meeting the objectives of the enterprise". In the opinion of Jauch and Glueck the process of evaluation and control of strategy helps executives to assess the progress of a particular

1. David, F. R, *Strategic Management : Concepts & Cases (9th edn.),* New Delhi : Pearson Education, 2005., p. 300

course of action. They have further stated certain issues that executives should consider in the context of evaluation and control of strategy. They are[2]—

- ✓ Consistency of decision with the policy.
- ✓ Adequacy of resources for undertaking activities.
- ✓ Optimum utilisation of resources.
- ✓ Whether events are taking place, as anticipated.
- ✓ Whether short-term and long-term goals and target have been achieved.
- ✓ Whether the executives should continue with plan that has been formulated.

Moreover, an effective strategy evaluation and control process should include the following activities[3] :

- Ascertaining the assumptions about the environment guiding the strategy formulation process.
- Examining the above assumptions relating to the environmental factors in order to determine deviation.
- If the deviation is significant.
- Carry out strategy formulation and implementation afresh as per identified needs.

You can easily understand that in carrying out the process of evaluation and control of strategy, there is a need to assess the assumptions about the firm's internal and external environment.

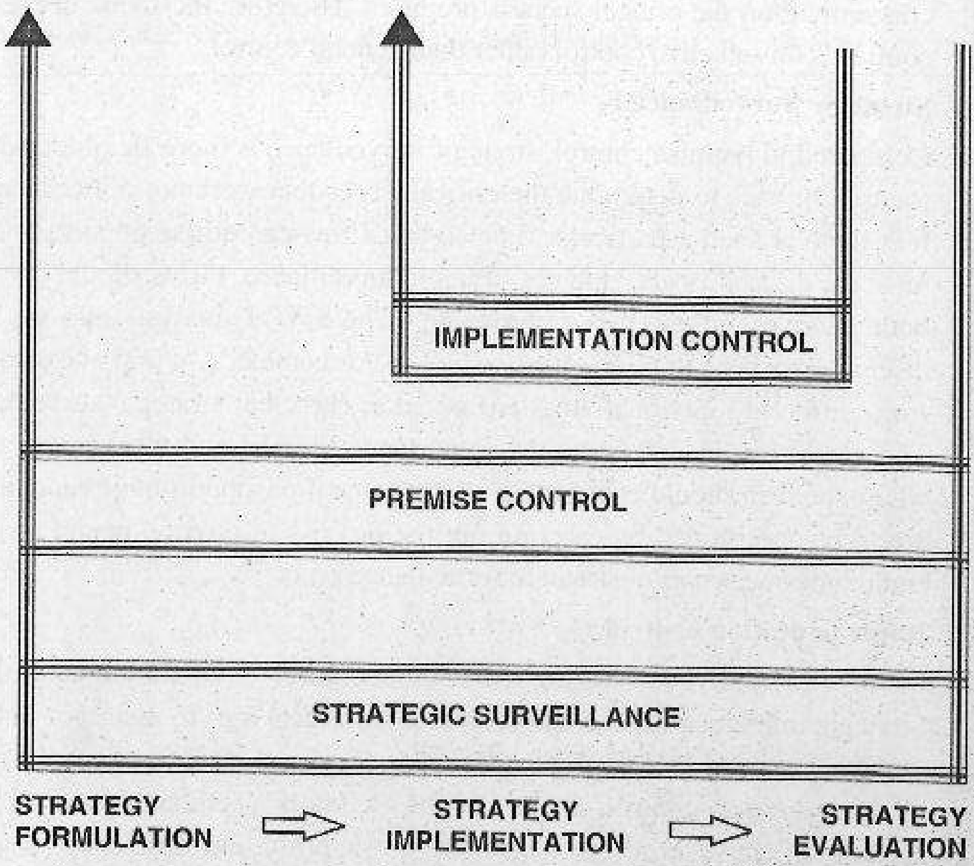
6.2 Contemporary approach to strategic control

Dess and Miller have effectively analysed the contemporary approach to control in the context of strategic management: This approach is based on developing a proactive system to control strategy that is future directed, utilizes state of the art technology and executive information system (EIS), and recognizes and overcomes inherent barrier to control. The basic model has considered there types of feed forward control namely, premise control, strategic surveillance and implementation control.

