SASURIE COLLEGE OF ENGINEERING

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION -REGULATION 2021

II YEAR–IIISEMESTER

BA4301

STRATEGIC MANAGEMENT

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STRATEGICMANAGEMENT

UNIT I STRATEGY AND PROCESS

Conceptualframeworkforstrategic management, the Concept of Strategy and the Strategy Formation Process – Stakeholders in business – Vision, Mission and Purpose – Business definition, Objectives and Goals - Corporate Governance and Social responsibility-case study.

UNIT II COMPETITIVE ADVANTAGE

External Environment - Porter‘s Five Forces Model-Strategic Groups Competitive Changes during Industry Evolution-Globalisation and Industry Structure -National Context andCompetitiveadvantageResources-Capabilitiesandcompetencies–core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage-Distinctive Competencies- Resources and Capabilities durability of competitive Advantage- Avoiding failures and sustaining competitive advantage-Case study

UNIT III STRATEGIES

The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy- Strategy in the Global Environment-Corporate Strategy- Vertical IntegrationDiversification and Strategic Alliances- Building and Restructuring the corporation- Strategic analysis and choice – Managing Growth -Environmental Threat and Opportunity Profile (ETOP) - OrganizationalCapabilityProfile-StrategicAdvantageProfile-Corporate Portfolio Analysis - SWOT Analysis - GAP Analysis - Mc Kinsey's 7s Framework-GE9CellModel–Distinctivecompetitiveness-Selectionof matrix - Balance Score Card-case study

UNIT IV STRATEGY IMPLEMENTATION & EVALUATION

Theimplementationprocess,Resourceallocation,Designingorganisational structure-DesigningStrategicControlSystems-Matchingstructureand control to strategy-Implementing Strategic changePolitics-Power and Conflict-Techniques of strategic evaluation & control-case study.

UNIT V OTHER STRATEGIC ISSUES

Managing Technology and Organisational Culture Innovation-StrategicissuesforNonProfitorganisations.NewBusiness Models and strategies for Internet Economy-case study Challenges in Strategic Management: Introduction, Strategic Management as an Organisational Force, Dealing with Strategic Management in Various Situations, Strategic Management Implications and Challenges Recent Trends in Strategic Management: Introduction, Strategic Thinking, Organisational Culture and

UNIT-I

Strategy:

It is an action that managers take to attain one or more of the organization'sgoals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process". An equivalent definition given in the class is selection of actions that will make an organization to have superior performance compared to industry. An action means allocating resources.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategydealswithlongtermdevelopmentsratherthanroutineoperations,i.e.it deals withprobabilityofinnovationsornewproducts,newmethodsofproductions, or newmarketstobedevelopedin future.
3. Strategyiscreatedtotakeintoaccounttheprobablebehaviorofcustomersand competitors.Strategies dealing with employees will predict the employee behavior.

Strategyisawelldefinedroadmaporagoalposttobeachievedofan organization.Itdefines theoverallmission,visionand direction ofanorganization.The objectiveofastrategyistomaximizeanorganization'sstrengthsandtominimizethe strengthsofthe competitors.

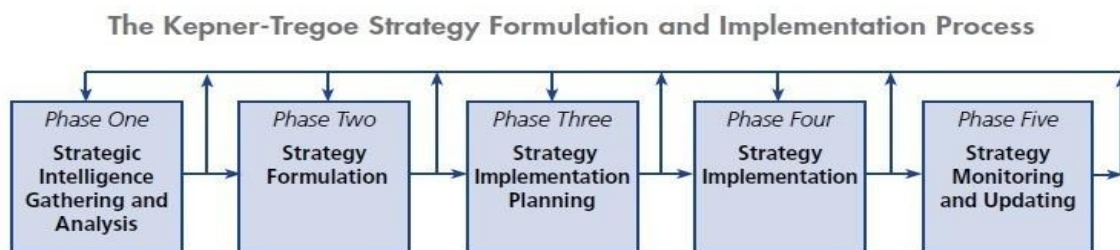
Strategy,inshort,bridgesthegapbetween"whereweare"and"wherewewanttobe".

Strategic Management

Strategicmanagementhasnow evolvedtothe pointthatitis primaryvalue is tohelpthe organizationoperatesuccessfullyindynamic,complexglobalenvironment.Corporations havetobecomelessbureaucraticandmoreflexible.Instableenvironmentssuchasthose that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as enduring competitive advantage and there is need to develop such advantage is more than necessary.

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.Learningorganizationsavoidstabilitythroughcontinuousself-examinationsand experimentations.

StrategicFormationProcess:



Setting Organizations' objectives - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategyis generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there.Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Oncetheobjectivesandthefactorsinfluencingstrategicdecisionshavebeendetermined, it is easy to take strategic decisions.

Evaluating the Organizational Environment - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitativeandquantitativereviewof an organizations existing productline.Thepurpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

Setting Quantitative Targets - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

Performance Analysis - Performance analysis includes discovering and analyzingthegapbetweentheplannedordesiredperformance.Acriticalevaluationof

theorganizationspastperformance,presentconditionandthedesiredfutureconditions mustbedonebytheorganization.Thiscriticalevaluationidentifiesthedegreeofgap thatpersistsbetweentheactualrealityandthelong-termaspirationsoftheorganization. the Anattemptismadebytheorganizationtoestimateitsprobablefutureconditionif currenttrendspersist.

Choice of Strategy - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities

MissionStatement

Mission statementisthestatement of therolebywhich an organization intends to serveit'sstakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are").For instance,

Ex: Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizationalgrowthandinnovations.Intoday'sdynamicandcompetitiveenvironment,

missionmayneedtoberedefined.However,caremustbetakenthattheredefined

missionstatementshouldhaveoriginalfundamentals/components.Missionstatementhas

FeaturesofaMission ·astatementofmissionorvisionofthecompany,astatement

thecorevaluesthatshapetheactsandbehavioroftheemployees,andastatementof

statementwhichisforthecustomers/clients.Itcontributesineffectivedecisionmaking

aswellaseffectivebusinessplanning.Itincorporatesasharedunderstandingabout

natureandaimoftheorganizationandutilizesthisunderstandingtodirectandguide

organizationtowardsabetterpurpose.Itdescribesthatonachievingthemission,how

organizationalfuturewouldappeartobe.

Aneffectivevisionstatementmusthavefollowingfeatures-

a. Itmustbeunambiguous.

a. Itmustbeclear.

b. Itmustharmonizewithorganization'scultureandvalues.

Avisionisthepotentialtoviewthingsaheadofthemselves.Itanswers

question"wherewewanttobe".Itgivesusareminderaboutwhatweattempt

develop.Avisionstatementisfortheorganizationandit'smembers,unlikethemission

d. Thedreamsandaspirationsmustberational/realistic.

e. Visionstatementsshouldbeshortersothattheyareeasierto memorize.

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Goalsand objectives

Agoalisadesiredfuturestateorobjectivethatanorganizationtriestoachieve.Goals specifyinparticularwhatmustbedoneifanorganizationistoattainmissionorvision. Goalsmakemissionmoreprominentandconcrete.Theyco-ordinateandintegrate variousfunctionalanddepartmentalareasinanorganization.Wellmadegoalshave followingfeatures-

1. Thesearepreciseand measurable.
2. Theselookaftercriticalandsignificantissues.
3. Thesearerealistic and challenging.
4. Thesemustbeachievedwithinaspecifictime frame.
5. Theseincludebothfinancialaswellasnon-financial components.

Objectivesaredefinedasgoalsthatorganizationwantstoachieveoveraperiodoftime. Thesearethefoundationofplanning.Policiesaredevelopedinanorganizationsoasto achievetheseobjectives.Formulationofobjectivesisthetaskoftoplevelmanagement. Effectiveobjectiveshavefollowingfeatures-

1. Thesearenotsinglefororganization,butmultiple.
2. Objectivesshouldbeboth short-termaswellaslong-term.
3. Objectivesmustrespondandreacttochangesinenvironment,i.e.,theymust be flexible.
4. Thesemustbefeasible,realisticand operational.

Tactics

Tactics are concerned with the short to medium term co-ordination of activities and the deployment of resources needed to reach a particular strategic goal. Some typical questions one might ask at this level are: "What do we need to do to reach our growth / size/profitabilitygoals?""Whatareourcompetitorsdoing?""Whatmachinesshouldwe use?" The decisions are taken more at the lower levels to implement the strategies based on ground realities.

Howstrategyis initiated?

Atriggeringeventissomethingthatstimulatesachangeinstrategy.Someofthepossible triggering events is:

New CEO: By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

Intervention by an external institution: The firm's bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

Threatofachangeinownership:Anotherfirmmayinitiateatakeoverbybuying the company's common stock.

Management's recognition of a performance gap: A performance gap exists when performance does not meet expectations. Sales andprofits either are nolongerincreasing or may even be falling.

Innovation ofanewproductthatthreatenstheexistenceofthepresentstatusquo.

Basicmodelofstrategicmanagement

Strategicmanagementconsistsoffourbasicelements

1. Environmentalscanning
2. StrategyFormulation
3. StrategyImplementation and
4. Evaluationand control

Management scans both the external environment for opportunities and threats and the internal environmental for strengths and weakness. The following factors that are most important to the corporation's future are called strategic factors: strengths, weakness, opportunities and threats (SWOT)

StrategyFormulation

Strategy formulation is the development of long-range plans for they effective management of environmental opportunities and threats, taking into consideration corporate strengths and weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Mission

Anorganization'smissionisitspurpose,orthereasonforitsexistence.Itstateswhatitis providing to society .A well conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company 's operation in terms of products offered and markets served

Objectives

Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation's mission.

Strategies

A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

Policies

A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that theemployees throughout the firm make decisions and take actions that support the corporation's mission, its objectives and its strategies.

Strategicdecisionmaking

Strategic deals with the long-run future of the entire organization and have three characteristic

1. Rare-Strategicdecisionsareunusualandtypicallyhavenoprecedentto follow.

2. Consequential-Strategicdecisionscommitsubstantialresourcesanddemandagreat deal of commitment

3. Directive-strategicdecisionssetprecedentsforlesserdecisionsandfutureactions throughout the organization.

Mintzberg'smodesofstrategicdecisionmaking

According to Henry Mintzberg, the most typical approaches or modes of strategic decision making are entrepreneurial, adaptive and planning.

Stakeholdersin Business:

Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm's performance. Stake holders can support the effective strategic management of an organization.

Stakeholder'srelationshipmanagement Stake holders can be divided into:

1. InternalStakeholders

- Shareholders
- Employees
- Managers
- Directors

2. ExternalStakeholders

- Customers
- Suppliers
- Government
- Banks/creditors
- Tradeunions
- Mass Media Stakeholder'sAnalysis:
- Identifythestakeholders.
- Identifythestakeholdersexpectationsinterestsandconcerns
- Identifytheclaimsstakeholdersarelikelytomakeontheorganization
- Identifythestakeholderswhoaremostimportantfromtheorganizations perspective.
- Identify the strategic challenges involved in managing the stakeholder relationship.

Makingbetterstrategicdecisions

Hegivessevenstepsforstrategicdecisions

1. Evaluatecurrentperformanceresults
2. Reviewcorporategovernance
3. Scantheexternalenvironment
4. Analyzestrategicfactors(SWOT)
5. Generate,evaluateandselectthebestalternativestrategy
6. Implementselectedstrategies
7. Evaluateimplementedstrategies

SBUorStrategicBusiness Unit

Anautonomousdivisionororganizationalunit,smallenoughtobeflexibleand large

haveindependentmissionsandobjectives),theyallowtheowningconglomerateto

respondquicklytochangingeconomicormarketsituations.

CorporateGovernance

Corporate governance is a mechanism established to allow different parties to contribute capital, expertise and labour for their mutual benefit the investor or shareholder participates in the profits of the enterprise without taking responsibility for the operations. Management runs the company without being personally responsible for providing the funds. So as representatives of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure theyare followed. The board of directors has, therefore, an bligation to approve all decisions that might affect the long run performance of the corporation. The term corporate governance refers to the relationship among these three groups (board of directors, management and shareholders) in determining the direction and performance of the corporation

Responsibilitiesofthe board

Specific requirements of board members of board members vary, depending on thestateinwhichthecorporatecharterisissued.Thefollowingfiveresponsibilitiesof

boardofdirectorslistedinorderof importance

1. Settingcorporatestrategy,overalldirection,missionandvision

2. Succession:hiringandfiringtheCEOandtopmanagement

3. Controlling,monitoringorsupervisingtopmanagement

4. Reviewingandapprovingtheuseof resources

5. Caringforstockholdersinterests

Roleofboardinstrategicmanagement

Theroleofboardofdirectorsistocarryoutthreebasic tasks

1. Monitor

2. Evaluateand influence

3. Initiateand determine

Corporate Social Responsibility:

CorporateSocialResponsibility(CSR)isanimportantactivitytoforbusinesses.As globalizationacceleratesandlargecorporationsserveasglobalproviders,these corporations have progressively recognized the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe **What is corporate social responsibility?**

Thetermisoften usedinterchangeablyfor other termssuchas CorporateCitizenship and isalsolinkedtotheconceptofTripleBottomLineReporting(TBL)thatispeople,planet and profits., which is used as a framework for measuring an organization's performance against economic, social andenvironmental parameters. It is about building sustainable businesses,whichneedhealthyeconomies,marketsand communities.

ThekeydriversforCSRare

Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities areable to function well together. Sustainability

You need to understand sustainability. It is being used mostly in organizational forums andabasicunderstandingisneededforyou.Thediscussiononsustainabilityisonlyfor your understanding.

Sustainability means"meetingpresent needs without compromising the ability of futuregenerationstomeettheirneeds'.Thesewell-establisheddefinitionssetanideal premise,butdonotclarifyspecifichumanandenvironmentalparametersfor modellingandmeasuringsustainabledevelopments.Thefollowingdefinitions are morespecific:

1. "Sustainable means using methods, systems and materials that won't deplete resources or harm natural cycles".

2. Sustainability "identifies a concept and attitude in development that looks at a site's natural land, water, and energy resources as integral aspects of the development".

3. "Sustainability integrates natural systems with human patterns and celebrates continuity, uniqueness and place making".

Combining all these definitions; Sustainable developments are those which fulfil present and future needs while using and not harming renewable resources and unique human- environmental systems of a site:[air, water, land, energy, and human ecology and/orthose of other [off-site] sustainable systems (Rosenbaum 1993 and Vieria 1993).

Socialinvestment-contributingtophysicalinfrastructureandsocialcapitalis increasingly seen as a necessary part of doing business.

Transparencyandtrust -businesshaslowratingsoftrustinpublicperception.Thereis increasing expectation that companies will be more open, more accountable and be repaired to report publicly on their performance in social and environmental arenas. Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment.

Corporate social responsibility is represented by the contributions undertaken by companies to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy. In recent years CSR has

become a fundamental business practice and has gained much attention from chief executives, chairmen, boards of directors and executive management teams of larger international companies.

They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities. According to the results of a global survey in 2002 by Ernst & Young, 94 per cent of companies believe the development of a

CorporateSocialResponsibility(CSR)strategycandeliverrealbusinessbenefits, however only 11 per cent have made significant progress in implementing the strategy in their organization. Senior executives from 147 companies in a range of industry sectors across Europe, North America and Australasia were interviewed for the survey.

UNIT–II

Environmentalscanningandindustryanalysis Environmental scanning

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

Scanningofexternalenvironmentalvariables

The social environment includes general forces that do not directly touch on the short-run activities of the organization but those can, and often do, influence its long-run decisions. These forces are

- Economicforces
- Technologicalforces
- Political-legalforces
- Socio-culturalforces

Internationalsocietyconsideration

For each countries or group of countries in which a company operates, management must face a whole new societal environment having different economic, technological,political-legal,andSocioculturalvariables.Thisisespeciallyanissuefora multinational corporation, a company having significant manufacturing and marketing operations in multiplecountries. International society environments vary so widely thata corporation’s internal environment and strategic management process must be very flexible. Differences in social environments strongly affect the ways in which a multinational company.

Michael Porter, an authority on competitive strategy, contends that a corporation ismostconcernedwiththeintensityofcompetitionwithinitsindustry.Basiccompetitive forces determine the intensity level. The stronger each of these forces is, the more companies are limited in their ability to raise prices and earned greater profits.

Scanningofsocialenvironment

The social environment contains many possible strategic factors. The number of factors becomes enormous when one realize that each country in the world can be represented by its own unique set of societal forces, some of which are very similar to neighboring countries and some of which are very different.

Monitoringofsocialtrends

Large corporations categorized the social environment in any one geographic region into four areas and focus their scanning in each area on trends with corporate-widerelevance.Trendsinanyareamaybeveryimportanttothefirmsinother industries.

Trends in economic part of societal environment can have an obvious impact on business activity. Changes in the technological part of the societal environment have a significant impact on business firms. Demographic trends are part of socioculturalaspects of the societal environment.

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Scanningofthetask environment

A corporation’s scanning of the environment should include analysis of all the relevant elements in the task environment. These analyses take the form of individual reports written by various people in different parts of the firms. These and other reports are then summarized and transmitted up the corporate hierarchy for top management to use in strategic decision making. If a new development reported regarding a particular product category,topmanagementmaythensentmemostopeoplethroughouttheorganizationto watchforandreportsondevelopmentinrelatedproductareas.Themanyreports

resultingfromthesescanningeffortswhenboileddowntotheiressential,actasadetailed list of external strategic factors.

Identificationofexternalstrategicfactors:

Onewaytoidentifyandanalyzedevelopmentsintheexternalenvironmentis to use the issues priority matrix as follows.

1. Identify a number of likely trends emerging in the societal and task environment. Thesearestrategicenvironmentalissues:Thoseimportanttrendsthat, if they happen, will determine what various industries will look like.

2. Assesstheprobabilityofthesetrendsactually occurring.

3. Attempttoascertainthelikelyimpactofeachofthesetrendsofthese corporations.

Industryanalysis:Analyzingthetaskenvironment Michael Porter's approach to industry analysis

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Threatofnewentrants

New entrants are newcomers to an existing industry. They typically bring new capacity, a desire to gain market share and substantial resources. Therefore they are threats to an established corporation. Some of the possible barriers to entry are the following.

1. Economiesofscale

2. Productdifferentiation

3. Capitalrequirements

4. Switchingcosts

5. Accesstodistributionchannels
6. Costdisadvantagesindependentofsize
7. Governmentpolicy

Rivalryamongexistingfirms

Rivalry is the amount of direct competition in an industry. In most industries corporations are mutually dependent. A competitive move by one firm can be expectedto have a noticeable effect on its competitors and thus make us retaliation or counter efforts. According to Porter, intense rivalry is related to the presence of the following factors.

1. numberof competitors
2. rateofindustry growth
3. productorservicecharacteristics
4. amountoffixedcosts
5. capacity
6. heightofexitbarriers
7. diversityof rivals

Treatofsubstituteproductorservices

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter, "Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." To the extent that switching costs are low, substitutes may have a strong effect on the industry.

Bargainingpowerofbuyers

Buyers affect the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other.

Bargainingpowerofsupplier

Suppliers can affect theindustry through their ability to raiseprices or reduce the quality of purchased goods and services.

CorporateGovernanceandSocialResponsibility

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Identificationofexternalstrategicfactors:

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PESTAnalysis

Ascanoftheexternalmacro-environmentinwhichthefirmoperatescanbe expressedintermsofthefollowing factors:

- **P**olitical
- **E**conomic

- **S**ocial
- **T**echnological

The acronym **PEST** (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of these macro environmental factors.