2. Jauch. L. R. and Glueck, W.F., *Strategic Management and Business Policy,* New York : McGraw-Hill, 1989, p. 377

3. Ibid, p. 379.

These are shown in the figure drawn below—



Source : Dess, G. G. and Miller, A., Strategic Management, New York : McGraw-Hill, 1994, p. 293 Let now briefly discuss each of these[4].

(i) **Premise control :**

Premise refers to the assumptions that need to be considered in the process of strategy formulation. Assumptions are based on different environmental factors. If there are major changes in the premises, the firm is required to alter its course of action.

Trained specialists within firms are required to carry out premise control. These specialists should continuously monitor the vital environmental sectors to ascertain whether the previous assumptions are valid. Experts suggest that in carrying out premise control the specialists sould collect information but

4. This section is based on Dess, G.G. and Miller, A., Strategic Management, New York: McGraw-Hill, 1994, pp. 293-304

they should avoid information overload. They should therefore try to concentrate on the critical success premises. Therefore the focus of premise control is on selective control rather than general control.

(ii) **Strategic Surveillance :**

Compared to premise control, strategic surveillance is more flexible and less focused. It tries to determine the critical issues that were not noticed earlier. It is done at such a particular time so that firms can utilise opportunities or meet the threats. In carrying out strategic surveillance. Firms should consider both internal and external environment. The SWOT analysis that we have discussed earlier can be an effective tool in this context. A group of executives from different functional areas is formed to carry out strategic surveillance. The group has to determine the important strengths and weaknesses areas where the firm should concentrate. At the same time, opportunities and threats are to be ascertained by carrying out the process of environmental analysis and diagnosis as part of strategic surveillance process.

(iii) **Implementation control :**

There are two divisions of implementation control — Operation control and Strategic implementation control. Operation control tries to ascertain whether the firm has been able to implement its strategy according to its plan. As part of the operation control, forms should ascertain whether they are able to achieve objective in terms of growth, profitability and efficiency; whether resources have been properly allocated etc. Relevant information for this purpose is collected from the firm's records and reports. Compared to operation control, strategic implementation control is broader. This type of control tries to ascertain whether there is a need to change the firms strategy due to changes in environment. In the opinion of Dess and Miller, "Implementation control involves more than the determination of whether or not short-term objectives are obtained-it looks at results within the broader context of ongoing events and trends in both the internal and external environment". Strategic implementation control seeks to asses the suitability of a course of action in the light of the changes in firm's environment. There is therefore the need to develop a suitable mechanism for effective control.

Dess and Miller have further highlighted the importance of budget systems in the context of implementation control. Budgets highlight the areas of control where corrective actions need to be taken. The budget also helps firms to implement strategy effectively. For this, the budget should be integrated with the firm's overall strategy. In this perspective firms can utilise the strategic budgeting process that we have discussed in the last unit. Managers can use strategic budget as a tool for coordination and control for achievement of firm's goals.

6.3 Barriers in the context strategic control

Lorange and Murphy have highlighted three types of barriers in the context of strategic control. They are systematic barriers, behavioural barriers and political barriers. Let us briefly discuss each of these barriers[5].

Systematic barriers :

Systematic barriers arise out of the faults in the design of the control mechanism of the firm. The different types of systematic barriers are—

(i) Difficulties in comparing results of performance encompassing the firm's business.

(ii) A lot of paper work involved in the process that tends to reduce a firm's capacity to respond quickly to the changes in environment.

(iii) Conflict between corporate level objectives and business level objectives.

These types of problems are generally witnessed in large diversified firms.

Behavioural barriers :

Behavioural barriers arise out of executive's tendency to look at issues with a biased outlook. this type of barrier may arise because of reasons such as education, background etc. of executives. Executives may also face behavioural barrier when they perceive that their image or prestige is threatened. In order to reduce behavioural barriers, top management team of firms should try to generate awareness among executives about such problems and the required solution. For this, firms can .use seminars, management development programmes, career planning for strategists etc. There is also the need to identify the environmental variables that are to be assessed. Information has to be collected and effective interaction among the concerned executives should be encouraged.

5. This section is based on Lorange, P. and Murphy, D., "Considerations in implementing strategic control", *The Journal of Business Strategy,* '5, 1984, pp. 27-35 and. Dess and Miller, op. cit, pp. 304-306.

Political barriers :

We are all aware of the fact that a first is a coalition of groups having conflicting interests. Political barriers arise out of the conflicting interest of different actors within firms. this conflict may also-arise when there is shift in power from one group to another. For solving this type of a conflict, firms should ensure timely information flow, provide delegation of authority and need-based empowerment.

The duties and responsibilities of different groups and units should be clearly stated in the context of the overall objectives of the firm. Interaction among different groups should be encouraged by the top management team. The top management-team should also encourage the bottom-level managers to communicate information to the middle and top level.

6.4 Role of organisational systems in evaluation of strategy

The process of evaluation and control of strategy can be carried on the basis of a number of organisational systems. In this context, some of the systems mentioned by experts are: Information System, Control System, Appraisal System, Motivation System, Development System and Planning System. We shall now discuss the role of these systems in strategy evaluation in the line of Kazmi's analysis[6].

1. *Information system*—With the help of an information system, information is collected, integrated, analysed and disseminated for effective managerial decision-making. An information system produces reports that can be used in evaluating a strategy. Executives can monitor and assess performance and a firm's strategy with the help of an information system. We have already discussed the issue of strategic surveillance, premise control etc. in the context of strategic control. These processes can be carried out effectively with the help of an information system. In the present situation we are witnessing the application of information technology in managing the affairs of a firm. Firms can therefore use IT to collect information about the different aspect of strategy and then use the information in a systematic manner to evaluate strategy.
2. *Control system*—Firm can use the control system for setting standards, measuring performance, analysing deviation and taking corrective action. Thus the control system helps in measurement and correction of the performance

6. A. Kazmi, Business Policy and strategic Management, 2nd Edition, New Delhi : Tata McGraw-Hill, 2002, pp. 440-442.

activities to ensure that a firm is able to reach its' objectives with the help of the strategy it has chosen.

3. *Appraisal system*—In the opinion of Kazmi, the appraisal system is used to evaluate performance and hence it can be considered as a component of the control system. When firm tries to carryout performance appraisal of executives, it actually tries to asses their contribution towards the achievement of the firm's overall objectives. Thus from a broader point of view, appraisal system of individuals within firms is part of the overall process of evaluation of strategy.
4. *Motivation system*—The objective of the motivation system is to encourage individuals or groups within the firm to behave in a particular towards the achievement of the firm's objectives. Thus when a firm is able to motivate individuals and groups, it will be able to achieve its goals. The motivation system has a vital role to play in the context of evaluation of strategy. With the help of such a system, a firm tries to control deviation and if deviations occur a firm tries to rectify them through towards and punishment. Top management of a firm is interested to evaluate a strategy when executives think that they will be able to use the control and evaluation system in an effective manner. Many managers have faced failure and thus they become too cautions in making strategic decisions. In the opinion of Jauch and Glueck, an important issue in the context of motivation is the reward system. In their opinion, managers are motivated to evaluate a strategy if high performance in the context of reaching objectives is effectively rewarded[7]. In this perspective, the motivation system can be considered as an organisational system that can be used to evaluate strategy.
5. *Development system*—The objective of a development system is to prepare executives for carrying out tasks in strategic and operational areas. With the help of a development system, firms try to match the strategists with the strategy and an individual employee with the job. By utilising the development system, firms try to look towards the future and prepare for it. Development has to be dome in terms of new opportunities, challenges, talents and skills required for a particular type of strategy. In the opinion of Kazmi, the role of the development system in evaluation is to help executives to formulate and implement corrective action in the context of a firm's strategy.