Political Factors

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

- tax policy
- employment laws
- environmental regulations
- trade restrictions and tariffs
- political stability

Economic Factors

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macro economy:

- economic growth
- interest rates
- exchange rates
- inflation rate

Social Factors

Social factors include the demographic and cultural aspects of the external microenvironment. These factors affect customer needs and the size of potential markets. Some social factors include:

- health consciousness

- populationgrowthrate
- agedistribution
- careerattitudes
- emphasison safety

TechnologicalFactors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

- R&D activity
- automation
- technologyincentives
- rateoftechnologicalchange

ExternalOpportunitiesandThreats

ThePESTfactorscombinedwithexternalmicroenvironmentalfactorscanbeclassified asopportunitiesandthreatsinaSWOTanalysis.

SWOTAnalysis

Ascanoftheinternalandexternalenvironmentisanimportantpartofthestrategic planningprocess.Environmentalfactorsinternaltothefirmusuallycanbeclassified as as opport strengths(**S**)orweaknesses(**W**),andthoseexternaltothefirmcanbeclassified toasa SWOT analysis.

The SWOTanalysisprovidesinformationthatishelpfulinmatchingthefirm'sresources andcapabilitiestothecompetitiveenvironmentinwhichitoperates.Assuch,it is instrumentalinstrategyformulationandselection.

Strengths

Afirm'sstrengthsareitsresourcesandcapabilitiesthatcanbeusedasabasisfor developingacompetitiveadvantage.

Examplesofsuchstrengthsinclude:

- patents
- strongbrand names
- goodreputationamong customers
- costadvantagesfromproprietaryknow-how
- exclusiveaccesstohighgradenaturalresources
- favorableaccesstodistributionnetworks

Weaknesses

Theabsence ofcertainstrengthsmaybeviewedasaweakness.Forexample,eachofthe followingmaybeconsideredweaknesses:

- lackofpatentprotection
- aweakbrandname
- poorreputationamong customers
- highcost structure
- lackofaccesstothebestnatural resources
- lackofaccesstokeydistribution channels

Insomecases,aweaknessmaybetheflipsideofastrength.Takethecaseinwhicha firm ha [illegible] dered a strength that competitors do not share, it also may be a considered a weaknessifthelargeinvestmentinmanufacturingcapacitypreventsthefirmfrom reactingquicklytochangesinthestrategicenvironment.

Opportunities

Theexternalenvironmentalanalysismayrevealcertainnewopportunitiesforprofit andgrowth.Someexamplesofsuchopportunities include:

- anunfulfilledcustomer need

- arrivalofnew technologies
- looseningofregulations
- removalofinternationaltradebarriers

Threats

Changesintheexternalenvironmentalalsomaypresentthreatstothefirm.Someexamples of such threats include:

- shiftsinconsumertastesawayfromthefirm'sproducts
- emergenceofsubstituteproducts
- new regulations
- increasedtradebarriers

TheSWOTMatrix

mayha·Afirmshouldnotnecessarilypursuethemorelucrativeopportunities.Rather,it

thefirm'sstrengthsandupcomingopportunities.Insomecases,thefirmcanovercomea

weaknessinordertoprepareitselftopursueacompelling opportunity.

TodevelopstrategiesthattakeintoaccounttheSWOTprofile,amatrixofthesefactors

canbeconstructed.TheSWOTmatrix(alsoknownasa**TOWSMatrix**)is

shownbelow:

SWOT/TOWS Matrix

	Strengths	**Weaknesses**
pportunities	S-Ostrategies	W-O strategies
hreats	S-Tstrategies	W-Tstrategies

S-Ostrategies pursueopportunitiesthatareagoodfittothecompany'sstrengths.

- **W-Ostrategies**overcomeweaknessestopursueopportunities.

- **S-T strategies** identify ways that the firm canuse its strengths to reduce itsvulnerability to external threats.

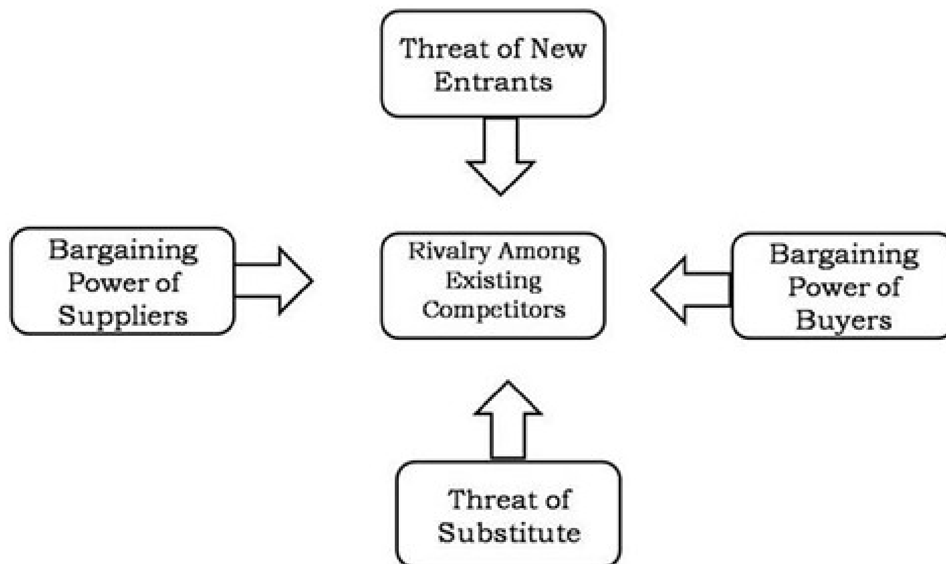
- **W-Tstrategies**establishadefensiveplantopreventthefirm'sweaknessesfrom makingithighlysusceptibletoexternalthreats.

Industryanalysis:Analyzingthetaskenvironment Michael Porter's approach to industry analysis

Michael Porter, an authority on competitive strategy, contends that a corporation ismostconcernedwiththeintensityofcompetitionwithinitsindustry.Basiccompetitive forces determine the intensity level. The stronger each of these forces is, the more companies are limited in their ability to raise prices and earned greater profits.

Threatofnewentrants

New entrants are newcomers to an existing industry. They typically bring new capacity, a desire to gain market share and substantial resources. Therefore they are threats to an established corporation. Some of the possible barriers to entry are the following.



1. Economiesofscale:Intelvs.AMD

2. Productdifferentiation:AppleVsDell

3. Capitalrequirements:TostartInsurance Firms

4. Switchingcosts:exampleofwindowstoLinux;itisdifficultto switch

5. Accesstodistributionchannels:HLLVsArasanSoap

6. Costdisadvantagesindependentofsize

7. Governmentpolicy:NewbankspolicyofRBI.

Rivalryamongexistingfirms

Rivalry is the amount of direct competition in an industry. In most industries corporations are mutually dependent. A competitive move by one firm can be expectedto have a noticeable effect on its competitors and thus make us retaliation or counter efforts. According to Porter, intense rivalry is related to the presence of the following factors.

1. Numberof competitors
2. Rateofindustry growth
3. Productorservicecharacteristics
4. Amountoffixedcosts
5. Capacity
6. Heightofexit barriers
7. Diversityofrivals

Treatofsubstituteproductorservices

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter, "Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." To the extent that switching costs are low, substitutes may have a strong effect on the industry.

Bargainingpowerofbuyers

Buyersaffecttheindustrythroughtheirabilitytoforcedownprices,bargainfor

higherqualityormoreservices,andplaycompetitorsagainsteachother.

Bargainingpowerofsupplier

Suppliers can affect the industry through their ability to raise prices or reduce the quality of purchased goods and services.

StrategyFormulation Corporate Strategy:

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product Company or a large multinational corporation.Inalargemulti-businesscompany,however,corporatestrategyisalsoabout managing various product lines and business units for maximum value. In this instance, corporate headquarters must play the role of organizational "parent" in that it must deal with various product and business unit "children". Even though each product line or businessunithasitsowncompetitiveorcooperativestrategythatitusestoobtainitsown competitive advantage in the marketplace, the corporation must coordinate thesedifferent business strategies so that the corporation as a whole succeeds as a "family".

Corporatestrategy,therefore,includesdecisionsregardingtheflowoffinancialandother resources to and from a company's product lines and business units. Though a series of coordinating devices, a company transfers skills and capabilities developed in a one unit tootherunits thatneedsuchresources.Inthis way,itattempts toobtainsynergiesamong numerous product lines and business units so that the corporate whole is greater than the some of its individual business unit parts. All corporations, from the smallest company offering one product in only one industry to the largest conglomerate operating in many industries in many product must, at one time or another, consider one or more of these issues.

DirectionalStrategy:

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions:

- Shouldweexpand,cutback,orcontinueouroperationsunchanged?

- Shouldweconcentrateouractivitieswithinourcurrentindustryorshouldwe diversify into other industries?

- If we want to grow and expand, should we do so through internal development orthrough external acquisitions, mergers, or joint ventures?

A corporation’s directional strategy is composed of three general orientations towards growth (sometimes called grant strategies):

Growthstrategyexpandsthecompany’sactivities.

Stabilitystrategiesmakenochangetothecompany’scurrentactivities. Retrenchment strategies reduce the

company’s level of activities.

Growthstrategies

By far the most widely pursued corporate strategies of business firms are those designed to achieve growth in sales, assets, profit, or some combination of these. There are two basic corporate growth strategies: concentration within one product line or industry and diversification into other product and industries. These can be

achievedeitherinternallybyinvestinginnewproductdevelopmentorexternallythrough mergers acquisitions or strategic alliances.

Concentrationstrategies Vertical integration

Growth can be achieved via vertical integration by taking over a function previously provided by supplier (backward integration) or by distributor (forward integration). This is a logical strategy for a corporation or business unit with a strong competitive position in a highly attractive industry. To keep and even improve its competitive position through backward integration, the company may act to minimize resource acquisition costs and inefficient operations, as well as to gain more control over quality and product distribution through forward integration.

The firm, in effect, builds on its distinctive competence to gain greater competitive advantage. The amount of vertical integration can range from full integration,inwhichafirmmakes100%ofkeysuppliesanddistributors,totaper

integration, in which the firm internally produces less than half of its key supplies, to no integration, in which the firm uses long term contracts with other firms to provide key supplies and distribution. Outsourcing, the use of long-term contracts to reduce internal administrative costs, has become more popular as large corporations have worked to reduce costs and become more competitive by becoming less vertically integrated.

Although backward integration is usually more profitable than forward integration,itcanreduceacorporation'sstrategicflexibility;bycreatinganencumbrance ofexpensiveassetsthatmightbehardtosell,itcanthuscreateforthecorporationanexit barrier to leaving that particular industry.

Horizontalintegration

It is the degree to which a firm operates in multiple geographic locations at the same point in an industries value changed growth can be achieved via horizontal integration by expanding firm's product into other geographic locations or by increasing the range of product and services offered to current customers.

Stability strategies: The corporation may choose stability over growth by continuing its current activities without any significant change in direction. The stability family

of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long.

Sumofthemorepopularofthesestrategiesare

1.Pauseandproceedwithcautionstrategy 2, no change strategy

3.Profit strategy

Corporateparenting:

Corporate parenting views corporation in terms of resources and capabilities that can be used to build business value as well as generates synergies across business units.

Thecorporateparentingstrategiescanbedevelopedinfollowingways.

1.Examineeachbusinessunitintermsofitscriticalsuccessfactors.

2.Examineeachbusinessunitintermsofareasinwhichperformancecanbeimproved

Strategyformulations:Functionalstrategy&Strategicchoice

A functional strategy is the approach a functional area takes to achieve corporate and businessunitobjectivesandstrategiesbymaximizingresourceproductivity.Forexample the difference between McDonalds and Domino Pizza. While McDonalds expect you to visitits outletandhavePizza,DominoPizzadesignedits supplychaininsuchawaythat whenever you are hungry you can have Pizza. It is functional strategy based on supply chain.

Corecompetency:

TheCoreCompetenceisatermcoinedby,C.K.PrahaladandGaryHamelandit may bedefinedascollectivelearningandcoordinationskillsbehindthefirm's product lines.Theymadethecasethatcorecompetenciesarethesource ofcompetitiveadvantageandenablethefirmtointroduceanarrayofnewproductsand services.

AccordingtoPrahaladandHamel,corecompetenciesleadtothedevelopmentof coreproducts.Coreproductsarenotdirectlysoldtoendusers;rather,theyareused to buildalargernumberofend-userproducts.Forexample,motorsareacoreproductthat canbeusedinwidearrayof endproducts.Thebusinessunitsof thecorporationeach tap intotherelativelyfewcoreproductstodevelopalargernumberofenduserproducts basedonthe coreproduct technology.Theintersectionofmarket opportunitieswithcore competenciesformsthebasisforlaunchingnewbusinesses.Bycombiningasetofcore competenciesindifferentwaysandmatchingthemtomarketopportunities,a corporation canlaunchavastarrayofbusinesses.

Without core competencies, a large corporation is just a collection of different businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio. For Reliance Group size, scale and project management skills

formthebasisofcorecompetence.

CoreCompetencies

Corecompetenciesarisefromtheintegrationofmultipletechnologiesandthe coordinationofdiverseproductionskills.SomeexamplesincludePhilip'sexpertise in opticalmedia,Sony'sabilitytominiaturizeelectronicsandAirtel'sabilitytoprovide cheapestservicesintelecomwithmaximumcustomersatisfaction.

Acorecompetenceshould:

1. provideaccesstoawidevarietyofmarkets,and
3. contributesignificantlytotheend-productbenefits,andbedifficultfor competitors to imitate.
4. Shouldbedevelopedbytheorganization

Corecompetenciestendtoberootedintheabilitytointegrateandcoordinatevarious groupsintheorganization.Whileacompanymaybeabletohireateamofbrilliant scientistsinaparticulartechnology,indoingsoitdoesnotautomaticallygainacore competenceinthattechnology.Itistheeffectivecoordinationamongallthegroups involvedinbringingaproducttomarketthatresultsinacorecompetence.

Itisnotnecessarilyanexpensiveundertakingtodevelopcorecompetencies.Themissing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In many cases an organizational design that facilitates sharing of competenciescanresultinmuchmoreeffectiveutilizationofthosecompetenciesfor littleornoadditionalcost.

Whatcorecompetenceisnot;

1.TryingtoovertakeothersbyR&D

2.Sharingcostsamongbusinessunits

3.Integratingvertically

Thesestrategieswithnoobjectiveofgettingthefouraspectselaboratedcannotbe

called core competence. They may help to build but by themselves they do not lend to any competencies.

Failuretorecognizecorecompetenciesmayleadtodecisionsthatresultintheirloss.

During 1970's many U.S. manufacturers closed down television manufacturing businesses arguing that industry was mature and that high quality, low cost models were availablefromJapanesemanufacturers. In theprocess, they losttheir core competencein video,andthislossresultedinahandicapinthenewerdigitaltelevisionindustry.

SimilarlyAmericanhardwaremanufacturersstartedoutsourcing toChina,thecheaperoptionandlosttotallytoFoxconn;Foxconnmanufactures170 billion$worthofhardwareandAmericaisleftwithverylessnumberofworkersand peoplewiththesocioecosystemofmanufacturingcompetencies.

CoreProducts

Corecompetenciesmanifestthemselvesincoreproductsthatserveasalinkbetween thecompetenciesandendproducts.Coreproductsenablevaluecreationintheend products.Examplesoffirmsandsomeoftheircoreproducts include:

- 3M-substrates,coatings,and adhesives
- UAEmotorsinanygrindingmachinein India
- Canon-laserprinter subsystems
- Honda-gasolinepoweredengines
- IntelProcessors

Thecore productsareusedto launchavarietyof endproducts. Forexample, Hondauses itsenginesinautomobiles,motorcycles,lawnmowers,andportablegenerators.

Becausefirmsmayselltheircoreproductstootherfirmsthatusethemasthebasis for end ... e success of core competencies. Prahalad and Hamel suggest that core product share is the

appropriatemeasure.Whileacompanymayhavealowbrandshare,itmayhavehigh

core product share and it is this share that is important from a core competency standpoint.Onceafirmhassuccessfulcoreproducts,itcanexpandthenumberofusesin order to gain a cost advantage via economies of scale and economies of scope.

ImplicationsforCorporateManagement

PrahaladandHamelsuggestthatacorporationshouldbeorganizedintoa portfolioofcorecompetenciesratherthanaportfolioofindependentbusinessunits. Businessunitmanagerstendtofocusongettingimmediateend-productstomarket rapidlyandusuallydonotfeelresponsiblefordevelopingcompany-widecore competencies.Consequently,withouttheincentiveanddirectionfromcorporate managementtodootherwise,strategicbusinessunitsareinclinedtounderinvestin the buildingofcorecompetencies.

Ifabusinessunitdoesmanagetodevelopitsowncorecompetenciesovertime, due toitsautonomyitmaynotshare themwithotherbusinessunits.Asasolutiontothis problem,PrahaladandHamelsuggestthatcorporatemanagersshouldhavetheabilityto allocatenotonlycashbutalsocorecompetenciesamongbusinessunits.Businessunits thatlosekeyemployeesforthesakeofacorporatecorecompetencyshould be recognizedfortheircontribution.

Acorecompetencyissomethingthatacorporationcandoexceedinglywell.Itisakey strength. It should have the following characteristics;

1. Itshouldhavebeendevelopedbytheorganization
2. Itcannotbeeasilycopiedbyothers
3. Itshouldgiveaccesstothewider market.
4. Ifalltheconditionsaresatisfiedthenitisknownascorecompetency.

Selectionof strategy:

After the pros and cons of the potential strategies alternatives have beenidentified any one must be selected from implementation. The most important criteria is the identity of the propose strategy to deal with the specific strategic factors developed earlier in SWOT analysis.

Corporatescenario:

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predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long.

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Corporatescenario:

Corporate scenario are pro forma balance sheet and income statement that forecast the effectsthateachalternativestrategyanditsvariousprogramswilllikelyhaveondivision and corporate return on investment. Corporate scenario is extension of industry scenario.

Developmentofpolicies:

The selection of the best strategic alternative is not the end of the strategy formulation. Management now must established policies that define the ground rule for implementation. Flowing from the selected strategy, policies provide the guidance for decision making an action throughout the organization. Policies tend to be rather long lived and can even outlast the particular strategy that created them.

Strategyimplementation:Organizingforaction

Strategy implementation is the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through thedevelopmentofprograms,budgetsandprocedures.Althoughimplementationis

usually considered after strategy has been formulated, implementation is a key part of strategic management. Thus strategy formulation and strategy implementation are the two sides of same coin.

Implementingstrategy

Depending on how the corporation is organized those who implements strategy will probablybe amuchmoredivorcedgroupofpeople thanthose whoformulate it.Mostof the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of corporate and even business strategy. Therefore they might be entirely ignorant of vast amount of data and work into formulation process. This is one reason why involving middle managers in the formulation as well as in the implementation of strategy tends to result in better organizational performance.

Developingprograms,budgetsandprocedures

The managers of divisions and functional areas worked with their fellow managers to develop programs, budgets and procedures for implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence.

Programs

A program is a statement of the activities or steps needed to accomplish a single useplan. The purpose of program is to make a strategy action oriented.