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7. Jauch, L. R. and Glueck, W. {F., *Strategic Management and Business Policy*, New York: McGraw-Hill, 1989, p. 382

6. *Planning system*—The process of evaluation and control of strategy should be carried out with the help of an appropriate plan. In strategic planning exercise, executives of firms must be ready to respond to a dynamic environment and it is assumed that future environmental conditions are not known with perfect certainty. There is therefore the need to identity the individuals or groups who will carryout evaluation. There is also the need to identify the ways to utilise information, resource requirement and administrative set up for evaluation. For this firms can utilise the planning system.

Problems of strategy evaluation :

Since evaluation of strategy is a complicated process, it has to be carried out effectively for getting the desired results. In the opinion of Christensen et al., evaluation of strategy is more of an act of judgement that may involve some error. Current results may be evaluated in a wrong way by strategists. Excellent results may not necessarily be the reflection of a good strategy. In the opinion of experts "Extrapolation of present performance into the future, over-optimism and complacence, and underestimation of competitive response and of the time required to accommodate to changes in demand are often by-product of success."[8]

When a firm earns high level of profit, the executives may be more interest in the current state of affairs of the firm and may be emphasise the environmental trends that may have significant effect in the future. A strategy involving high amount of risk that was not successful earlier should not be considered as a wrong strategy as long as the executives were aware of the risk-factor involved in the strategy while formulating the same.

Experts believe that the common problem associated with evaluation of strategy is the possibility of misinterpreting results. Firms can make mistakes in evaluating their strategy in the context of internal resources and capabilities on one-hand and environment assumptions on the other. Moreover, firms should not be too much enthusiastic in responding to the sudden changes in their respective environments. Many firms try to pursue a strategy similar to the strategy pursued by firms in the same industry. They evaluate the strategy on the basis of what others are doing. Instead of this, the firm should formulate strategy independently in the light of its understanding of environment. The similarity of strategies of firms in a particular industry leads to the failure of strategy at times. Thus the process of evaluation of the strategy should not be purely based on

8. Christensen, C. R., Andrews, K. R. and Bower, J. L., Business Policy : Texts and Cases, Richard D. Irwin, 1973, pp. 117-119.

industry trends. The strategy of a firm may reflect the personal values of the top management of firms. For example some members of the top management of a firm may emphasise intensive growth strategy and try to realise it anyhow. The firm may not have necessary resources and competencies to grow. Still, the top managers prefer grow. Moreover, "It is entirely possible that a strategy may reflect in an exaggerated fashion the values rather than the reasoned decisions of the responsible manager or managers and that imbalance may go undetected.[9] It is also essential especially for successful firms to assess the appropriateness of the strategy in terms of optimum utilisation of scarce resources rather than deploying resources without examining the synergies that exist 'among different areas. These issues come into focus when evaluation process is carried.

6.5 Criteria for Evaluation of Strategy

In this unit our topic of discussion is evaluation and control of strategy. So, a pertinent question that might come in your mind is that since we are concerned with evaluation of strategy, how should we evaluate it? There is therefore the need to identify the factors that are necessary to valuate strategy. In this perspective experts suggest that there should be a mix of qualitative and quantitative factors for evaluation of strategy. The choice of such factors will obviously depend on the exact nature of the purpose for which firms evaluate a strategy. We can therefore employ quantitative as well as qualitative criteria for evaluation. Let us now discuss these criteria.

Quantitative Criteria :

A firm can judge performance quantitatively on the basis of the its records and/ or compare performance sigh that of similar firms in the industry in the light of its corporate strategy. In measuring performance, the different approaches that can be used are[10] : (i) Firm survival as a measure' of performance., (ii) Stakeholder approache to measure of performance, (iii) Traditional and modern criteria for measuring performance.