Budgets

A budget is a statement of corporation's program in monitory terms. After programs are developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy.

Procedures

Procedures are system of sequential steps or techniques that describe in detail how a particular task or job is to be done.

Synergy

One of the goals to be achieved in strategy implementation is synergy between functions and business units. The acquisition or development of additionalproductlinesisoftenjustifiedonthebasisofachievingsome

advantages of scale in one or more of company's functional areas. For example LG developing a product such as DVD Player will help it to achieve synergy by utilizing the same channel.

Stagesofcorporatedevelopment

Successful Corporation tend to follow a pattern of structural development called stages of development as they grow and expand. Beginning with the simple structure of the entrepreneurial firm, they usually get larger and organize along functional lines with marketing production and finance department. With continuing success the company adds new product linesindifferentindustriesandorganizesitselfintointerconnecteddivisions.The differences among these three stages of corporate development in terms of typical problems, objectives strategies, reward systems and other characteristics as specified in detail in table.

Organizationallifecycle

The organizational life cycle describes how the organization grow, develop and eventually decline. The stages of organization life cycles are

1.Birth;2.Growth;3.Maturity;4.Decline;5.Death

Theimpactofthesestagesoncorporateandstructurearesummarizedinthetable

StageI	StageII	StageIII	StageIV	StageV	
Dominate	Birth	Growth	Maturity	Decline	Death issue
Popular andvertical strategies	Concentrati onin aniche	Horizontal integration	Concentric and conglomerat diversificati	Profit strategy followedby trenchmen t	Liquidation or bankruptcy
ikely ructure	Entrepreneu r dominated	ınctional anagement	Decentraliza tion int o	ructural ırgery	ismember ent of

emphasized profit or structures investment centers

Anorganizationalstructure

The prime purpose of organizational structure is to reduce the external andinternal uncertainty. It defines the relationships within the organization and eternal organization.It consists of activities such as task allocation, coordination and supervision, which are directed towards the achievement of organizational aims. It can alsobeconsideredastheviewingglassorperspectivethroughwhichindividualsseetheir organization and its environment.

Many organizations have hierarchical structures, but not all organizations have hierarchical structures. An organization can be structured in many different ways, depending on their objectives. The structure of an organization will determine the modes in which it operates and performs. Organizational structure allows the expressed allocation of responsibilities standard operating procedures and routines rest. Second, it determines which individuals get to participate in which decision-making processes, and thus to what extent their views shape the organization's actions.

Operationalorganizationsandinformalorganizations

Organizationalprocessesaredesignedtohelptheorganizationstohaveeffective and the formalefficientuseofresources.Iftheinformalorganizationsareformedandtrytooffset

History

Organizationalstructuretypes

Entrepreneurialstructures

Bureaucraticstructures

MaxWeber(1948)givestheanalogythat“thefullydevelopedbureaucratic mechanismcompareswithotherorganizationsexactlyasdoesthemachinecompare withthenon-mechanicalmodesofproduction.Precision,speed, unambiguity,… strict subordination,reduction offrictionand ofmaterialand personalcosts-theseare raised totheoptimumpointinthestrictlybureaucraticadministration.”Bureaucratic structureshaveacertaindegreeofstandardization.Theyarebettersuitedformore complexorlargerscaleorganizations.Theyusuallyadoptatallstructure.Thentension betweenbureaucraticstructuresandnon-bureaucraticisechoedinBurns andStalker[6]distinctionbetweenmechanisticandorganicstructures.Itisnotthe entirethingaboutbureaucraticstructure.Itisverymuchcomplexandusefulfor hierarchicalstructuresorganization,mostlyintallorganizations.TheWeberian characteristicsofbureaucracyare:

1. Cleardefinedrolesand responsibilities
2. Ahierarchical structure
3. Respectfor merit.

Post-bureaucratic

Hierarchiesstillexist,authorityisstillWeber'srational,legaltype,andthe organizationisstillrulebound.Itmaybearguedthatitiscleanedupbureaucracies thatareremovingtheproblemsofbureaucraciesratherthanashiftawayfrom bureaucracy.GideonKunda,inhisclassicstudyofculturemanagementat technologicalcompanieshearguedthat'theessenceofbureaucraticcontrol-the formalization,codificationandenforcementofrulesandregulations-doesnotchange inprinciple .....itshiftsfocusfromorganizationalstructuretothe organization's

Bureaucratic Organization., provide a detailed discussion which attempts to describe an organization that is fundamentally not bureaucratic. Charles Heckscher has developed an ideal type, the post-bureaucratic organization, in which decisions are based on dialogue and consensus rather than authority and command, the organization is a network rather than a hierarchy, open at the boundaries (in direct contrast to culture management); there is an emphasis on meta-decision making rules rather than decision making rules.

Functionalstructure

Employeeswithinthefunctionaldivisionsofanorganizationtendtoperforma

withsoftwareengineers. Thisleadstooperationalefficiencieswithin thatgroup. However itcouldalsoleadtoalackofcommunicationbetweenthefunctionalgroupswithinan organization,makingtheorganizationslowandinflexible.Asawhole,afunctional organizationisbestsuitedasaproducerofstandardizedgoodsandservicesatlarge volumeandlowcost.Coordinationandspecializationoftasksarecentralizedina specializedsetoftasks,forinstancetheengineeringdepartmentwouldbestaffedonly functionalstructure,whichmakesproducingalimitedamountofproductsorservices efficientandpredictable.Moreover,efficienciescanfurtherberealizedasfunctional organizationsintegratetheiractivitiesverticallysothatproductsaresoldanddistributed quicklyandatlowcost.

Divisionalstructure

Alsocalleda"productstructure",thedivisionalstructuregroupseachorganizational function into a division. Each division within a divisional structure contains all the necessary resources and functions within it. Divisions can be categorized from different points of view. One might make distinctions on a geographical basis (a USdivision and an EU division, for example) or on product/service basis (different products for different customers:householdsorcompanies).Inanotherexample,anautomobilecompanywitha divisional structure might have one division for SUVs, another division for subcompact cars, and another division for sedans. Each division may have its own sales, engineering and marketing departments.

Matrixstructure

Thematrixstructuregroupsemployeesbybothfunctionandproduct.Thisstructure can combinethebestofbothseparatestructures.Amatrixorganizationfrequentlyusesteams ofemployeestoaccomplishwork,inordertotakeadvantageofthestrengths,aswellas makeupfortheweaknesses,offunctionalanddecentralizedforms.Anexamplewouldbe acompanythatproducestwoproducts,"producta"and"productb".Usingthematrix structure,thiscompanywouldorganizefunctionswithinthecompanyasfollows: "producta"salesdepartment,"producta"customerservicedepartment,"product a" accounting,"productb"salesdepartment,"productb"customerservicedepartment, "productb"accountingdepartment.Matrixstructureisamongstthepurest of organizational structures, a simple lattice emulating order and regularity demonstrated in nature.

- **Weak/FunctionalMatrix:** Aprojectmanagerwithonlylimitedauthorityis assignedtooverseethecross-functionalaspectsoftheproject[31].Thefunctional managersmaintaincontrolovertheirresourcesandprojectareas.
- **Balanced/Functional Matrix:** Aprojectmanagerisassignedtooverseetheproject. Powerissharedequally betweentheprojectmanagerandthefunctionalmanagers.It bringsthebestaspectsoffunctionalandprojectizedorganizations.However,thisis themostdifficultsystemtomaintainasthesharingpowerisdelicateproposition.
- **Strong/Project Matrix:** A project manager is primarily responsible for the project. Functional managers provide technical expertise and assign resources as needed.

Among these matrixes, there is no best format; implementation success always depends on organization's purpose and function.

Organizationalcircle:movingbacktoflat

Theflatstructureiscommoninentrepreneurialstart-ups,universityspinoffsorsmall anccompaniesingeneral.Asthecompanygrows,however,itbecomesmorecomplex hierarchical,whichleadstoanexpandedstructure,withmorelevelsanddepartments.

Often, it would result in bureaucracy[34], the most prevalent structure in the past. It is still, however, relevant in former Soviet Republics and China, as well as in most

governmental organizations alloverthe world.ShellGroup[35]usedtorepresent thetypical bureaucracy: top-heavy and hierarchical. It featured multiple levels of command and duplicate service companies existing in different regions. All this made

Shell apprehensive to market changes,[12] leading to its incapacity to grow and develop further. The failure of this structure became the main reason for the companyrestructuring into a matrix.

and

productbaseddivisions,withemployeesreportingtotwoheads.Creatingateamspirit,

thecompanyempowersemployeestomake theirowndecisionsandtrainthem todevelop

bothhardandsoftskills.ThatmakesStarbucksoneofthebestatcustomer service.

SimilarlyLifeInsuranceCorporationhastheflatstructureanditismost

the

country.Someexpertsalsomentionthemultinationaldesign,commoninglobal

companies,suchasProcter&Gamble,ToyotaandUnilever.Thisstructurecanbeseenas

and that the successfulinimplementingitsstrategiesofreachinglargestnumberofpeoplein

structure of many companies has become flatter, less hierarchical, more fluid and even

virtual.

acomplexform of the matrix,asit maintainscoordinationamongproducts,functions

Team

geographicareas.Ingeneral,overthelastdecade,ithasbecomeincreasinglyclear

Oneofthenewestorganizationalstructuresdevelopedinthe20thcenturyisteam.In

throughtheforcesofglobalization,competitionandmoredemandingcustomers,

small businesses, the team structure can define the entire organization Teams can be both horizontal and vertical. While an organization is constituted as a set of people who synergize individual competencies to achieve newer dimensions, the quality of organizationalstructurerevolvesaroundthecompetenciesofteamsintotality.For

example,everyoneoftheWholeFoodsMarketstores,thelargestnatural-foodsgrocerin

theUSdevelopingafocusedstrategy,isanautonomous profit

centrecomposedofanaverageof10self-managedteams,whileteamleadersineach

storeandeachregionarealsoateam.Largerbureaucraticorganizationscanbenefitfrom

theflexibilityofteamsaswell.Xerox,Motorola,andDaimlerChryslerareallamong the

companiesthatactivelyuseteamstoperformtasks.

Network

Anothermodernstructureisnetwork.Whilebusinessgiantsriskbecoming*tooclumsy*to

proact (such as), act and react efficiently, the new network organizations contract out any business function that can be done better or more cheaply. In essence, managers in network structures spend most of their time coordinating and controlling

externalrelations,usuallybyelectronicmeans.H&Misoutsourcingitsclothingtoa

networkof700suppliers,morethantwo-thirdsofwhicharebasedinlow-costAsian
countries.Notowningany factories, H&Mcan be moreflexiblethanmany otherretailers
inloweringitscosts,whichalignswithitslow-coststrategy.Thepotentialmanagement
opportunitiesofferedbyrecentadvancesincomplexnetworkstheory
have beendemonstratedincludingapplicationstoproductdesignand
development and innovation problem in markets and industries.

Virtual

A special form of boundaryless organization is virtual. Hedberg, Dahlgren, Hansson, and Olve (1999) consider the virtual organization as not physically existing as such,
butenabledbysoftwaretoexist.Thevirtualorganizationexistswithinanetworkof
alliances,usingtheInternet.Thismeanswhilethecoreoftheorganizationcanbesmall
butstillthecompanycanoperategloballybeamarketleaderinitsniche.Accordingto
Anderson,becauseoftheunlimitedshelfspaceoftheWeb,thecostofreachingniche
goodsisfallingdramatically.Althoughnonesellinhugenumbers,therearesomany
nicheproductsthatcollectivelytheymakeasignificantprofit,and
thatiswhatmadehighlyinnovativeAmazon.comso successful.

ManagementbyObjectives(MBO)

MBO is an organization-wide approach to help assure purposeful action towarddesired objectives by liking organizational objectives with individual behavior.

TheMBOprocess involves:

1. Establishingandcommunicatingorganizationalobjectives.
2. Settingindividualobjectivesthathelpimplementorganizationalones.
3. evelopinganactionplanofactivitiesneededtoachievetheobjectives.
4. Periodicallyreviewingperformanceas itreplace tothe objectives andincludingthe results in the annual performance appraisal.

TotalQualityManagement(TQM)

TQMisanoperationalphilosophythatstressescommitmenttocustomer satisfaction and continuous improvement.
Ithasfourobjectives:

1. Better,less-variablequalityoftheproductandservice

2. Quicker,less-variableresponsetocustomerneeds

3. Greaterflexibilityinadjustingtocustomers'shiftingrequirement

4. Lowercostthroughqualityimprovementandeliminationofnovalue-adding work.

TheessentialingredientsofTQM are:

1. Anintensefocusoncustomer satisfaction

2. Customersareinternalaswellasexternal

3. Accuratemeasurementofeverycriticalvariableinacompany's operations.

4. Continuousimprovementofproductsandservices.

5. Newworkrelationshipsbasedontrustand teamwork.

EvaluationandControl

It is the process of by which corporate activities and performance results are monitored so that actual performance can be comparedwithdesiredperformance. This process can be viewed as a five step feedback model.

1. Determinewhatto measure.

2. Establishstandardsofperformance.

3. Measureactualperformance.

4. Compareactualperformancewiththestandard.

5. Takecorrectiveaction.

EvaluationandControlinStrategicManagement:

Evaluation and control information consists of performance data and activity reports. Top management need not involved. If however, the processes themselves cause the undesired performance, both top managers and operational managers must know about it so that they can develop new implementation programs or procedures.

Evaluation and control information must be relevant to what is being monitored. One of the obstacles to effective control is the difficulty in developing appropriate measures of important activities and outputs.

Usingofmeasures

Returns on Investment (ROI) are appropriate for evaluating the corporation's or division's ability to achieve profitability objectives. This type of measure, however, is adequate for evaluating additional corporate objectives such as social responsibility or employeedevelopment.Afirmthereforeneedstodevelopmeasuresthatpredictlikely

profitability.Thesearereferredtoassteeringcontrolsbecausetheymeasurethosevariables that influence future profitability.

Differingofbehaviorandoutputcontrol

Controls can be established to focus either on actual performance results or on the activities that generates the performance. Behavior controls specify how something is to bedonethroughpolicies,rules,standardoperatingproceduresandordersfromasuperior. Output controls specify what is to be accomplished by focusing on the result on the end result of the behavior through the use of objectives or performance targets or milestones. They are not interchangeable. Behavior controls are most appropriate when performance results are hard to measure and a clear cause-effect connection exists between activities and results. Output controls are most appropriate when specific output measures are agreed upon and no clear cause-effect connection exists between activities and results.

GuidelineforProperControl.

Measuring performance is a crucial part of evaluation and control. Without objective and timely measurements, making operational, let alone strategic, decisions would be extremely difficult. Nevertheless, the use of timely, quantifiable standards does not guarantee good performance.

1. Controls should involve only the minimum amount of information needed to give a reliable picture of events.
2. Control should monitor only meaningful activities and results, regardless of measurement difficulty.
3. Controlsshouldbetimely.
4. Controlshouldbelongtermandshort-term.
5. Controlshouldpinpointexceptions.

Activity based costing (ABC) is a new accounting method for allocating indirect and fixed costs to individual products or product lines based on the value-added activities going into that product. This method is very useful in doing a value-chain analysis of a firm’s activities for making outsourcing decisions. It allows accountants to charge costs more accurately because it allocates overhead far more precisely. It can be used in much type of industries.

Corporateperformance

The most commonly used measure of corporate performance is ROI. It is simply the result of dividing net income before taxes by total assets. Return on investment has several advantages. It is a single comprehensive figure that is influenced by everything that happens. It measures how well a decision manager uses the division’s assets to generate profits. It is a common denominator that can be compared with other companies

and business units. It provides an incentive to use existing assets efficiently and to buy new once only when it would increase profits.

StakeholderMeasures

Each stakeholder has its own set of criteria to determine how well the corporation is performing. Top management should establish one or more simple measures for each stakeholder category so that it can keep track of stakeholder concerns.

Shareholdervalue

It is defined as the present value of the anticipated future streams cash flows from the business plus the value of the company if liquidated. The value of corporation is thus the value of its cash flows discounted back to their present value, using the business cost of capital as the discount rate.

Economic value added (EVA) is after tax operating profit minus the total annual cost of capital. It measures the pre-strategy value of the business.

ResponsibilityCenters

Responsibility centers are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. The center resources to produce a service or a product.

Fivemajortypesofresponsibilitycentersis used

1. Standardcost centers.
2. Revenuecenters.
3. Expensecenters.
4. Profitcenters.
5. Investmentcenters.

GuidelineforProperControl.

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5. Controlshouldpinpointexceptions.

6. Controls should be used to reward meeting or exceeding standards rather than topunish failure to meet standards.

CorporateEntrepreneurship:

Sharma and Chrisman present an overview of the different definitions in the field of entrepreneurship: A variety of terms are used for the entrepreneurial efforts within an existing organization such as corporate entrepreneurship, corporate venturing,, intrepreneuring , internal corporate entrepreneurship , internal entrepreneurship, strategic renewal and venturing. Entrepreneurship encompasses acts of organizational creation, renewalorinnovationthatoccurwithinoroutsideanexistingorganization.Entrepreneurs are individuals or groups of individuals, acting independently or as part of a corporate system, who create new organizations, or instigate renewal or innovation within an existing organization. Burgelman, in his work, also proposes a definition:

DefinitionofEthics

The concept has come to mean various things to various people, but generally in the context of organizations coming to know what it right or wrong in the workplace and doing what's right -- this is in regard to effects of products/services and in relationships with stakeholders. (We will have a discussion on stakeholders later) In times of fundamental change, values that were previously taken for granted are now strongly questioned. For example, lifelong employment is considered one of the best policies of organizations. What kind of knowledge does ethics lay claim to? How is such knowledge defined? What is its relevance/application to business conduct?

Howismoralityacquired?Whataretheoriginsofethicsassystemsofbelief? Should we be good all the time? Must the answer always be "Yes" or arethere degrees of correct or wrongful action?

Ismoralitynecessarilyrelatedto religion?

Is questionable morality necessarily criminal or needing a framework of controlandsanction?Whatformdoesaframeworkofsanctiontakeforexamplefora businessperson operating in global market place? For example, an organization may be following all that is required regarding pollution in a particular country. However, in some other country the rules may not be so stringent regarding pollution control. Now, should the organization follow the same stringent rules?

Are some acts committed by people always wrong (murder, theft, corrupt practice, exploitation of others, damaging and irreversible destruction of the natural environment)?

Is moral, ethical behaviour bound by absolute, universal, undeniable rules, which everyone must accept and follow in life? What are such rules? How could they beso absolute? Alternatively is such behaviour based more on

(a) Avoidance of consequences (fear of punishment) when making decisions or acting? Generally during childhood, certain behaviour is encouraged and other typeof behaviour is discouraged. In this process ethics are being thought.

BroadAreasofEthicsinrelationto Business

1.**Managerial mischief** includes "illegal, unethical, or questionable practices of individual managers or organizations, as well as the causes of such behaviours and remedies to eradicate them." There has been a great deal written about managerial mischief,leadingmanytobelievethatbusinessethicsismerelyamatterof

UNITIII

Whoare stakeholders?

As commerce became more complicated and dynamic, organizations realized they needed more guidance to ensure their dealings supported the common good and did not harm others -- and so business ethics was born. In a survey done by MORI survey 66% of those polled said industry and commerce do not pay enough attention to their social responsibilities. In a poll in Guardian newspaper in November 1996, business leaders came only twelfth out of twenty possible moral role models which people should "**try to follow**". However, the scandals of Enron and other organizations have shaken the faith of people in organization's ethical behaviour. Primary social Stakeholders

1) Localcommunities
2) SuppliersandBusinessPartners
3) Customers
4) Investors
5) EmployeesandManagersPrimarynonsocialstakeholders

1) thenatural environment
2) Nonhuman species

5)Future Generations Secondary Social Stakeholders

1) GovernmentandCivilSociety
2) Socialandthirdworldpressuregroupsandunions
3) Mediaandcommunications
4) Tradebodies
5) Competitors
6) SecondaryNonSocialStakeholder

1) Environmentalpressuregroups
2) Animalwelfarepressuregroups

PiggyBacking Strategy

The primary purpose is to subsidize the service program. It is gaining popularity in recent time. Educational institutes running commercial complexes hospitals manufacturing ophthalmic implements such as Arvind Eye Hospital are examplesofpiggybacking.Itisrelatedtocrosssubsidizing;forexampleGovernment of India proving kerosene at a lower price by charging higher prices for petroleum products is an example of piggy backing.

Adoptiveculture

The key to a successful organization lies in its ability to move forward with its current endeavors while always maintaining an initiative to innovate without hindering that organization's overall operation. Often an organization will exhaust too many of its resources trying to “fix” things that have gone wrong. By becoming trapped in this cycle of “fixing,” an organization is no longer moving forward and progressing. This can lead to serious problems such as increased turnover, decreased moral and ineffective communication. By definition, an Adaptive Culture is simply a way of operating where change is expected and adapting to those changes is smooth, routine and seamless. With an Adaptive Culture in place, change, growth, and innovation are a "given" part of the

businessenvironment.

BalancedScorecard

Thebalancedscorecardisastrategicplanningandmanagementsystemthatisused extensivelyinbusinessandindustry,government,andnonprofitorganizations worldwidetoalignbusinessactivitiestothevisionandstrategyoftheorganization, improve internal and external communications, and monitor organization performanceagainststrategicgoals.ItwasoriginatedbyDrs.RobertKaplan(Harvard BusinessSchool)andDavidNortonasaperformancemeasurementframeworkthat addedstrategicnon-financialperformancemeasurestotraditionalfinancialmetricsto givemanagersandexecutivesamore'balanced'viewoforganizationalperformance. Whilethephrasebalancedscorecardwascoinedintheearly1990s,therootsofthe

this typeofapproacharedeep,andincludethepioneeringworkofGeneralElectric onperformancemeasurementreportinginthe1950’sandtheworkofFrenchprocess engineers(whocreatedthe*Tableau deBord*–literally,a "dashboard" ofperformance measures)intheearlypartofthe20th century.

The balancedscorecardhasevolvedfromitsearlyuseasasimpleperformance

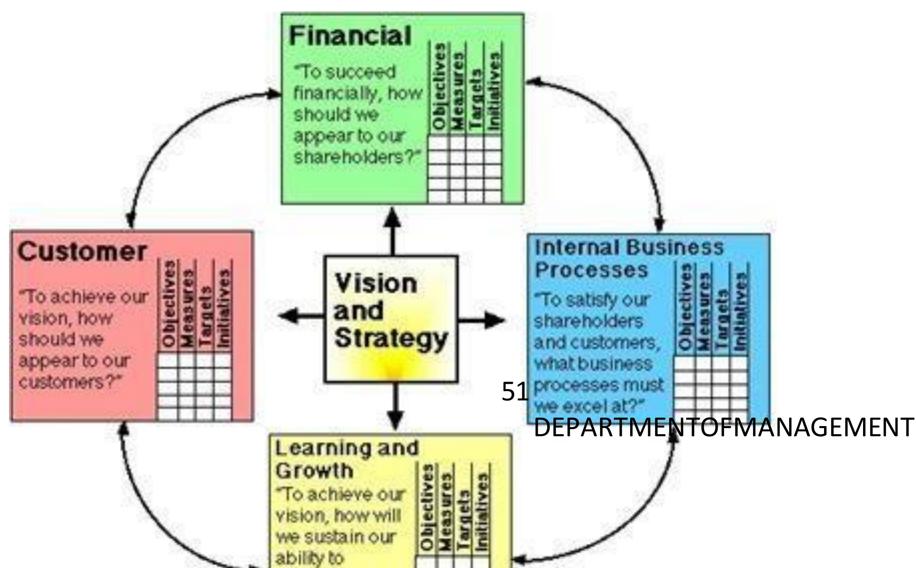
measurement framework to a full strategic planning and management system. The balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the active plan for implementation for organization on a daily basis. It provides a framework that not only provides performance measurements, but helpsplannersidentifywhatshouldbedoneandmeasured.Itenablesexecutivesto trulyexecutetheir strategies.

Recognizingsomeoftheweaknessesandvaguenessofpreviousmanagement approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"Thebalancedscorecardretainstraditionalfinancialmeasures.Butfinancial measures tellthestoryofpastevents,anadequatestoryforindustrialagecompaniesforwhich investmentsinlong-termcapabilitiesandcustomerrelationshipswerenotcriticalfor success.Thesefinancialmeasuresareinadequate,however,forguidingand evaluatingthejourneythatinformationagecompaniesmustmaketocreatefuture valuethroughinvestmentincustomers,suppliers,employees,processes,technology, andinnovation."

Perspectives

Thebalancedscorecardsuggeststhatweviewtheorganizationfromfour perspectives,andtodevelopmetrics,collectdataandanalyzeitrelativetoeachof these perspectives:



TheLearning&Growth Perspective

Thisperspectiveincludes employee training andcorporatecultural attitudes relatedto bothindividualandcorporateself-improvement.Inaknowledge-workerorganization, people--theonlyrepositoryofknowledge--arethemainresource.Inthecurrent climateofrapidtechnologicalchange,itisbecomingnecessaryforknowledge workerstobeinacontinuouslearningmode.Metricscanbeputintoplacetoguide managersinfocusingtrainingfundswheretheycanhelpthemost.Inanycase, learningandgrowth constitute theessentialfoundation forsuccessofanyknowledge-workerorganization.

KaplanandNortonemphasizethat'learning'ismorethan'training';italsoincludes thingslikementorsandtutorswithintheorganization,aswellasthat easeof communicationamongworkersthatallowsthemtoreadilygethelponaproblem whenitisneeded.Italsoincludestechnologicaltools;whattheBaldrigecriteriacall "highperformanceworksystems."

TheBusinessProcessPerspective

Thisperspectivereferstointernalbusinessprocesses.Metricsbasedonthis perspectiveallowthemanagerstoknowhowwelltheirbusinessisrunning,and whetheritsproductsandservicesconformtocustomerrequirements(themission). Thesemetricshavetobecarefullydesignedbythosewhoknowtheseprocessesmost intimately;withouruniquemissionsthesearenotsomethingthatcanbedevelopedby outsideconsultants.

TheCustomerPerspective

Recentmanagementphilosophyhasshownanincreasingrealizationofthe importance ofcustomerfocusandcustomersatisfactioninanybusiness.Theseare leading indicators:ifcustomersarenotsatisfied,theywilleventuallyfindothersuppliersthat willmeettheirneeds.Poorperformancefromthisperspectiveisthusa leading indicatoroffuturedecline,eventhoughthecurrentfinancialpicturemaylook good.

Indevelopingmetricsforsatisfaction,customersshouldbeanalyzedintermsof kinds ofcustomersandthekindsofprocessesforwhichweareprovidingaproductor

servicetothosecustomergroups.

TheFinancialPerspective

KaplanandNortondonotdisregardthetraditionalneedforfinancialdata.Timely and accurate funding data will always be a priority, and managers will do whatevernecessarytoprovideit.Infact,oftenthereismorethanenoughhandlingand processingoffinancialdata.Withtheimplementationofacorporatedatabase,itis hopedthatmoreoftheprocessingcanbecentralizedandautomated.Butthepoint is thatthecurrentemphasisonfinancialsleadsto the"unbalanced" situation with regard tootherperspectives.Thereisperhapsaneedtoincludeadditionalfinancial-related data,suchasriskassessmentandcost-benefitdata,inthis category.

StrategyMapping

Strategymaps arecommunicationtoolsusedtotell astory ofhow valueiscreated for theorganization.Theyshowalogical,step-by-stepconnectionbetweenstrategic objectives(shownasovalsonthemap)intheformofacause-and-effect chain. Generallyspeaking,improvingperformanceintheobjectivesfoundintheLearning& Growthperspective(thebottomrow)enablestheorganizationtoimproveitsInternal ProcessperspectiveObjectives(thenextrowup),whichinturnenablesthe organizationtocreatedesirableresultsintheCustomerandFinancialperspectives (thetoptworows).

Businessprocessre-engineering:

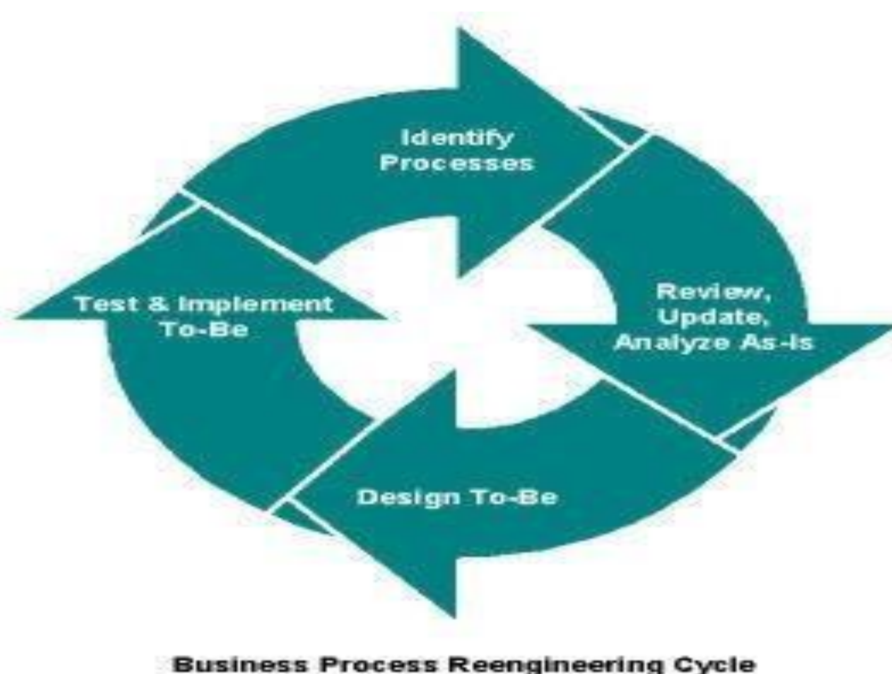
It is the analysis and design of workflows and processes within an organization. According to Davenport (1990) a business process is a set of logically related tasks performed to achieve a defined business outcome. Re-engineering is the basis for many recent developments in management. The cross functional team, for example, has become popular because of the desire to re-engineer separate functional tasks into complete cross-functional processes. Also, many management information systems aim to integrate a wide number of business functions. Business process re- engineering is also known as business process redesign, business transformation, or business process change management.

Businessprocessreengineering(BPR)isatechniquetohelporganizationsto rethinkhow they dotheir workin orderto dramaticallyimprovecustomerserviceand

reduce operational costs, and become world-class organizations. A key enabler for reengineering has been the continuing development and deployment of information systems. Leading organizations are becoming bolder in using this technology tosupportinnovativebusinessprocesses,ratherthanrefiningcurrentwaysofdoing

work.Itmaybedefinedasthefundamentalrethinkingandradicalre-design,madeto anorganization'sexistingresources.Itismorethanjustbusinessimprovising.

Itisanapproachforredesigningthewayworkisdonetobettersupportthe organization’smission.Reengineeringstartswithahigh-levelassessmentofthe organization'smission,strategicgoals,andneedsofcustomer.Basicquestionsare asked,suchas"Doesourmissionneedtoberedefined?Areourstrategicgoals alignedwithourmission?Whoareourcustomers?"Anorganizationmayfindthatit isoperating on questionable assumptions, particularly in terms of the wantsand needs ofitscustomers.Onlyaftertheorganizationrethinkswhatitshouldbedoing,doesit goontodecidehowbesttodoit.



Business Process Reengineering Cycle

Withintheframeworkofthisbasicassessmentofmissionandgoals,reengineering

focuses on the organization's business processes—the steps and procedures that govern how resources are used to create products and services that meet the needs of customers and markets. As a structured ordering of work steps across time and place, a business process can be broken down into specific activities, measured, modeled,

andimproved.Itcanalsobecompletelyredesignedoreliminatedaltogether. Reengineeringidentifies,analyzes,andredesignsanorganization'scorebusiness processeswiththeaimofachievingdramaticimprovementsincriticalperformance measures,suchascost,quality,service,and speed.

Reengineering recognizesthatan organization'sbusinessprocessesare usually fragmentedintosubprocessesandtasksthatarecarriedoutbyseveralspecialized functionalareaswithintheorganization.Often,nooneisresponsiblefortheoverall performanceoftheentireprocess.Reengineeringmaintainsthatoptimizingthe performanceofsubprocessescanresultinsomebenefits,butcannotyielddramatic improvementsiftheprocessitselfisfundamentallyinefficientandoutmoded.

Forthatreason,reengineeringfocusesonredesigningtheprocessasawhole inordertoachievethegreatestpossiblebenefitstotheorganizationandtheir customers.Thisdriveforrealizingdramaticimprovementsbyfundamentally rethinkinghowtheorganization'sworkshouldbedonedistinguishesreengineering fromprocessimprovementeffortsthatfocusonfunctionalorincremental improvement.

A **marketing co-operation**or**marketing cooperation**isapartnership of atleasttwo companiesonthevaluechainlevelofmarketingwiththeobjectivetotapthefull potentialofamarketbybundlingspecificcompetencesorresources.Othertermsfor marketingco-operationaremarketingalliance,marketingpartnership,co-marketing, andcross-marketing.Marketingco-operationsaresensiblewhenthemarketinggoals oftwocompaniescanbecombinedwithaconcreteperformancemeasurefortheend consumer.Successfulmarketingco-operationsgenerate“win-win-win”situations that offervaluenotonlytobothpartneringcompaniesbutalsototheircustomers. Marketingco-operationsextendtheperspectiveofmarketing.Whilemarketing measuresdealwiththeoptimalorganizationoftherelationshipbetweenacompany anditsexistingandpotentialcustomers,marketingco-operationsaudittowhatextent theintegrationofapartnercancontributetoimprovingtherelationshipbetween companiesandcustomers.Inrecentyears,marketingco-operationshavebeen increasinglypopularbetweenbrandsandentertainmentproperties.

Importance

Theimportanceofmarketingco-operationshassignificantlyincreasedoverthelast fewyears:Companiesrecognizepartnershipsasaneffectivemeansforuntapping

growthpotentialstheycannotrealizeontheirown.Inthebigmergerand acquisitionwaveattheendoftheninetiesitbecameapparent,thatco-operations (especiallyonthevaluechainlevelofmarketing)oftenpresentamuchmoreflexible approachwithamoreimmediategrowthimpactthanmergingoracquiringentire businessentities.Studiesshow,thatcompaniesrecognizetheincreasingrelevanceand potentialofco-operations.

Objectives

Therearefivemainobjectivesofmarketingco-operations:

- Build-upand/orstrengtheningofbrandimage/trafficbyimplementingjointor exchange communication measures
- Accesstonewmarkets/customersbydirectlyaddressingtheco-operation partner'scustomersorbyusingitsdistributionpoints
- Increaseofcustomerloyaltybyaddressingowncustomerswithvalueadded offeringsfromthepartner-oftenusefulforcommunitybuilding
- Reductionofmarketingcostsbybundlingorexchangingmarketing measures
- Measurethepotentialvalueofanintangibleassetthroughhowmuch consumersarewillingtopaythepremium

3M'scorporatesitedescribesthevaluetheyseeinJoint Marketing:

Jointmarketingreferstoanysituationwhereaproductismanufacturedbyone company and distributed by another company. Both parties invest in commercialization dollars. Joint marketing differs from a joint venture in that it deals with commercialization and marketing dollars, rather than equity. The prominence of each logo generally is relative to its use as a primary or secondary contributor. Joint marketing differs from third-party relationships because both brands are present onthe product itself. Normally, third-party relationships have both brands on literature and sales materials, but only the manufacturer is present on the product.

Forms

Marketingco-operationscantakeonmanydifferentforms,forinstance:

Examples

Examplesofmarketingco-operationsinclude:

AppleInc.andNikeInc.haveformedalongtermpartnershipto jointly develop and sell "Nike+iPod" products. The "Nike + iPod Sport Kit" links Nike+ products with Apples MP3-Player iPod nana, so that performance data such as distance, pace or burned calories can be displayed on the MP3-Player's

interface.

Diversificationstrategiesareusedtoexpandfirms'operationsbyaddingmarkets, products,services,orstagesofproductiontotheexistingbusiness.Thepurposeof diversificationistoallowthecompanytoenterlinesofbusinessthataredifferent fromcurrentoperations.Whenthenewventureisstrategicallyrelatedtotheexisting linesofbusiness,itiscalledconcentricdiversification.Conglomeratediversification occurswhenthereisnocommonthreadofstrategicfitorrelationshipbetweenthe newandoldlinesofbusiness;thenewandoldbusinessesare unrelated.

DIVERSIFICATIONINTHECONTEXTOFGROWTHSTRATEGIES

Diversificationisaformofgrowthstrategy.Growthstrategiesinvolveasignificant increaseinperformanceobjectives(usuallysalesormarketshare)beyondpastlevels ofperformance.Manyorganizationspursueoneormoretypesofgrowthstrategies. Oneoftheprimaryreasonsistheviewheldbymanyinvestorsandexecutivesthat "biggerisbetter."Growthinsalesisoftenusedasameasureofperformance.Evenif profitsremainstableordecline,anincreaseinsalessatisfiesmanypeople.The assumptionisoftenmadethatifsalesincrease,profitswilleventually follow.

Rewardsformanagersareusuallygreaterwhenafirmispursuingagrowthstrategy. Managersareoftenpaidacommissionbasedonsales.Thehigherthesaleslevel,the largerthecompensationreceived.Recognitionandpoweralsoaccruetomanagersof growingcompanies.Theyaremore frequentlyinvitedto speaktoprofessionalgroups andaremoreofteninterviewedandwrittenaboutbythepressthanaremanagersof companieswithgreaterratesofreturnbutslowerratesofgrowth.Thus,growth companiesalsobecomebetterknownandmaybebetterable,toattractquality managers.

Growth may also improve the effectiveness of the organization. Larger companies have a number of advantages over smaller firms operating in more limited markets.Largesizeorlargemarketsharecanleadtoeconomiesofscale.Marketingor production synergies may result from more efficient use of sales calls, reduced travel time, reduced changeover time, and longer production runs.

1.Learning and experience curve effects may produce lower costs as the firm gains experienceinproducinganddistributingitsproductorservice.Experienceand

largesizemayalsoleadtoimprovedlayout,gainsinlaborefficiency,redesignof productsorproductionprocesses,orlargerandmorequalifiedstaffdepartments (e.g.,marketingresearchorresearchand development).

2.Loweraverageunitcostsmayresultfromafirm'sabilitytospreadadministrative expensesandotheroverheadcostsoveralargerunitvolume.Themorecapital intensiveabusiness is, the moreimportant itsability tospreadcosts acrossa large volumebecomes.