(i) *Firm's survival as a measure of performance—*

This approach is based on the economic performance of firms. When a firm is able to generate economic value by employing its resources equivalent to what the owners of the resources actually expect to receive, then it is said to have normal economic performance. A firm that is able to generate normal

9. Ibid

10. Barney, J.B., Gaining and Sustaining Competitive Advantage (2nd edn.), New Delhi : Prentice Hall, 2002, pp. 28-31

economic performance over a long-period of time will be able to survive in the long-run. It can therefore be inferred that in this case,. the firm has been able to match its corporate strategy to a moderate extent. If the firm is able to generate above-normal economic performance, then the top management can think that the strategy has been successfully implemented by the firm. This apporach is simple and easy to understand. If the firm has been carrying out its operations effectively, it implies prima facie, that it is surviving and hence it can be safely assumed that strategy has been implemented effectively.

(ii) *Stakeholder approach to measure of firm's performance—*

The stakeholders approach suggests that performance of a firm can be evaluated on the basis of the perception of the stakeholders about its performance. In the opinion of Barney, since "different stakeholders use different criteria to judge a firm's performance, rarely will it be possible for an organization to implement strategies that completely satisfy all of its stakeholders". moreover in the context of a numbers of stakeholders, a group of stakeholders may think that the firm's performance may be satisfactory and another group of stakeholders may consider the performance to be non-satisfactory or average. Firms using this criterion should first identify the exact purpose of evaluation and the importance of a particular stakeholder group. On the basis of this, the evaluation process is to be carried out. The utility of this approach lies in the fact that it considers strategy in terms of the value generated by each of the firm's critical resources as perceived by the stakeholders.

Apart from the above-mentioned criteria, firms can use the following[11]—

- Firm's stock price
- Rate of dividend
- Net Profit
- Earnings per share
- Return on equity
- Market share
- Sales growth
- Man-days lost
- Employee turnover and efficiency
- Distribution cost and efficiency

11. Jauch and Glueck op. cit., p. 385

The above list not complete and you can include any quantitative measure. But the choice of a particular factor should be based on the critical success factors—i.e. the factors that are vital in the context of the firm's strategy. These factors are to be translated into measures that can be used for evaluation of strategy. Apart from measuring a firm's success internally on the basis of some selected criteria, a firm can also compare its own performance with the performance of similar firm's in the industry.

Qualitative Criteria for Strategy evaluation :

A firm cannot always quantify all aspects of its performance and strategy. The quantitative criteria should be integrated with the environmental assumptions to make evaluation more comprehensive. For this firms should use qualitative criteria for evaluation of strategy. In this perspective, Jauch and Glueck have analysed the qualitative criteria in terms of consistency, appropriateness and workability of the strategy of the firm. We shall now discuss each of these in the light of Jauch and Glueck approach[12]—

(i) **Consistency**—

This implies consistency of the strategy with objectives, assumptions of the firms environment and internal conditions. In the context of objectives, the executives should try to see whether the strategy will be able to reduce the important gaps that have been identified, whether the criteria are related to the critical success factors, whether the firm has set objectives that are mutually consistent, whether there is any need to make trade off, etc. In the context of environmental assumptions, the firm should try to see whether it is able to make positive response to the changes in the environment. The firm should also try to see whether the strategy is able to exploit the opportunities of the environment. The consistency of internal resources and competencies with the corresponding environmental factors should also be measured. There should also be "anticipatory flexibility" of the strategy vis-a-vis the environmental assumptions. The third issue in the context of consistency is the measure of degree consistency with the internal condition of the firm (i.e. the firm's policies, resource allocation, structural consideration etc). There should also be an "intergrated pattern of implementation" of the firm's strategy. Moreover, the strategy should be based on the internal conditions where the firm enjoys strengths.

(ii) **Appropriateness**

Jauch and Glueck have suggested to measure appropriateness of the strategy in terms of resource capabilities, risk preference and time horizon. In the context of

12. Jauch and Glueck, op. cit., 388-390

resource capabilities, the basic issue that needs to be addressed is whether the firm has the critical resources according to the needs of the strategy. Raw materials, energy, human resources, equipments and machinery, facilities etc. should be developed. In terms of risk preference, the question that needs to be asked is whether the strategy involves unnecessary risk? It should also be ensured whether the top management is ready to accept the degree of risk. Moreover, Is the risk necessary at all? Is it based on the assumptions of the firm's environment? These questions should be answered in order to judge the appropriateness of strategy. Coming to the issue of time horizon, the firm should ascertain whether there is adequate time available for achieving the objectives set by it. In the light of the firm's capabilities and resources, executives should try to know whether the firm has enough time to pursue its strategy. The appropriateness of time for pursuing a particular course of action should also be judged. Is the firm following slow, steady, rapid or drastic steps in achieving its objectives?

(iii) **Workability—**

Workability of the strategy in the opinion of Jauch and Glueck can be judged in terms of feasibility and stimulation. In the context of feasibility, the question that the firm should consider is whether there is over emphasis on resources and capabilities? The firm should ensure that the strategy does not generate unwanted problems. Feasibility of the strategy should also be judged in terms of clarity and rationality of the strategy. In the context of stimulation, there is a need to enquire whether the strategy will motivate executives towards its implementation. Whether there is agreement among executives about the workability of the strategy? The other questions that should be analysed are—

Whether the firm has designed an appropriate reward system to match the strategy? And

Has the aspiration level of the important executives been considered in strategy formulation process?

You can easily understand almost all these qualitative criteria should be considered as part of the evaluation process.

In the opinion of Ricard Rumelt, there are four qualitative tests that a strategy must pass. They are[13] :

- Strategies must be internally consistent
- Strategies must provide consonance between the firm and its environment

13. Rumelt, R, Evaluation of Business Strategy, in J. Glueck, Business Policy and Strategic Management, New York: McGraw-Hill International, pp. 359-367

- Strategies must be based on gaining and sustaining competitive advantage
- Strategies must be feasible in the light of the resources and capabilities of a firm.

6.6 Strategy Evaluation Framework

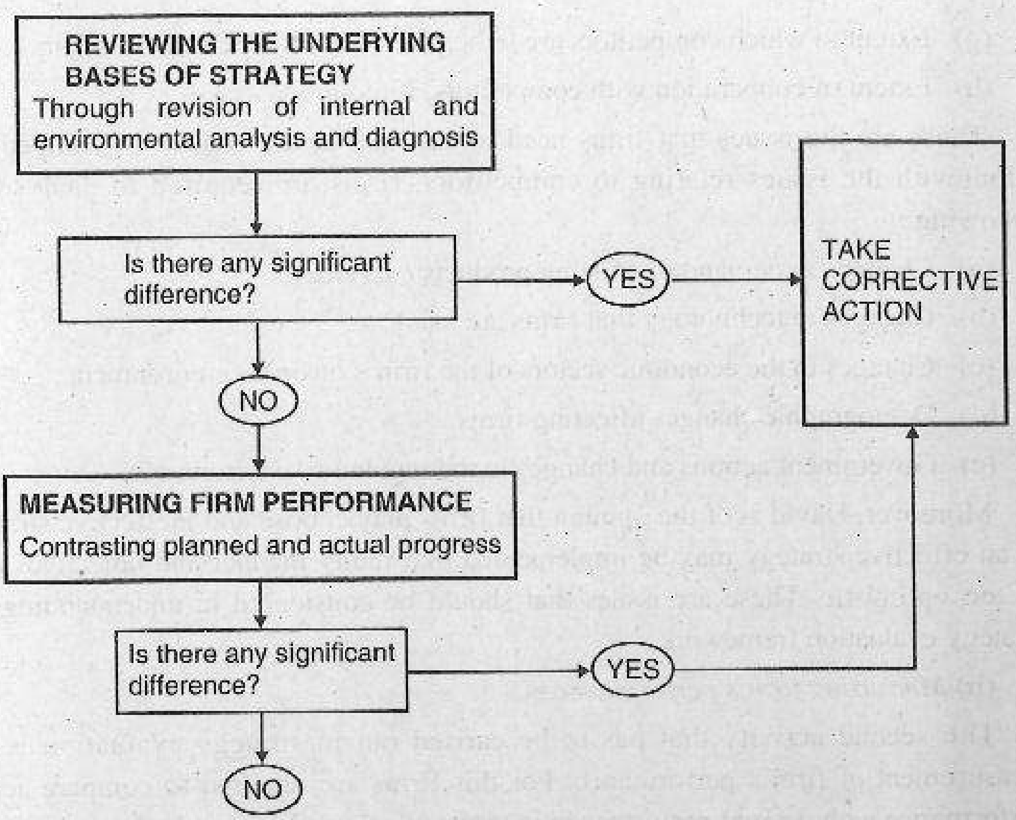
It would be useful for us to conclude this discussion on strategy evaluation by developing a framework on the basis of the topics analysed so far. Following David we shall develop this framework. In his framework David has suggested some activities that are to be carried out in the context of strategy1 evaluation. They are