3.Improvedlinkageswithotherstagesofproductioncanalsoresultfromlargesize. Betterlinkswithsuppliersmaybeattainedthroughlargeorders,whichmay producelowercosts(quantitydiscounts),improveddelivery,orcustom-made productsthatwouldbeunaffordableforsmalleroperations.Linkswith distributionchannelsmaylowercostsbybetterlocationofwarehouses,more efficientadvertising,andshippingefficiencies.Thesizeoftheorganization relativetoitscustomersorsuppliersinfluencesitsbargainingpowerandits ability to

4.Sharingofinformationbetweenunitsofalargefirmallowsknowledgegainedin onebusinessunittobeappliedtoproblemsbeingexperiencedinanotherunit. Especiallyforcompaniesrelyingheavilyontechnology,thereductionofR&D costsandthetimeneededtodevelopnewtechnologymaygivelargerfirmsan advantageoversmaller,morespecializedfirms.Themoresimilartheactivities areamongunits,theeasierthetransferofinformation becomes.

5.Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shippingand freight charges, and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location.

CONCENTRICDIVERSIFICATION

Concentricdiversificationoccurswhenafirmaddsrelatedproductsormarkets.The goalofsuchdiversificationistoachievestrategicfit.Strategicfitallowsan organizationtoachievesynergy.Inessence,synergyistheabilityoftwoormore

partsofanorganizationtoachievegreatertotaleffectivenesstogetherthanwouldbe experiencediftheeffortsoftheindependentpartsweresummed.Synergymaybe achievedbycombiningfirmswithcomplementarymarketing,financial,operating,or managementefforts.Brewerieshavebeenabletoachievemarketingsynergythrough nationaladvertisinganddistribution.Bycombininganumberofregionalbreweries intoanationalnetwork,beerproducershavebeenabletoproduceandsellmorebeer thanhadindependentregionalbreweries.

Financialsynergymaybeobtainedbycombiningafirmwithstrongfinancial resourcesbutlimitedgrowthopportunitieswithacompanyhavinggreatmarket potentialbutweakfinancialresources. Forexample,debt-riddencompaniesmayseek toacquirefirmsthatarerelativelydebt-freetoincreasethelever-agedfirm's borrowingcapacity.Similarly,firmssometimesattempttostabilizeearningsby diversifyingintobusinesseswithdifferentseasonalorcyclicalsalespatterns.

CONGLOMERATEDIVERSIFICATION

Conglomeratediversificationoccurswhenafirmdiversifiesintoareasthatare unrelated to itscurrentlineof business. Synergy may result through theapplicationof management expertise or financial resources, but the primary purpose of conglomeratediversificationisimprovedprofitabilityoftheacquiringfirm.Little,if any,concernisgiventoachievingmarketingorproductionsynergywith conglomeratediversification.

Oneofthemostcommonreasonsforpursuingaconglomerategrowthstrategyisthat opportunitiesinafirm'scurrentlineofbusinessarelimited.Findinganattractive investmentopportunityrequiresthefirmtoconsideralternativesinothertypesof business.PhilipMorris'sacquisitionofMillerBrewingwasaconglomeratemove. Products,markets,andproductiontechnologiesofthebrewerywerequitedifferent fromthoserequiredtoproducecigarettes.

Withoutsomeformofstrategicfit,thecombinedperformanceoftheindividualunits will probably not exceed the performance of the units operating independently. In fact, combined performance may deteriorate because of controls placed on the individual units by the parent conglomerate. Decision-making may become slower due to longer review periods and complicated reporting systems.

DIVERSIFICATION:GROWORBUY?

Diversificationeffortsmaybeeitherinternalorexternal.Internaldiversification occurswhenafirmentersadifferent,butusuallyrelated,lineofbusinessby developingthenewlineofbusinessitself.Internaldiversificationfrequentlyinvolves expandingafirm'sproductormarketbase.Externaldiversificationmayachievethe sameresult;however,thecompanyentersanewareaofbusinessbypurchasing anothercompanyorbusinessunit.Mergersandacquisitionsarecommonformsof externaldiversification.

INTERNALDIVERSIFICATION.

Oneformofinternaldiversificationistomarketexistingproductsinnewmarkets.A firmmay elect to broaden itsgeographicbase to includenew customers, eitherwithin its homecountryorininternationalmarkets.Abusinesscouldalsopursueaninternal diversificationstrategybyfindingnewusersforitscurrentproduct.Forexample, Arm&Hammermarketeditsbakingsodaasarefrigeratordeodorizer.Finally,firms mayattempttochangemarketsbyincreasingordecreasingthepriceofproductsto makethemappealtoconsumersofdifferentincomelevels.

Anotherformofinternaldiversificationistomarketnewproductsinexisting markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appearto havegoodmarketpotential.Johnson&Johnsonaddedalineofbabytoysto itsexistinglineof items forinfants. Packaged-foodfirms haveaddedsalt-free orlow-calorieoptionstoexistingproductlines.

Itisalsopossibletohaveconglomerategrowththroughinternaldiversification.This strategy would entail marketing new and unrelated products to new markets. This strategy is the least used among the internal diversification strategies, as it is the most risky. It requires the company to enter a new market where it is not established. The firm is also developing and introducing a new product. Research and development costs, as well as advertising costs, will likely be higher than if existing products were marketed.Ineffect,theinvestmentandtheprobabilityoffailurearemuchgreater

whenboththeproductandmarketarenew.

EXTERNALDIVERSIFICATION

Externaldiversification occurswhenafirmlooksoutsideofitscurrentoperationsand buysaccesstonewproductsormarkets.Mergersareonecommonformofexternal diversification.Mergersoccurwhentwoormorefirmscombineoperationstoform onecorporation,perhapswithanewname.Thesefirmsareusuallyofsimilarsize. Onegoalofamergeristoachievemanagementsynergybycreatingastronger managementteam.Thiscanbeachievedinamergerbycombiningthemanagement teamsfromthemergedfirms.

Acquisitions,asecondformofexternalgrowth,occurwhenthepurchased corporationlosesitsidentity.Theacquiringcompanyabsorbsit.Theacquired companyanditsassetsmaybeabsorbedintoanexistingbusinessunitorremain intact asanindependentsubsidiarywithintheparentcompany.Acquisitionsusuallyoccur whenalargerfirmpurchasesasmallercompany.Acquisitionsarecalledfriendlyif thefirmbeingpurchasedisreceptivetotheacquisition.(Mergersareusually "friendly.")Unfriendlymergersorhostiletakeoversoccurwhenthemanagementof thefirmtargetedforacquisitionresistsbeing purchased.

DIVERSIFICATION:VERTICALORHORIZONTAL?

Diversification strategies can also be classified by the direction of the diversification. Vertical integration occurs when firms undertake operations at different stages of production. Involvement in the different stages of production can be developed inside the company (internal diversification) or by acquiring another firm (external diversification). Horizontal integration or diversification involves the firm moving into operations at the same stage of production. Vertical integration is usually related toexistingoperationsandwouldbeconsideredconcentricdiversification.Horizontal

integrationcanbeeitheraconcentricoraconglomerateformof diversification.

VERTICALINTEGRATION.

Thestepsthataproductgoesthroughinbeingtransformedfromrawmaterialstoa finishedproductinthepossessionofthecustomerconstitutethevariousstagesof production.Whenafirmdiversifiesclosertothesourcesofrawmaterialsinthe

stagesofproduction,itisfollowingabackwardverticalintegrationstrategy.*Avon's* primarylineof businesshasbeentheselling ofcosmeticsdoor-to-door.*Avon*pursued abackwardformofverticalintegrationbyenteringintotheproductionofsomeofits cosmetics.Forwarddiversificationoccurswhenfirmsmoveclosertotheconsumerin termsoftheproductionstages.LeviStrauss&Co.,traditionallyamanufacturerof clothing,hasdiversifiedforward byopeningretailstorestomarketitstextileproducts ratherthanproducingthemandsellingthemtoanotherfirmto retail.

Backwardintegrationallowsthediversifyingfirmtoexercisemorecontroloverthe qualityofthesuppliesbeingpurchased.Backwardintegrationalsomaybe undertaken toprovideamoredependablesourceofneededrawmaterials.Forwardintegration allowsamanufacturingcompanytoassureitselfofanoutlet foritsproducts.Forward integrationalsoallowsafirmmorecontroloverhowitsproductsaresoldand serviced.Furthermore,acompanymaybebetterabletodifferentiateitsproducts from thoseofitscompetitorsbyforwardintegration.Byopeningitsownretailoutlets,a firmisoftenbetterabletocontrolandtrainthepersonnelsellingandservicingits equipment.

Sinceservicingisanimportantpartofmanyproducts,havinganexcellentservice department may provide an integrated firm a competitive advantage over firms thatare strictly manufacturers.

Somefirmsemployverticalintegrationstrategiestoeliminatethe"profitsofthe middleman."Firmsaresometimesabletoefficientlyexecutethetasksbeing performedbythemiddleman(wholesalers,retailers)andreceiveadditionalprofits. However,middlemen receivetheirincomebybeingcompetentatproviding aservice. Unlessafirmisequallyefficientinprovidingthatservice,thefirmwillhaveasmaller profitmarginthan themiddleman. Ifafirm is too inefficient,customersmayrefuse to workwiththefirm,resultinginlost sales.

Verticalintegrationstrategieshaveonemajordisadvantage.Averticallyintegrated firmplaces"allofitseggsinonebasket."Ifdemandfortheproductfalls,essential suppliesarenotavailable,orasubstituteproductdisplacestheproductinthe marketplace,theearningsoftheentireorganizationmaysuffer.

HORIZONTALDIVERSIFICATION.

Horizontalintegrationoccurswhenafirmentersanewbusiness(eitherrelatedor unrelated)atthesamestageofproductionasitscurrentoperations.Forexample, Avon'smovetomarketjewelrythroughitsdoor-to-doorsalesforceinvolved marketingnewproductsthroughexistingchannelsofdistribution.Analternativeform ofhorizontalintegrationthatAvonhasalsoundertakenissellingitsproductsbymail order(e.g.,clothing,plasticproducts)andthroughretailstores(e.g.,Tiffany's).In bothcases,Avonisstillattheretailstageoftheproductionprocess.

DIVERSIFICATIONSTRATEGYANDMANAGEMENTTEAMS

AsdocumentedinastudybyMarlin,Lamont,andGeiger,ensuringafirm's diversificationstrategyiswellmatchedtothestrengthsofitstopmanagementteam membersfactoredintothesuccessofthatstrategy.Forexample,thesuccessofa mergermaydependnotonlyonhowintegratedthejoiningfirmsbecome,butalsoon howwellsuitedtopexecutivesaretomanagethateffort.Thestudyalsosuggeststhat differentdiversificationstrategies(concentricvs.conglomerate)requiredifferent skillsonthepartofacompany'stopmanagers,andthatthefactorsshouldbetaken intoconsiderationbeforefirmsarejoined.

There are many reasons for pursuing a diversification strategy, but most pertain to management's desire for the organization to grow. Companies must decide whether they want to diversify by going into related or unrelated businesses. They must then decide whether they want to expand by developing the new business or by buying an ongoingbusiness.Finally,managementmustdecideatwhatstageintheproduction processtheywishto diversify.

Conglomeratediversification

Type of diversification whereby a firm enters (through acquisition or merger) an entirely different market that has little or no synergy with its core business or technology.

Ex: Imagineyouwereabletomaximizeyouropportunities,minimizeyourrisksand achieveperformancebreakthroughs.You'reprobablythinking–"thatwouldbegreat, howdoIdoit?"Wellit'ssimplebutthissimplicitydemandscriticalthinkingand diligenteffort.Soifyou'reinterested,let'sfindouthow.Achievingthislevelof

performancerequiresadeliberatestrategywithaperformancemanagementand measurementsystemthatenablesyoutoscanthebusinesshorizon,focusyourtime, energy,knowledge,relationshipsandresourcesandexecutecoursesofactionthat possessthehighestpay-off,lowestcostsandeasiestimplementationtrajectory.You maywonderwhethersuchastrategyformulationisworthyourtimeandeffort,

especiallyifyou'reinaquicklychangingbusinessenvironment.Thisissuecameupin a discussion with leading business writer and consultant*Seth Godin*. We concludedthat

businessstrategydrivesgrowthandprosperityforbusinesses,bothlargeand small. *Godin* said that for example *Howard Shultz*, founder and head of *Starbucks Coffee*, could have decided to open and run only a few stores, but you better believe that to grow *Starbucks* like he has he had to have a business strategy.

So with that introduction let's go through a step-by-step process for developing a

business strategy with a performance management and measurement system for your business. Let's call it a "Grand Strategy" because it equates to a necessary precursor for all subordinate strategies and systems whether they be marketing, innovation or otherwise.Thereare12stepstothisGrandStrategyprocess.Thefirst11stepsofthis processarebestdevelopedasalivingdocumentwithyourtopmanagementteamand afacilitatoratanoff-sitemeetingtoavoiddistractions.Andsteptwelve,"Execute, Adjust,andExecute"requiresstrongtopmanagementcommitment,supportand involvement.

StepOne.Ask"what'syour'TheoryofBusiness'?"Asphilosopherstellus,thereis nothingaspracticalasgoodtheory.Brieflyanswerthesefourquestionstouncover yours.

Whatbusinessareyouinandwhereareyounow?

- Whereareyou going?
- Howwillyouget there?
- Howwillyouknowyou'vearrived?

StepTwo. Createaclearexpressionofyourintangiblebusinessresources.These intangibles form an intellectual and emotional grounding for your *Grand Strategy*. They drive your business and business relationships. Without them, you won't be able to committhe time, energy and tangible resourcesthatmove your businessforward.

Theseintangibles are:

Values–

highlevelconceptsthatyoupouryourlifeintoregardlessoffinancialreturnbecausetheydefineyouandyourbusiness.S

omeexamplesarefamilywellbeing,charityandgoodwilltowardothers,honestyandintegrity,and

making a difference in the world.

- Beliefs -keyprinciplesthatstateyour assumptionsaboutthecauseand effect relationships that drive you and your business. For example, if we provide excellent products and services that please our customers at a competitive price, we will be a profitable business.

- Attitudes – emotional orientations exhibited by you and your business toward others that affects how you view them and treat them, and in turn how they react to you and your business. Attitudes result in either positive or negative expressions such as "most people tend to be fair if treated fairly" or "most people will take advantage of you if you let them."

- Capabilities – inherent knowledge and relationships that support getting work done for you and your business. For example, such things as patents, suppliers and customer data bases, production processes, sales force knowledge, knowledge about competitors, technological expertise and customer relationships fit here.

WhatareyourValues,Beliefs,AttitudesandCapabilities?Listthem.

Step Three. Write a "Mission Statement." This statement provides you with the articulation of your business purpose or reason for being. Answering the following four questions in a satisfying amount of detail provides compelling background informationfromwhichyoucanextractahardhittingmissionstatementtomoveyour business and Grand Strategy forward.

- Whyare youinbusiness?
- Whatdoesyourbusinessdoandhowdoesitdoit?
- Whodoesyourbusiness,whosupportsit,whobenefitsfromitandwho,if anyone, suffers from it?

- Howmanydifferentkindsofresourcesareinvolvedinyourbusiness,howmuch dotheycostsandhowmuchprofitdoyouexpecttomakefrom them?

Answerthesequestionsandnoticethepoweroftheirfocusingaffectonyour business.Fromyouranswers,developacondensedandhardhitting*Mission Statement.*

StepFour. Performan"EnvironmentalScan"byaskingandansweringthefollowing questions:

1. What industryareyouin(retail,wholesale,finance,manufacturing,durable or non-durable goods and so on) and what are its trends?
2. Potentialcompetitors?Whatrelevantadvantagesanddisadvantagesdothey possess?
3. Whoareyoursuppliersandpotentialsuppliers?Whatmutualinterestsdoyou sharewiththem?Whatnaturalconflicts exist?
4. Whoareyourcustomersandpotentialcustomersandwhoaretheir customers? Whatsegmentsdotheyfallin?
5. What are the demographics that impact your business – age groups, ethnics,economicstatus?Whataretheirdifferencesintermsofneedsand preferences?
6. Whatistheregulatoryenvironmentandhowdoesitaffectyour business?
7. Whataretheemergingtechnologiesandhowmighttheyaffectyour business?
8. Whoareyourstakeholders(employees,suppliers,customers,investorsand community)andwhataretheir expectations?

Answerthese EnvironmentalScanquestionsinordertopossessthenecessary businessintelligenceandinsighttoproceedtothenextstep.

StepFive. Afteryoucompleteyourscan,thenperforma*SWOTAnalysis*.SWOT stands for "Strengths," "Weaknesses," "Opportunities" and "Threats."

Your*Strengths*and *Weaknesses* areinternal. Your*Opportunities*and*Threats*are external.

Theareasforyoutoexploreundereach *SWOTAnalysis*categoryare:

Strengths or Weaknesses

1. Customer Service
2. Products
3. Systems and Processes
4. R&D
5. Cash Flow
6. Employee Training
7. Employee Loyalty
8. Others?

Opportunities or Threats

1. Emerging Products and Services
3. Technological Change New Markets
4. Competitive Pressures
5. Supplier Relationships
6. Economic Conditions
7. Others?

Now, brainstorm to generate ideas under each category/area. Generate as many as ideas as possible. Using your best judgment, select the top six ideas in terms of relevance and importance for improving the performance and competitiveness of your business. Next, translate the top six selected ideas into goal statements. For this translation process, use the following format: action verb + (restated idea) in order to (object). For example, a goal statement would look like this: "Increase customer satisfaction in order to reduce customer losses and defections."

Step Six. Determine your "Strategic Focus." Business is becoming more and more competitive. Let's call this phenomenon "Hyper-Competition." From it we see the time lapse between finding a competitive edge and having it copied shrinking. *Hyper-* Competition demands that you differentiate. This differentiation starts with you selecting a Strategic Focus for your business. Otherwise your products and services become commoditized.

Strategic Focus breaks down into the following three disciplines:

- Customer Intimacy - emphasizes paying close attention to customers desires and providing them with total, not to be beaten service and solutions. *Ritz* Carlton Hotels and Nordstroms lead with this discipline.

1. Product Leadership – emphasizes R&D and providing the best technology

andqualityavailableinproducts.IntelandStarbucksleadwiththis discipline.

2.OperationalExcellence–emphasizesefficientoperationsandcostscontrols toprovidethelowestcosts.*Wal-Mart*and*SouthwestAirlines*leadwiththis discipline.

Pickingoneoftheseasyourleadfocusrepresentsasmartthingtodo.Thisimperative does not mean that you don't try to do well in the other two. It means that you don'ttry to do all three equally well. Trying to be all things for all customers putsyou on a path to failure because customers will not behave in a way that profits your business.

Businessisjusttoohyper-competitiveforyoutosucceeddoingallthreebetterthan anyoneelse.

Sonowlookatyour:TheoryofBusiness;Values,Beliefs,Attitudesand Capabilities;MissionStatement,EnvironmentalScanandSWOTAnalysis,andthen makeajudgmentcall.PickyourStrategicFocusandlead

StepSeven. Seekperformancebreakthroughs.Youbeginthisprocessbyselecting your*StrategicFocus*andlimitingyourgoalstatementstothetopsix.Thesetopsix goalsrepresentyour"StrategicGoals"forachievingperformancebreakthroughs.