(i) Reviewing the underlying bases of strategy

(ii) Measuring firm's performance

(iii) Taking corrective action.

These activities are shown in the figure below :



Source : Adapted from David, F. R., *Sreategic Management : Concepts & Cases (9th edn.)*, New Delhi : Perason Education, 2005, p. 306

Let us now discuss each of the activities in the line of David's approach[14].

(i) *Revewing the literalizing bases of strategy—*

With a view of review the bases of strategy, firms can revise environmental and internal analysis and diagnosis by applying the tool for assessment of internal and environmental factors. In revising, the firm can consider issues relating to its competitors such as—

(a) Reaction of competitors to the firm's strategy.

(b) Changes in the firm's competitors's strategy

(c) Changes in the strengths and weakness of the major competitors of the firm.

(d) Reasons why competitors have changed their strategy.

(e) Reasons why strategies of some competitors have been successful than others.

(f) Degree of satisfaction of competitors with their current market position and profitability.

(g) Extent to which competitors are to be pushed before they can retaliate.

(h) Extent of cooperation with competitors, if required.

These are the issues that firms need to consider in the context of competitors. Alongwith the issues relating to competitors, firms are required to analyse the following :

(a) Changes in demand of existing products / services.

(b) Changes in technology that firms are using.

(c) Changes in the economic sectors of the firm's business environment.

(d) Demographic changes affecting firms.

(e) Government actions and changes in the regulatory environment.

Moreover, David is of the opinion that firms may choose and ineffective strategy or an effective strategy may be implemented in a faulty manner and objectives may be too optimistic. These are issues that should be considered in understanding the strategy evaluation framework.

(ii) *Measuring firm's performance—*

The second activity that has to be carried out in strategy evaluation is the measurement of firm's performance. For this firms are required to compare actual performance with desired performance in terms of selected criteria and determine the

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14 David, F. R., *Strategic Management : Concepts & Cases (9th edn.)*, New Delhi: Person Education, 2005, 305-309

gap. assess individual and group performance and examine how close they have been able to reach to their objectives.

Firms can use long-term and short-term objectives for the purpose. When a firm is unable to reach its objectives then it is a signal of failure. Firms can use different criteria for evaluation. We have already discussed the quantitative and qualitative criteria in strategy evaluation in the last section. These criteria can be used for assessing firm's performance. The selection of criteria will depend on the firm's strategy alongwith its size, industry etc.

Moreover, we have discussed the qualitative criteria for strategy evaluation that have been suggested by Jauch and Glueck. David has suggested some additional qualitative criteria like

(a) Whether the firm is still enjoying strength that it has been enjoying earlier.

(b) Whether new competencies have been acquired or developed-the exact nature of these competencies.

(c) Whether the firm is still having weakness in certain areas where it had weakness earlier?

(d) Whether the firm is having environmental opportunities that were there in the last period?

(e) Whether there have been new threats in the firm's environment?

A firm should judiciously consider each of the issues mentioned as part of the process of reviewing the bases of its strategy. This will give a clear idea about where it stands vis-a-vis strategy implementation. Firms can also consider the following issues :

(a) Nature of balance or imbalance of the firm's investment in high risk and low risk projects.

(b) Nature of balance or imbalance of the firm's investment in long-term and short term projects.

(c) Nature of balance or imbalance between the fast growing and slow growing markets of the firm.

(d) Extent to which the firm has been able to establish balance and parity in investment among different divisions.

(e) Extent to which the alternative courses of action are socially responsible.

(f) Nature of relationship between the firm's internal resources and competencies and external factors.

(g) Likely response of the competitors to the firm's strategic response.

(iii) *Taking corrective action*—

In the opinion of david, taking corrective action involves "making changes to reposition a firm competitively for the future." As part of this process, firms can reformulate mission, make changes in leadership position, divest a division or change the organisational structure. Firms can also change their objectives, develop new policies, revise resource allocation etc. It is therefore incorrect to think that firms should not take corrective action. Change in environment has to be monitored. So, firms should evaluate strategy to react to the change in a better way. David has further stated that "strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, or no changes at all. He has further stated that taking corrective action puts a firm in a better position so that it can exploit opportunities or meet the threats by utilising strengths and repairing weaknesses. It also improves the firm's competitive position in the industry. This ultimately leads to effective strategic management, which is the key to organisational success.

We end this unit by quoting Jauch and Glueck, "Successful strategists are like physicians when they are treating illness. They look at symptoms and make probable diagnosis. Then prescribe the best procedure or medicine. The diagnosis results from analysis-diagnosis and choice states of strategic management process. The prescription is the implementation. If the prescription does not work, the physicians may believe that they made the wrong diagnosis (strategic choice), and then they make another diagnosis". From this statement you can probably understand the importance of evaluation and control in strategic management.

6.7 Review questions

1. Analyse the importance of strategy evaluation and control. .
2. Explain the contemporary approach to strategic control.
3. Analyse the different types of barriers in the context of strategic control
4. What roles do organisational systems play in evaluation of strategy?
5. What criteria would you adopt for carrying out evaluation of strategy?

6.8 Further Readings

1. Jauch L. R. & Glueck, W.F., *Strategic Management and Business Policy*. New York : McGraw Hill International
2. Dess, G.G. and Miller, A., *Strategic Management*, New York : McGraw-Hill International

3. Rue, L. W. and Holland, P. G., *Strategic Management :* Concepts and Experiences, New York: McGraw-Hill International
4. David, F. R., *Strategic Management : Concepts & Cases,* New Delhi : Person Education
5. Hunger, J. D. Wheelan, T.L., *Essentials of Strategic Management,* New Delhi : Prentice Hall of India
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7. Kazmi A., Business Policy and *Strategic Management,* New Delhi : Tata McGrawHill
8. Fao, V.S.P. and Krishna, V.H. *Strategic Management :* Text and Cases, New Delhi: Excel Books
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10. Cherunilam, F. *Strategic Management,* New Delhi : Himalaya Publishing House.

মানুষের জ্ঞান ও ভাবকে বইয়ের মধ্যে সঞ্চিত করিবার যে একটা প্রচুর সুবিধা আছে, সে কথা কেহই অস্বীকার করিতে পারে না। কিন্তু সেই সুবিধার দ্বারা মনের স্বাভাবিক শক্তিকে একেবারে আচ্ছন্ন করিয়া ফেলিলে বুদ্ধিকে বাবু করিয়া তোলা হয়।

— রবীন্দ্রনাথ ঠাকুর

ভারতের একটা mission আছে, একটা গৌরবময় ভবিষ্যৎ আছে, সেই ভবিষ্যৎ ভারতের উত্তরাধিকারী আমরাই। নূতন ভারতের মুক্তির ইতিহাস আমরাই রচনা করছি এবং করব। এই বিশ্বাস আছে বলেই আমরা সব দুঃখ কষ্ট সহ্য করতে পারি, অন্ধকারময় বর্তমানকে অগ্রাহ্য করতে পারি, বাস্তবের নিষ্ঠুর সত্যগুলি আদর্শের কঠিন আঘাতে ধূলিসাৎ করতে পারি।

— সুভাষচন্দ্র বসু

Any system of education which ignores Indian conditions, requirements, history and sociology is too unscientific to commend itself to any rational support.

— Subhas Chandra Bose

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