Ifyoulookat thetime youspendonyourbusiness,youfinditcanbebrokendown intothreecategories.These are:

- AdministrativeandOperations–thetimeyouspendkeepingtheroutinedayto daybusinessrunning
- Crisis–thetimeyouspendsolvingunanticipated problems
- Breakthrough–thedeliberatetimeyouspendoncreativeeffortstoimprove performance

What happens is that the first two time categories grow to occupy all your time and theypushoutyourbreakthroughtime.Maintaininga StrategicFocus combinedwith developing Strategic Goals to execute amounts to the only workable solution to this challenge.Now,incorporatethisthinkingintothesucceedingstepsofyourGrand

Strategyprocess.

StepEight. Understand and apply "CauseandEffectRelationships."Let'sdiscussthe dynamicsofCauseandEffectRelationshipsamongyourStrategicGoals.Thereare fourbasic"Perspectives"thatprovidetheframeworkforlinkingyourgoalsinto yourGrandStrategy.ThesePerspectivesare:

- HumanCapital–thepeopletalentinyourorganizationandthesystemsand process that directly enable them to be productive. A good way to look at the people part is that it's what goes home at night.

- StructuralCapital–thesystems,structuresandstrategiesthattheorganization ownsandproducesvaluewith.Itstaysintheorganizationwhenyouturnoffthe lights.
- CustomerCapital–therelationship,levelofsatisfaction,reputation,potential forreferralsandloyaltywhichyourorganizationenjoyswithits customers.

- FinancialPerformance–thelevelofeconomicreturnprovidedtoyouand yourownersrelativetoinvestment.Performanceunderthisperspectiveisalso comparedtoalternativeinvestmentslikeT-Bills.

StepNine. Developa"StrategyMap."Let'sstartbylookingatan example.

AHarvardBusinessReviewarticle,TheEmployee–CustomerProfitChainatSears, Jan-Feb1998,chronicledatransformationof Sears.

Step Ten. Translate your Strategy Map goals into "Key Performance Measures" (KPMs) and perform a "Gap Analysis." First, translate your goals into measurable terms.Insome cases,agoal mayalreadybestatedinmeasurableterms.Butyouoften have to break goals down and restate them in measurable terms. For example, the StructuralCapitalGoal of"CreateandMaintainWellStockedandAttractiveShelves" astheKPM"MysteryShoppersRatingforStore maybebrokendownandrestated ProductDisplayand Appeal."

Step Eleven: Financial Performance Goals are usually stated in measurable terms so usethesetermsforyourFinancialPerformanceKPMsasappropriate.OnCustomer, StructuralandHumanCapitalGoals,youusuallyhavetorestatetheminKPMterms withanumber,percentageorranking.SomeexamplesofKPMsfollow:

StepTwelve. Execute,Adjust,Execute.AFortuneMagazinestudyinJune 1999

foundthatmanyCEOswerefiredbecausetheyfailedtoexecutetheirstrategy.Things really have not changed much since then. As a friend, Mike Kipp, a consultant from Nashville, Tennessee, says "All organizations are perfectly designed to achieve the results they are getting." Don't confuse creating your *Grand Strategy* with taking action. Now the *Grand Strategy process* demands real work and organizational change. Otherwise improvement won't occur and things might even get worse. Executionandappropriateadjustmentsareimperativeoryou'veonlydonean academicexercise.

GrandStrategy Steps

Summary

- **StepOne.**Answer **"**what'syour*TheoryofBusiness*?"
- **StepTwo.**Identifyyour*Values,Beliefs,Attitudesand Capabilities.*
- **StepThree.** Writeyour*MissionStatement*.**StepFour.**Performan *EnvironmentalScan.*
- **StepFive.**Performa*SWOT Analysis.*
- **StepSix.**Determineyour *StrategicFocus.*
- **StepSeven.**SeekPerformanceBreakthroughs.
- **StepEight.**UnderstandandApply *CauseandEffectRelationships.*
- **StepNine.**Developa*StrategyMap.*
- **StepTen**.Translategoalsinto *KPMs*andPerform*Gap Analysis.*
- **StepEleven**.Preparea*Scorecard*totrackanddriveYour*Grand Strategy.*
- **StepTwelve.**Execute,Adjust,Execute.

Entrepreneurship:

Itistheactofbeinganentrepreneur,whichcanbedefinedas"onewho undertakesinnovations,financeandbusinessacumeninaneffforttotransform innovationsintoeconomicgoods".Thismayresultinneworganizationsormaybepartof revitalizingmatureorganizationsinresponsetoaperceivedopportunity.Themost obviousformofentrepreneurshipisthatofstartingnewbusinesses.Inrecentyears,the termhasbeenextendedtoincludesocialandpoliticalformsofentrepreneurialactivity. Whenentrepreneurshipisdescribingactivitieswithinafirmorlargeorganizationitis referredtoasintra-preneurshipandmayincludecorporateventuring,whenlargeentities spin-off organizations.

AccordingtoPaulReynolds,entrepreneurshipscholarandcreatoroftheGlobal Entrepreneurship Monitor, "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among U.S. workers over the course of their careers." And in recent years has been documented by scholars such as David Audretsch to be a major driver of economic growth in both the United States and Western Europe.Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high value" entrepreneurial ventures seek venture capital or angel funding (seed money) in order to raise capital to build the business.

OrganizationalPolitics

Organizationalpoliticshavebeendefinedas“actionsbyindividualswhichare directedtowardthegoaloffurtheringtheirownselfinterestswithoutregardforthewell-beingofothersortheirorganization”(KacmarandBaron1999,p.4).Researchsuggests thatperceptionsoforganizationalpoliticsconsistentlyresultinnegativeoutcomesfor individuals(Harris,Andrews,andKacmar2007).AccordingtoHarrisandKacmar (2005),politicshasbeenconceptualizedasastressorintheworkplacebecauseitleadsto increasedstressand/orstrainreactions.Membersoforganizationreactphysicallyand

psychologicallytoperceptionsoforganizationalpolitics,physicalreactionsincluding fatigueandsomatictension (Cropanzanoetal.1997), and psychologicalreactionsinclude reducedcommitment(Vigoda2000)andreducedjobsatisfaction(Bozemanetal. 2001).

FollowingarethemaindifferencesbetweenStrategyFormulationandStrategyImplementation-

StrategyFormulation **StrategyImplementation**

Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.

In short, Strategy Formulation is placing the Forces before the action.

Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.

Strategy Formulation emphasizes on effectiveness.

Strategy Formulation is a rational process.

Strategy Formulation requires co- ordination among few individuals.

StrategyFormulationrequiresagreat deal of initiative and logical skills.

Strategic Formulation precedes Strategy Implementation.

Strategy Implementation involves all those means related to executing the strategic plans.

Inshort,StrategyImplementationis managing forces during the action.

StrategicImplementationismainly
an Administrative Task based on strategic and operational decisions.

Strategy Implementation emphasizes on efficiency.

Strategy Implementation is basicallyanoperational process.

Strategy Implementation requires co- ordination among many individuals.

StrategyImplementationrequires
specificmotivationalandleadershiptraits.

rategy lation.	Implementation follow Strategy

UNITIV

StrategicEvaluation

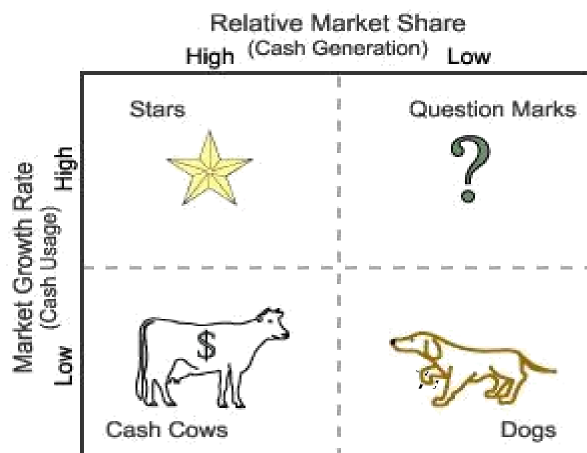
Strategy Evaluation is assignificantas strategy formulation becauseit throwslighton the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed bymanagers,groups,departmentsetc,throughcontrolof

performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

TheprocessofStrategyEvaluationconsistsoffollowingsteps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.
2. **AnalyzingVariance-**Whilemeasuringtheactualperformanceand comparingit with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. Thepositive deviation indicates a better performance but it is quite unusualexceedingthetargetalways.Thenegativedeviationisanissueofconcern



becauseitindicatesashortfallinperformance.Thusinthiscasethestrategists mustdiscoverthecausesofdeviationandmusttakecorrectiveactionto overcomeit.

3. **TakingCorrectiveAction-**Oncethedeviationinperformanceisidentified,it isessentialtoplanforacorrectiveaction.Iftheperformanceisconsistentlyless thanthedesiredperformance,thestrategistsmustcarryadetailedanalysisofthe factorsresponsibleforsuchperformance.Ifthestrategistsdiscoverthatthe organizationalpotentialdoesnotmatchwiththeperformancerequirements,then thestandardsmustbelowered.Anotherrareanddrasticcorrectiveactionis reformulatingthestrategywhichrequiresgoingbacktotheprocessofstrategic management,reframingofplansaccordingtonewresourceallocationtrendand consequentmeansgoingtothebeginningpointofstrategicmanagementprocess.

Characteristics/FeaturesofStrategicDecisionsandTactics

Strategic decisions are the decisions that are concerned with whole environment in whichthefirmoperates,theentireresourcesandthepeoplewhoformthecompany and the interface between the two.

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategicdecisionsdealwiththerangeoforganizationalactivities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

Strategicdecisionsarecomplexinnature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisionswhichhelporratherfacilitatestrategicdecisionsor

operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

ThedifferencesbetweenStrategic,AdministrativeandOperationaldecisionscanbe summarizedasfollows-

rategicDecisions	dministrativeDecisions	perationalDecisions
rategicdecisionsarelong-term ns.	dministrativedecisionsare daily.	perationaldecisionsarenot ntly taken.
heseareconsideredwhereThe planning is concerned.	heseare short- sed Decisions.	hesearemedium-periodbased ns.
rategicdecisionsaretaken dance withorganization ion and vision.	Thesearetakenaccordingto ic andoperational ns.	hese are taken in accordance ategicandadministrative n.
hesearerelatedtooverallCounter ng of all Organization.	hesearerelatedtoworkingof yees in an Organization.	hesearerelatedtoproduction.
hesedealwithorganizational h.	heseare in welfareof yees working in an	hesearerelatedtoproduction ory growth.

BostonConsultingGroup(BCG)Matrixisafourcelledmatrix(a2*2matrix)

developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it's portfolio on the basis of their related market share and industry growth rates. It isatwo dimensionalanalysis onmanagementofSBU's (StrategicBusinessUnits).In other words, it is a comparative analysis of business potential and the evaluation of environment.

Accordingtothismatrix,businesscouldbeclassifiedashighorlowaccordingto their industry growth rate and relative market share.

RelativeMarketShare =SBUSalesthisyearleadingcompetitorssalesthis year.

MarketGrowthRate =Industrysalesthisyear-IndustrySaleslastyear.

Theanalysisrequiresthat both measuresbe calculated foreach SBU.The dimension ofbusinessstrength,relativemarketshare,willmeasurecomparativeadvantage indicatedbymarketdominance.Thekeytheoryunderlyingthisisexistenceofan experiencecurveandthatmarketshareisachievedduetooverallcostleadership.

BCGmatrixhasfourcells,withthehorizontalaxisrepresentingrelativemarketshare andtheverticalaxisdenotingmarketgrowthrate.Themid-pointofrelativemarket shareis set at 1.0.ifall the SBU's are insameindustry, theaveragegrowth rateof the industry is used. While, if all the SBU's are located in different industries, then themid-point is set at the growth rate for the economy.

Resourcesareallocatedtothebusinessunitsaccordingtotheirsituationonthegrid.

Thefourcellsofthis matrixhavebeencalledas stars,cashcows,questionmarks and dogs. Each of these cells represents a particular type of business.

Figure:BCG Matrix

1. **St**

Starsrepresentbusinessunitshavinglargemarketshareinafastgrowingindustry.Theymaygeneratecash butbecauseoffastgrowing market,

starsrequirehugeinvestmentstomaintaintheirlead.Netcashflowisusually modest.SBU’slocatedinthiscellareattractiveastheyarelocatedinarobust industryandthesebusinessunitsarehighlycompetitiveintheindustry.If successful,astarwillbecomeacashcowwhentheindustrymatures.

2. **CashCows-** CashCowsrepresentsbusinessunitshavingalargemarketsharein amature,slowgrowingindustry.Cashcowsrequirelittleinvestmentand generate cash that can be utilized for investment in other business units. These SBU’sarethecorporation’skeysourceofcash,andarespecificallythecore business.Theyarethebaseofanorganization.Thesebusinessesusuallyfollow stabilitystrategies.Whencashcowsloosetheirappealandmovetowards deterioration,thenaretrenchmentpolicymaybepursued.

3. **Question Marks-** Question marks represent business units having low relative marketshareandlocatedinahighgrowthindustry.Theyrequirehugeamountof cash to maintain or gain market share. They require attention to determine if the venturecanbeviable.Questionmarksaregenerallynewgoodsandservices whichhaveagoodcommercialprospective.Thereisnospecificstrategywhich canbeadopted.Ifthefirmthinksithasdominantmarketshare,thenitcanadopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may becomedogs,whileifhugeinvestmentismade,thentheyhavepotentialof becomingstars.

4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets.Theyneithergeneratecashnorrequirehugeamountofcash.Duetolow market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor’s/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unlessadoghassomeotherstrategicaim,itshouldbeliquidatedifthereis

fewerprospectsforittogainmarketshare.Numberofdogsshouldbeavoided andminimizedinanorganization.

LimitationsofBCGMatrix

TheBCGMatrixproducesaframeworkforallocatingresourcesamongdifferent businessunitsandmakesitpossibletocomparemanybusinessunitsataglance.But BCGMatrixisnotfreefromlimitations,suchas-

1. BCGmatrixclassifiesbusinessesaslowandhigh,butgenerallybusinesses canbemediumalso.Thus,thetruenatureofbusinessmaynotbereflected.

2. Marketisnotclearlydefinedinthis model.

3. Highmarketsharedoesnotalwaysleadstohighprofits.Therearehighcosts alsoinvolvedwithhighmarketshare.

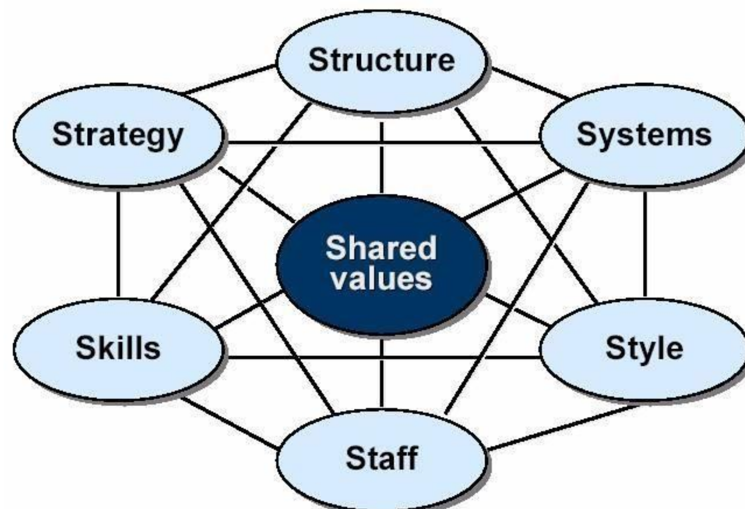
4. Growthrateandrelativemarketsharearenottheonlyindicatorsofprofitability. Thismodelignoresandoverlooksotherindicatorsofprofitability.

5. Attimes,dogsmayhelpotherbusinessesingainingcompetitiveadvantage. Theycanearnevenmorethancashcowssometimes.

6. Thisfour-celledapproachisconsideredastobetoo simplistic.

The7-SframeworkofMcKinseyisaValueBasedManagement (VBM)

Modelthatdescribeshowonecanholisticallyandeffectivelyorganizeacompany. Togetherthesefactorsdeterminethewayinwhichacorporationoperates.



SharedValue

TheinterconnectingcenterofMcKinsey'smodelis:SharedValues.Whatdoesthe organizationstandsforandwhatitbelievesin.Centralbeliefsand attitudes.

Strategy

Plansfor theallocationoffirmsscarceresources,overtime,toreachidentifiedgoals.

Environment,competition,customers.

Structure

Thewaytheorganization'sunitsrelatetoeachother:centralized,functionaldivisions (top-down);decentralized(thetrendinlargerorganizations);matrix,network, holding,etc.

System

Theprocedures,processesandroutinesthatcharacterizehowimportantworkistobe done:financialsystems;hiring,promotionandperformanceappraisalsystems; informationsystems.

Staff

Numbersandtypesofpersonnelwithintheorganization.

Style

Culturalstyleoftheorganizationandhowkeymanagersbehaveinachievingthe organization’sgoals.

Skill

Distinctive capabilities of personnel or of the organization as a whole. Core Competences

GEM a t rix

The business portfolio is the collection of businesses and products that make up the company. The best business portfolio is one that fits the company's strengths and helps exploit the most attractive opportunities.

Thecompanymust:

(1) Analyse its current business portfolio and decide which businesses should receive more or less investment, and

(2) Develop growth strategies for adding new products and businesses to theportfolio, whilst at the same time deciding when products and businesses should no longer be retained.

Thetwobest-knownportfolioplanningmethodsaretheBostonConsulting

GroupPortfolioMatrixandthe McKinsey/ General Electric Matrix(discussedinthis revision note). In both methods, the first step is to identify the various Strategic Business Units ("SBU's") in a company portfolio. An SBU is a unit of the company thathasaseparatemissionandobjectivesandthatcanbeplannedindependentlyfrom the other businesses. An SBU can be a company division, a product line or even individual brands - it all depends on how the company is organised.

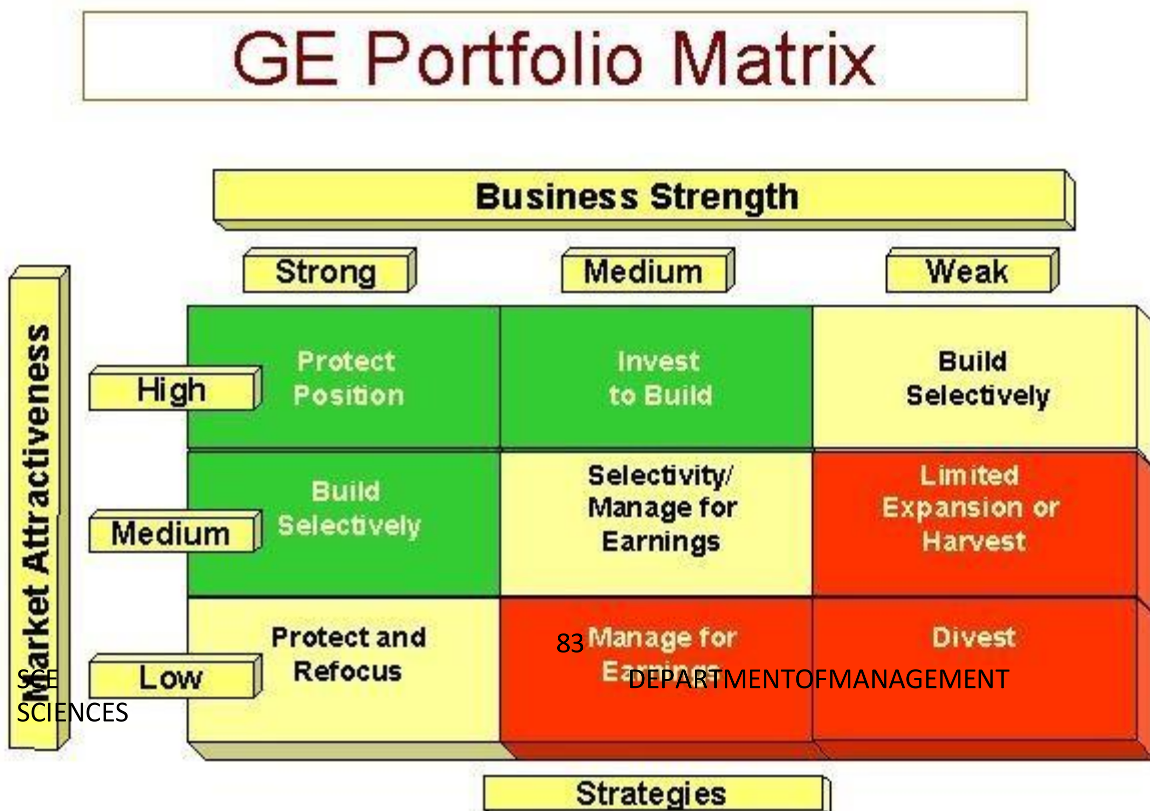
TheMcKinsey/GeneralElectricMatrix

TheMcKinsey/GEMatrixovercomesanumberofthedisadvantagesoftheBCGBox. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimensionby which the competitive position of each SBU is assessed.

The diagram below illustrates some of the possible elements that determine market attractiveness and competitive strength by applying the McKinsey/GE Matrix to the UK retailing market:

FactorsthatAffectMarket Attractiveness

1. Whilst any assessment of market attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:



- MarketSize
- Marketgrowth
- Marketprofitability
- Pricingtrends
- Competitiveintensity/ rivalry
- Overallriskofreturnsintheindustry
- Opportunitytodifferentiate
- productsandservices
- Segmentation
- Distributionstructure(e.g.retail,direct,wholesale

FactorsthatAffectCompetitiveStrength

Factorstoconsiderinclude:

- Strengthofassetsandcompetencies
- Relativebrandstrength
- Marketshare
- Customerloyalty
- Relativecostposition(coststructurecomparedwithcompetitors)
- Distributionstrength
- Recordoftechnologicalorotherinnovation
- Accesstofinancialandotherinvestmentresources

Strategicleadershipreferstoamanger'spotentialtoexpressastrategicvisionforthe

organization, or a part of the organization, and to motivate and persuade others to acquirethat vision. Strategicleadership can also bedefined as utilizing strategy in the managementofemployees.Itisthepotentialtoinfluenceorganizationalmembersand to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in anambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization's needs in context of their own job. Strategic leaders encourage the employeesinanorganizationtofollowtheirownideas.Strategicleadersmakegreater useof rewardandincentivesystemfor encouragingproductiveand qualityemployees to show much better performance for their organization. Functional strategic leadership is about inventive

Strategicleadershiprequiresthepotentialtoforeseeandcomprehendthework environment.Itrequiresobjectivityandpotentialtolookatthebroaderpicture.

Afewmain**traits/characteristics /features/qualities**of effectivestrategic leaders thatdoleadtosuperiorperformanceareas follows:

Loyalty- Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.

Keeping them updated- Efficient and effective leaders keep themselves updated about what is happening within their organization. They have various formal and informal sources of information in the organization.

Judicious use of power- Strategic leaders makes a very wise use of their power.They must play the power game skillfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.

Have wider perspective/outlook- Strategic leaders just don't have skills in their narrow specialty but they have a little knowledge about a lot of things.

Motivation- Strategicleadersmusthaveazealfor work thatgoesbeyond money and power and also they should have an inclination to achieve goals with energy and determination.

Compassion-Strategicleadersmustunderstandtheviewsandfeelingsoftheirsubordinates, and make decisions after considering them.

Self-control- Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e., they must think before acting.

Socialskills-Strategicleadersmustbefriendlyand social.

Self-awareness- Strategic leaders must have the potential to understand their own moods and emotions, as well as their impact on others.

Readiness to delegate and authorize- Effective leaders are proficient at delegation. They are well aware of the fact that delegation will avoid overloading of responsibilities on the leaders. They also recognize the fact that authorizing the subordinates to make decisions will motivate them a lot.

Articulacy- Strong leaders are articulate enough to communicate the vision(vision of where the organization should head) to the organizational members in terms thatboost those members.

leaders**Constancy/Reliability-**Strategic t becomes a component of organizational culture.

Toconclude,Strategicleaderscancreatevision,expressvision,passionatelypossess visionandpersistentlydriveitto accomplishment

Gap analysis:

Itgenerallyreferstotheactivityofstudyingthedifferencesbetween standardsandthedeliveryofthosestandards.Forexample,itwouldbeusefulfora firmtodocumentdifferencesbetweencustomerexpectationandactualcustomer experiencesinthedeliveryofmedicalcare.Thedifferencescouldbeusedtoexplain satisfactionandtodocumentareasinneedofimprovement.

However,intheprocessofidentifyingthegap,abefore-and-afteranalysis

performaValueStreamMapofthecurrentprocess.ThenwecreateaValueStream Mapofthedesiredstate. Thedifferencesbetweenthetwodefinethe"gap".Once the gapisdefined,agameplancanbedevelopedthatwillmovetheorganizationfromits currentstatetowarditsdesiredfuturestate.

Theissueofservicequalitycanbeusedasanexampletoillustrategaps.For

qualityperspective,theseinclude:(1)servicequalitygap;(2)management understandinggap;(3)servicedesigngap;(4)servicedeliverygap;and(5) communicationgap.

ServiceQualityGap.

Indicates the difference between the service expected by customers and the service they actually receive. For example, customers may expect to wait only 20 minutes to see their doctor but, in fact, have to wait more than thirty minutes.

ManagementUnderstandingGap.

Representsthedifferencebetweenthequalitylevelexpectedbycustomersandthe perceptionofthoseexpectationsbymanagement.Forexample,inafastfood environment,thecustomersmayplaceagreateremphasisonorderaccuracythan promptnessofservice,butmanagementmayperceivepromptnesstobemore important.

ServiceDesignGap.

Thisisthegapbetweenmanagement'sperceptionofcustomerexpectationsandthe

developmentofthisperceptionintodeliverystandards.Forexample,management mightperceivethatcustomersexpectsomeonetoanswertheirtelephonecallsina timelyfashion.Tocustomers,"timelyfashion"maymeanwithinthirtyseconds. However,ifmanagementdesignsdeliverysuchthattelephonecallsareanswered withinsixtyseconds,aservicedesigngapis created.

ServiceDeliveryGap.

Representsthegapbetweentheestablisheddeliverystandardsandactual servicedelivered.Giventheaboveexample,managementmayestablishastandard suchthattelephonecallsshouldbeansweredwithinthirtyseconds.However,ifit takesmorethanthirtysecondsforcallstobeanswered,regardlessofthe cause,there isadeliverygap.

CommunicationGap.

Thisisthegapbetweenwhatiscommunicatedtoconsumersandwhatis actually delivered. Advertising, for instance, may indicateto consumersthattheycan havetheircars'soilchangedwithintwentyminuteswhen,inreality,ittakesmore thanthirtyminutes.

IMPLEMENTINGGAPANALYSIS

Gap analysis involves internal and external analysis. Externally, the firm must communicate with customers. Internally, it must determine service delivery and servicedesign.Continuingwiththeservicequalityexample,thestepsinvolvedinthe implementation of gap analysis are:

- Identificationofcustomerexpectations
- Identificationofcustomerexperiences
- Identificationofmanagementperceptions
- Evaluationofservicestandards
- Evaluationofcustomercommunications

Theidentificationofcustomerexpectationsandexperiencesmightbeginwithfocus-group interviews. Groups of customers, typically numbering seven to twelve per group, are invited to discuss their satisfaction with services or products. During this process, expectations and experiences are recorded. This process is usuallysuccessful in identifying those service and product attributes that are most important to customer satisfaction.

Afterfocus-groupinterviewsarecompleted,expectationsandexperiencesare measuredwithmoreformal,quantitativemethods.Expectationscouldbemeasured withaonetotenscalewhereonerepresents"NotAtAllImportant"andten represents"ExtremelyImportant."Experienceorperceptionsabouteachofthese attributeswouldbemeasuredinasimilar manner.

Gapscanbesimplycalculatedasthearithmeticdifferencebetweenthetwo measurementsforeachoftheattributes.Managementperceptionsaremeasured much inthesamemanner.Groupsof managersareaskedtodiscusstheirperceptions ofcustomerexpectationsandexperiences.Ateamcanthenbeassignedthedutyof evaluatingmanagerperceptions,servicestandards,andcommunicationstopinpoint discrepancies.Aftergapsareidentified,managementmusttakeappropriatestepsto fillornarrowthegaps.

THEIMPORTANCEOFSERVICEQUALITYGAPANALYSIS

Themainreasongapanalysisisimportanttofirmsisthefactthatgapsbetween customer expectations and customer experiences lead to customer dissatisfaction. Consequently, measuring gaps is the first step in enhancing customer satisfaction. Additionally, competitive advantages can be achieved by exceeding customer expectations.Gapanalysisisthetechniqueutilizedtodeterminewherefirmsexceed orfallbelowcustomer expectations.

Customersatisfactionleadstorepeatpurchasesandrepeatpurchasesleadtoloyal customers.Inturn,customerloyaltyleadstoenhancedbrandequityandhigher profits.Consequently,understandingcustomerperceptionsisimportanttoafirm's performance.Assuch,gapanalysisisusedasatooltonarrowthegapbetween perceptionsandreality,thusenhancingcustomersatisfaction.

DistinctiveCompetence

Distinctivecompetenceisasetofuniquecapabilitiesthatcertainfirmspossess allowingthemtomakeinroadsintodesiredmarketsandtogainadvantageoverthe competition;generally,itisanactivitythatafirmperformsbetterthanits competition. To define a firm's distinctive competence, management[1] must complete anassessmentofbothinternalandexternalcorporateenvironments.When

managementfinds an internalstrength that both meets market needs and gives thefirmacomparativeadvantageinthemarketplace,thatstrengthisthefirm's distinctivecompetence.Takingadvantageofanexistingdistinctivecompetenceis essentialtobusiness strategydevelopment.Firmscanpossess distinctivecompetence inawidevarietyofareas,includingtechnology,marketing,and management.

FormulatingStrategy

Strategycanbedefinedasthetoolmanagersusetoadjusttheirfirmstoever-changingenvironmentalconditions.Unlessafirmproducesonlyonetypeof merchandiseorservice,itmustdevisestrategiesatboththecorporateandbusiness levels.

Corporate strategy defines the underlying businesses and determines the best methodsofcoordinatingthem.Atthebusinesslevel,strategyoutlinesthewaysthata business will compete in a given market. Strategic planning is often closely tied tothe development and use of distinctive competencies, and having an area of distinctive competence can present a major strategic advantage to any firm.

Todevisecorporatestrategy,firmmanagersmustconsiderahostof influencesintheirsurroundingenvironmentthatcanaffectthefirm'songoing operations aswellastheinternalstrengthsand weaknessesthatcharacterizethefirm. Whenassessingtheexternalbusinessenvironment,managementmustanalyzethe givensituation,forecastpotentialchangestoit,andeithertrytochangethesituation oradapttoit.Theassessmentmustincludeanevaluationofcurrentandprojected marketneedsandanevaluationofanyexistingcomparativeadvantageover competitors.

Todeterminethebeststrategyfortheirfirm,managersmustrealistically assess their own firm's status. A firm's internal strengths and weaknesses make it better suited to pursue some strategic paths than others. When looking for a match betweenopportunitiesandcapabilities,managersmusttrytobuilduponthestrongest qualities of the firm and avoid activities that rely on more vulnerable areas or are adverse to the firm's existing corporate culture.

Further, it is important for managers to account for potential problems involved in carrying out a strategy before they embark upon it. Thus, managers should examine potential strategies, while keeping in mind their firm's history, its culture and experiences, and its basic proficiencies. Once this assessment iscomplete, management must decide which opportunities in the business environment

topursueandwhichonestopassup.Evenifafirmdoesnothaveadistinctive competence,asisthecaseformany,itmustdeviseitsoverallstrategytobuildupon itsstrengthsandbestuseitsresources.

Obviously,manysuccessfulbusinessstrategiesarebuiltaroundadetermined distinctive competence. To truly succeed, a firm will have a competitive advantage over its rivals, giving it some sort of strategic advantage. Logically, strengthening a competitive position is made a great deal easier for a firm with one or more distinctive competencies. Having adistinctivecompetencecan allow afirm to follow a different path than rival firms, utilize a strategy difficult for them to imitate, and endupinabetterpositionoverthelongterm.Ifotherfirmsinthemarketplacedonot have a similar or countervailing competence, they will have a very difficult time remaining competitive.

Defining and Building Distinctive Competence

Todefineacompany'sdistinctivecompetence,managersoftenfollowaparticular process.First,theyidentifythestrengthsandweaknessesoftheirfirm.Next,they determinethestrategicimportanceofthesestrengthsandweaknessesinthegiven marketplace.Then,theyanalyzespecificmarketneedsandlookforcomparative advantagesthattheyhaveoverthecompetition.Importantly,whilemanagers generally follow this process, they often undertake more than one step simultaneously.

Distinctivecompetencecanbebuiltinanumberofways.Firmscanhiremore qualifiedprofessionalsthanthoseemployedbycompetitors;theycanfindand exploitpreviouslyneglectedmarketniches;andtheycanbeespeciallyinnovativeor cangainadvantageovercompetitorsthroughsheerstrengthofmanagement.There arenumerousareasinwhichafirmcanhaveadistinctivecompetence.Some companieshavedistinctivecompetencebecausetheymanufactureaproductwith superiorquality.Otherfirmsexcelintechnologicalinnovation,researchand development,ornewproductintroduction.Stillotherfirmshaveadvantagesinlow-costproduction,customersupport,orcreativeadvertising.Forexample,McDonald's distinctivecompetenceisitssystemofcontrolsforoperatingitsfast-foodrestaurant franchises,whichgivesthecompanyanunusuallyhighprofitmargin.

PredictingFutureDistinctiveCompetence

Sincebusinessenvironmentsandmarketplacesarealwayschanging,thechallenge forstrategistsistomaintainthefirm'sdistinctivecompetence.Asdefinedearlier, distinctivecompetenciesaredistinctiveskillsandcapabilitiesfirmscanuseto achieveanunusualmarketpositionortogainanadvantageoverthecompetition. Thus,afirm'sadvantagecomeslargelyfromthefactthatithasdifferentiateditself fromitscompetition.Itfollowsthatiftheenvironmentchangessuchthatnumerous rivalshaveobtainedcompetenciesidenticaltothosecharacterizingaparticularfirm, thefirmisina verypoorpositionandwoulddowelltoreconsideritsstrategy.

Futurestrategicsuccessrequiresthatfirmskeeptheirdistinctadvantagesovertheir rivals. Thus, firms must continuously assess their surrounding environments. They must be aware of potential shifts in industrial standings and must realistically evaluate whetherthedistinctivecompetencycontinuestoyieldanadvantage.Theyshould alsolooktonewmarketsandevaluatethepotentialuseoftheirdistinctive competenciesinthosemarkets.

Asbusinessconditionsandmarketschange,manyofthestrengthsandweaknesses thatcharacterizeafirmwillalsochange.Throughstrategicplanningandleadership, managementwillbeabletodeterminehowthebasisforcompetitionmaybe changingandwhetherthefirm'sdistinctivecompetenciesneedtoberealigned. Indeed,somevulnerabilitiesandstrengthswillbeexaggerated,whileotherswillbe eliminated.Successinthesechangingconditionscanonlycomefromtaking advantageofopportunitieshighlightedbyclosescrutinyofafirm'sinternaland externalenvironment.Themostsuccessfulfirmswillbethosethatareabletolocate andusedistinctivecompetenciesfoundintheseassessments.

The final stage in strategic management is strategy evaluation and control. All strategiesaresubjecttofuturemodificationbecauseinternalandexternalfactorsare constantly changing. In the strategy evaluation and control process managers determine whether the chosen strategy is achieving the organization's objectives. The fundamental strategy evaluation and control activities are: reviewing internal andexternalfactorsthatarethebasesforcurrentstrategies,measuringperformance, and taking corrective actions.

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment. The basic steps of the strategic managementcan be examined through the use of strategic management model.

The strategic management model identifies concepts of strategy and the elements necessary for development of a strategy enabling the organization to satisfy its mission. Historically, a number of frameworks and models have been advanced which propose different normative approaches to strategy determination. However, a review of the major strategic management models indicates that they all include the following elements:

1. Performinganenvironmentalanalysis.
2. Establishingorganizationaldirection.
3. Formulatingorganizationalstrategy.
4. Implementingorganizationalstrategy.
5. Evaluatingandcontrollingstrategy.

Strategic management is a continuous and dynamic process. Therefore, it should be understood that each element interacts with the other elements and that this interaction often happens simultaneously.

The major models differ primarily in the degree of explicitness, detail, and complexity. These differences derive from the differences in backgrounds and experiences of the authors. Some of these models are briefly presented below.

Thephasesofthismodelareasfollows:

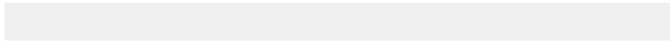
* **Strategic management's elements**: "...to determine mission, goals, and values of the firm and the key decision makers."

* **Analysisanddiagnosis**:"...tosearchtheenvironmentanddiagnosetheimpactof the threats and opportunities."

* **Choice**: ...to consider various alternatives and assure that the appropriate strategy is chosen."

* **Implementation**:"...tomatchplans,policies,resources,structure,and administrative style with the strategy."

* **Evaluation**:"...toensurestrategyandimplementationwillmeetobjectives."



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UNIT-5

OtherStrategicIssues

Research studies have pointed out that innovative companies such as 3M, Procter Gamble and Rubbermaid are slow in introducing new products and their rate of success is not encouraging

RoleofManagement:

The top management should emphasize the importance oftechnologyand innovation and they should provide proper direction.

- ¬ EnvironmentalScanning:
- ¬ ExternalScanning
- ¬ Impactofstakeholderson innovation
- ¬ Leadusers
- ¬ MarketResearch
- ¬ NewproductExperimentation
- ¬ Internalscanning
- ¬ Resourceallocationissues

TimetoMarketIssues:

Thenewproductdevelopmentperiodisagainacrucialissue.Withinfouryearsmany new products are imitated. Shorter the period, more beneficial for the company. Japaneseauto manufacturers have gained competitiveadvantageover their rivals due to relatively short product development cycle.

StrategyFormulation:

Thefollowingcrucialquestionsareraisedinstrategy formulation

- IsthefirmaleaderorfollowerinrespectofR&Dstrategy?
- Shouldwedevelopourown technology?
- Orshouldwegofortechnologyoutsourcing?
- Whatshouldbethemixofbasicandapplied research?

Technologysourcing:

There are two methods for acquiring technology. It involves make or buy decision. In-house R&D capability is one method and tapping the R&D capabilities of competitors, suppliers and other organizations through contracts is another choice available for companies.

StrategicR&Dallianceinvolves

- Jointprogrammestodevelopnewtechnology
- Jointventuresestablishingaseparatecompanytotakeanewproductto market.
- Minorityinvestmentsininnovativefirms.

It will be appropriate for companies to buy technology which is commonly available from others but make technology themselves which is rare, to remain competitive. Outsourcing of technology will be suitable under the following conditions.

- Thetechnologyisoflowsignificancetocompetitiveadvantage
- Thesupplierhasproprietarytechnology
- Thesupplier"stechnologyiseasytoadoptwiththepresentsystem
- Thetechnologydevelopmentneedsexpertise
- Thetechnologydevelopmentneedsnewresourcesandnew people

Technologycompetence:

In the case of technology outsourcing, the companies should have a minimal R&D capability in order to judge the value of technology developed by others.

StrategyImplementation:

To develop innovative organizations deployment of sufficient resources and development of appropriate culture are crucial at all stages of new product development.

InnovativeCulture:

Entrepreneurial culture is a part of innovative culture which presupposes flexibility and dynamism into the structure. “Diffusion of Innovation” observes that an innovative organization has the following characteristics.

- PositiveAttitudetochange
- DecentralizedDecisionMaking
- Informalstructure
- Interconnectedness
- Complexity
- Slackresources
- Systemopenness

The employees who are involved in innovative process usually fulfill three different roles such as:

ϖ Productchampion

ϖ Sponsor

ϖ Orchestrator

Corporateentrepreneurship:

Corporate Entrepreneurship is also known as intrapreneurship. According to Gifford Pinchot an intrapreneur is a person who focuses on innovation and creativity andwho transforms and dreams of an idea into a profitable venture by operating within the organizational environment. Intrapreneur acts like an entrepreneur but within the organizational environment.

Evaluationandcontrol:

The purpose of research is to gain more productivity at a speedy rate. The effectiveness of research function is evaluated in different ways in various organizations.

ImprovingR&D:

The following best practices can be considered as benchmark for a company‟s R&D activities.

- Corporate and business goals are well defined and clearly communicated to R&D department.

- Investments are made in order to develop multinational R&D capabilities to tap ideas throughout the world.

- Formal, cross functional teams are created for basic, applied and developmental projects.

NewBusinessmodelsandstrategiesfortheInternetEconomy

INTERNETECONOMY:

The internet economy is an economy is based on electronic goods and services produced by the electronic business and traded through electronic commerce. The Internet Economy refers to conducting business through markets whoseinfrastructure is based on the internet and world-wide web. An internet economy differs

from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

ImpactoftheInternetandE-commerce

1. Impactonexternalindustry environment
2. Changescharacterofthemarketandcompetitiveenvironment
3. Createsnewdrivingforcesandkeysuccess factors
4. Breedsformationofnewstrategic groups
5. Impactoninternalcompany environment
6. Having,ornothaving,ane-commercecapabilitytiltsthe scales
7. towardvaluableresourcestrengthsorthreateningweaknesses

8. Creatively reconfiguring the value chain will affect a firm"s competitiveness rivals.

CharacteristicsofInternetMarketStructure:
Internetiscomposedof

1. Integratednetworkofuser"sconnected computers
2. Banksofserversandhighspeed computers
3. Digitalswitchesand routers
4. Telecommunicationsequipmentandlines

Strategy-shapingcharacteristicsoftheE-CommerceEnvironment
Internetmakesitfeasibleforcompanieseverywheretocompeteinglobalmarkets.

- Competition in an industry is greatly intensified by new e-commerce. Strategic initiatives of existing rivals and by entry of new, enterprising e-commerce rivals.
- Entrybarriersintoe-commerceworldarerelativelylow
- On-linebuyersgainbargainingpower
- Internetmakesitfeasibleforfirmstoreach

EffectsoftheInternetandE-commerce:

Majorgroupsofinternetande-commercefirmscomprisingthesupplysideinclude
1. Makersofspecializedcommunicationscomponentsandequipment
2. Providersofcommunicationsservices
3. Suppliersofcomputercomponentsandhardware
4. Developersofspecializedsoftware
5. E-Commerceenterprises

OverviewofE-CommerceBusinessModelsandStrategies:

BusinessModels:SuppliersofcommunicationsEquipment:

1. Traditional business model of a manufacturer is being used by most firms to make money.
2. Sellproductstocustomersatpricesabovecosts
3. Produceagoodreturnoninvestment
4. Strategicissuesfacingequipmentmakers
5. Severalcompetingtechnologiesforvariouscomponentsoftheinternet infrastructure exist
6. Competing technologies may have different performance pluses and minuses and be compatible

StrategyoptionsforsuppliersofcommunicationsEquipment:

1. InvestaggressivelyinR&Dtowinthetechnologicalraceagainstrivals
2. Formstrategicalliancestobuildconsensusforfavoredtechnological approaches
3. Acquireothercompanieswithcomplementarytechnologicalexpertise
4. Hedge firm‟s bets by investing sufficient resources in mastering one or more of the competing technologies

BusinessModels:SuppliersofCommunicationServices:

1. Business models based on profitably selling selling services for a fee-basedon a flat rate per month or volume of use
2. Firms must invest heavily in extendinglines andinstallingequipmenttohave capacity to provide desired point-to- point service and handle traffic load.
3. Investmentrequirementsareparticularlyheavyforbackboneproviders,creating sizable up-front expenditures and heavy fixed costs

StrategicOptions:

1. Providehighspeedinternetconnectionsusingnewdigitalline technology
2. Providewirelessbroadbandservicesorcableinternet service
3. Bundle local telephone service, long distance service, cable TV service andInternet access into a single package for a single monthly fee

BusinessModels:suppliersofComputerComponentsandHardware:

Traditional business model is used-Make money by selling products at prices above costs Strategic approaches

Stayoncuttingedgeoftechnology InvestinR&D

Movequicklytoimitatetechnologicaladvancesandproductinnovationsofrivals Key to success- Stay with or ahead of rivals in introducing next-generation products Competitive advantage will most likely be based on strategies key to low cost

- BusinessModels:DevelopersofSpecializedE-CommerceSoftware
- Businessmodelinvolves
- Investmentsindesigninganddevelopingspecializedsoftware
- Marketingandsellingsoftwaretoother firms
- Profitabilityhingesonvolume
- Strategicapproaches:Sellsoftwareatasetpricepercopy
- Collectafeeforeverytransactionprovidedbythesoftware.
- Rentorleasethe software

BusinessModels:MediaCompaniesandcontentproviders:

- Usingintellectualcapitaltodevelopmusic,games,video,andtext,media firms
- Chargesubscriptionfeesor
- Relyonapay-per-usemodel
- Businessmodelofcontentprovidersinvolvescreatingcontenttoattractusers, then selling advertising to firms wanting to deliver a message
- Keysuccessfactorsforcontentproviders
- Createasenseofcommunity
- Deliverconvenienceandentertainmentvalueaswellasinformation.

BusinessModels:E-CommerceRetailers:

- Sellproductsatorbelowcostandmakemoneybysellingadvertisingtoother merchandisers
- Usetraditionalmodelofpurchasinggoodsfrommanufacturersand distributors, marketing items at a web store
- Fillingordersfrominventoryatawarehouse
- Operatewebsitetomarketandsellproduct/serviceandoutsource manufacturing, distribution and delivery activities to specialists.

StrategicApproaches:E-CommerceRetailers:

- Spendheavilyonadvertisingtobuild widespread
- Addnewproductofferingstohelpattracttraffictofirm‟swebsite.
- Beafirst-moveroratworstonearlymover
- Payconsiderationattention towebsiteattractiveness to generate“buzz” about the site among surfers
- Keepthewebsiteinnovative,fresh,and entertaining

KeySuccessFactors:CompetingintheE-CommerceEnvironment:

- Employaninnovativebusinessmodel
- Develop capability to quickly adjust business model and strategy to respond to changing conditions
- Focusonalimitednumberofcompetenciesandperformarelatively specialized number of value chain activities
- Stayonthecuttingedgeoftechnology
- Useinnovativemarketingtechniquesthatareefficientinreachingthe targeted audience and effective in stimulating purchases
- Engineer an electronic value chain that enables differentiation or lower costs or better value for the money.

StrategicissuesforNon-Profitorganizations Meaning:

“A non-profit organizations also known as a not-for- profit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals/

Typesofnon-profit-organizations:

- Privatenon-profitorganizations
- Publicgovernmentalunits

TwoMajorReasons:
Societyneedscertaingoodsservices

Privatenotforprofitorganizationareexempted. Sources of Revenue:

Profitmakingorganization(Salesofgoodsorservices) Not for profit organization (Sponsor or donations)

ConstraintsinNot-for-profitorganization:

- Serviceisintangibleinnature.
- Theclientshaveverylittle influence.
- Thesponsormainlydonatethefundfornotforprofit organization
- theprofessionalpeopleisgoingtojoin
- Restraintsontheuseofrewardsand punishments.

Problemsinthestrategy formulation:

¬ Themainaimistocollectthefunds.
¬ Theydon’tknowhowtoframe strategy.
¬ Internalconflictwiththesponsor
¬ Worthless will be rigid. ProblemsinStrategyimplementation:
¬ Theproblemindecentralization
¬ Linksininternalexternal
¬ Rewardsandpunishment.

PopularStrategiesforNot-for-profitorganizations:

¬ Strategicpiggybacking

¬ Mergers

¬ StrategicAlliances

WordsthathavespecificmeaningforStrategicManagement

Competitive advantage - What a firm does better than its competitors. Characteristics that allow a firm to outperform its rivals.

Distinctive competence - Special skills and resources that generate strengths that competitors cannot easily match or imitate.

First mover advantage - The competitive advantage held by a firm from being first in a market or first to use a particular strategy.

Late mover advantage - The competitive advantage held by firms that are late in entering a market. Late movers often imitate the technological advances of other firms or reduce risks by waiting until a new market is established.

Sustainable competitive advantage - A competitive advantage that cannoteasily be imitated and won't erode over time.

Group think - A tendency of individuals to adopt the perspective of the group as a whole. It occurs when decision makers don't question the underlying assumptions.

Competitive strategy - How an enterprise competes within a specific industry or market. Also known as business strategy or enterprise strategy.

Competitor analysis - The competitive nature of an industry. It determines how a rival will likely react in a given situation.

Barrierstoentry -Factorsthatreduceentryintoan industry.

Switchingcosts-Thecostsincurredwhenabuyerswitchesfromonesupplierto another.

Barrierstoexit -Factorsthatimpedeexitfroman industry.

Contestable markets - Markets where profits are held to a competitive level. Due to the ease of entry into the market.

Strategic groups - Clusters of firms within an industry that share certain criticalasset configurations and follow common strategies.

Predatory pricing - Aggressiveness by a firm against its rivals with the intent of driving them out of business.

Concentration-Focusthefirm'seffortsandresourcesinone industry.

Core business - The central or major business of the firm. The core business is formed around the core competency of the firm. Management of the firm's core business is central to any decision about strategic direction.

Core competency - What a firm does well. The core competency forms the core business of the firm.

Critical success factors - Those few things that must go well if a firm's is to succeed.Typically20percentofthefactorsdetermine80percentoftheperformance. The critical success factors represent the 20 percent. Also called key success factors.

Culture - The collection of beliefs, expectations, and values learned and shared by the firm's members and passed on from one generation to another.

Diversification - The process a firm into new products or enterprises. **Concentric diversification** -

Diversification into a related industry. **Conglomeratediversification**-Diversificationintoanunrelatedindustry.

Economics-Costsavings.

Economiesofintegration-Costsavingsgeneratedfromjointproduction,purchasing, marketing or control.

Economiesofsize-Fixedcostsdeclineasoutputincreases.

Economiesofscope-Theproductsoftwoormoreenterprisesproducedfromshared resources which allows for cost reductions.

Minimumefficientscale-Thesmallestoutputforwhichunitcostsareminimized.

Enterprise - The production of a single crop or type of livestock, such as wheat ordairy. A responsibility center.

Primaryenterprise-Anenterprisethatprovidesthefoundationofthefirm.The success of the primary enterprise is critical to the success of the firm.

Secondary enterprise - An enterprise that supports a primary enterprise and/or the mission and goals of the firm.

Competitiveenterprises-Enterprisesforwhichtheoutputlevelofonecanbe increased only by decreasing the output level of the other.

Complementaryenterprise-Enterprises forwhich increasingtheoutput level of one also increased the output level of the other.

Supplementary enterprises - Enterprises for which the level of production of onecan be increased without affecting the level of production of the other.

Enterprisestrategy-Howanenterprisecompeteswithinaspecificmarketor industry. Also called business or competitive strategy.

Transferprice-Thepriceatwhichagoodorresourceistransferredacross

enterprises within a firm. Entrepreneur - An entrepreneur sees change as normal and healthy. He/she is involved in searching for change, responding to it, and exploitingit as an opportunity.

Environmental scanning - To monitor, evaluate and disseminate information from the external environment to key people within the firm.

Environmentalanalysis-Ananalysisoftheenvironmentalfactorsthatinfluencea firm’s operations.

Environmental opportunity - An attractive area for a firm to participate in wherethe firm would enjoy a competitive advantage.

Environmentalthreat-Anunfavourabletrendordevelopmentinthefirm’s environment that may lead to an erosion of the firm’s competitive position.

Excesscapacity-Theabilitytoproduceadditionalunitsofoutputwithout increasing fixedcapacity.

Experience curve - Systematic cost reductions that occur over the life of a product. Product costs typically decline by a specific amount each time accumulated output is doubled.

Externalities-Acostorbenefitimposedononepartybytheactionsofanother party. Costs are negative externalities and benefits are positive externalities.

Firmvision-Thecollectionofstatementslistedbelowindicatingthedesiredstrategic future for the firm.

Missionstatement -Astatementofthereasonwhyafirm exists.

Goals-Generalstatementsofwherethefirmisgoingandwhatitwantstoachieve.

Objectives - Specific and quantifiable statements of what the firm is to accomplish and when it is to be accomplished.

Innovation-Anewwayofdoingthings.

Diffusion curve - The rate over time at which innovations are copied by rivals. **Systematic innovation** - The purposeful and organized search for changes, and the systematic analysis of the opportunities these changes might offer for economics and social innovation.

Internalscanning-Lookinginsidethebusinessandidentifyingstrengthsandweaknesses of the firm.

Operationsmanagement-Focusesontheperformanceandefficiencyoftheproduction process. It involves the day-to-day decisions of the business.

Portfolio-Agroupofenterpriseswithinafirmthataremanagedasindividual responsibility centers.

Portfolioanalysis-Eachproductandenterpriseisconsideredasanindividual responsibility center for purposes of strategy formulation.

Portfoliomanagement-Managementofafirm'sindividualenterprisesand resources across these enterprises.

Proactive-Seekout opportunitiesandtakeadvantageofthem.Anticipatethreats and neutralize them.

Responsibilitycenter-Anenterprisewhoseperformanceisevaluatedseparately and is held responsible for its contribution to the firm's mission and goals.

Costcenter-Anenterprisethathasamanagerwhoisresponsibleforcost performance and controls most of the factors affecting cost.

Investment center - An enterprise that has a manager who is responsible for profit and investmentperformanceandwhocontrolsmostof thefactorsaffecting revenues, costs, and investments.

Profit center - An enterprise that has a manager who is responsible for profit performance and who controls most of the factors affecting revenues and costs.

Restructuring - Selling off unrelated parts of a business in order to streamline operations and return to a core business.

Stakeholder - Individuals and groups inside and outside the firm who have an interest in the actions and decisions of the firm.

Strategic - Manoeuvring yourself into a favourable position to use your strengths to take advantage of opportunities.

Strategic audit - A checklist of questions that provide an assessment of a firm's strategic position and performance.

Strategic myopia - Management's failure to recognize the importance of changing external conditions because they are blinded by their shared, strongly held beliefs.

Strategicthinking- Howdecisionsmadetodaywillaffectthebusinessyearsinthe future.

Strategicpredisposition-Atendencyofafirmbyvirtueofitshistory,assets,or culture to favour one strategy over competitive possibilities.

Strategicdecisions-Aseriesofdecisionsusedtoimplementastrategy.

Strategic management - The act of identifying markets and assembling the resources needed to compete in these markets. The set of managerial decisions and actions that determine the long-run performance of the firm.

Strategic planning - A comprehensive planning process designed to determine how the firm will achieve its mission, goals, and objectives over the next five or ten years or longer.

Business planning - A plan that determines how a strategic plan will be implemented. It specifies how, when, and where a strategic plan will be put into action. Also known as tactical planning.

Strategy -Apatterninastreamofdecisionsandactions.

Dominantstrategy -Astrategythatisoptimalregardlessoftheactiontakenby one's rival.

Emergentstrategy -Unplannedstrategythatemergefromwithinthe organization.

Intendedstrategy-Plannedstrategydevelopedthroughthestrategicplanning process.

Realized strategy - The real strategy of a firm that is either an intended (planned) strategy of management or an emergent (unplanned) strategy from within the organization.

Strategyformulation -Thedevelopmentoflong-rangeplansforthemanagementof environmental opportunities and threats, in light of the firms strengths and weaknesses.

Strategy implementation - Theprocessby which strategies and policies areput into action through the development of programs, budgets, and procedures.

Strategycontrol-Comparesperformancewithdesiredresultsandprovidesthe feedback for management to evaluate results and take corrective action.

Firmstrategy-Howafirmwillreachitsgoalsandobjectivesbyusingfirm

strengthstotakeadvantageofenvironmentalopportunities.

Enterprisestrategy-Howanenterprisecompeteswithinitsspecificmarketor industry. Also called business or competitive strategies.

Nichestrategy-Astrategyservingaspecializedpartofthe market.

SWOTanalysis-Analysisofthestrengthsandweaknessesofthefirm,andthe opportunities and threats of the firm's environment.

Strategicissues-Trendsandforceswhichoccurwithinthefirmorwithenvironment surrounding the firm.

Strategicfactors - Strategicissuesexpected to haveahighprobabilityof occurrence and impact on the firm.

Opportunities and threats - Strategic factors in the firm's external environment are categorized as opportunities or threats to the firm.

Strengthsandweaknesses-Strategicfactorswithinthefirmarecategorizedas strengths or weaknesses of the firm.

Strategicfit-Fitbetweenwhattheenvironmentwantsandwhatthefirmhasto offer.

Strategicalternatives -Alternativecoursesofactionthatachievebusinessgoalsand objectives, by using firm strengths to take advantage of environmental opportunities.

Vertical integration - The process in which either input sources or output buyers of the firm are moved inside the firm.

Backward(upstream)integration -Inputsourcesarethefirm.

Forward(downstream)integration-Outputbuyersarethefirm.

Contractualintegration - Separatefirmsinthevariousstages ofproductionlink the stages through contractual arrangements.

Full integration - Where one firm has full ownership and control over all the stages in the production of a product

Quasi-integration - A firm gets most of its requirements from an outside supplierthat is under its partial control.

Taperedintegration- A firm produces part of its own requirements and buys therest from outside suppliers.

Verticalcoordination -Thestagesintheproductionofaproductarelinkedbymore than open markets but less than ownership and control by one firm.

Vertical merger - Firms in different stages of the production and distribution chain are linked togeth