strategic management

MEANING:

Strategic management is the continuous process of creating, implementing and evaluating decisions that enable an organization to achieve its objectives.

Strategic management typically involves:

- Analyzing internal and external strengths and weaknesses.
- Formulating action plans.
- Executing action plans.

- Evaluating to what degree action plans have been successful and making changes when desired results are not being produced.

Strategic management necessitates a commitment to strategic planning, which represents an organization's ability to set goals to determine the decisions and actions that need to be taken to produce those results.
DEFINITION:

"the management processes and decisions which determine the long-term structure and activities of the organization". This definition incorporates five key themes:

* **Management process.** Management process as relate to how strategies are created and changed.

* **Management decisions.** The decisions must relate clearly to a solution of perceived problems (how to avoid a threat; how to capitalize on an opportunity).

* **Time scales.** The strategic time horizon is long. However, it for company in real trouble can be very short.

* **Structure of the organization.** An organization is managed by people within a structure. The decisions which result from the way that managers work together within the structure can result in strategic change.

* **Activities of the organization.** This is a potentially limitless area of study and we normally shall centre upon all activities which affect the organization.
These all five themes are fundamental to a study of the strategic management field and are discussed further in this chapter and other part of this thesis.

**Strategic management and its relevance: (importance of strategic management)**

A well-formulated strategy can bring various benefits to the organization in present as well as in future.

1. Strategic management takes into account the future and anticipates for it.
2. A strategy is made on rational and logical manner, thus its efficiency and its success are ensured.
3. Strategic management reduces frustration because it has been planned in such a way that it follows a procedure.
4. It brings growth in the organization because it seeks opportunities.
5. With *strategic management organizations* can avoid helter & skelter and they can work directionally.
6. Strategic management also adds to the reputation of the organization because of consistency that results from organizations success.
7. With strategic management companies can foresee the events in future and that’s why they can remain stable in the market.
8. Strategic management looks at the threats present in the external environment and thus companies can either work to get rid of them or else neutralizes the threats in such a way that they become an opportunity for their success.
9. Strategic management focuses on proactive approach which enables organization to grasp every opportunity
Strategic Management Process

The strategic management process means defining the organization’s strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor’s and then reassesses each strategy.

Strategic management process has following four steps:

1. **Environmental Scanning** - Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. **Strategy Formulation** - Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. **Strategy Implementation** - Strategy implementation implies making the strategy work as intended or putting the organization’s chosen strategy into action. Strategy implementation includes designing the organization’s structure, distributing resources, developing decision making process, and managing human resource.

4. **Strategy Evaluation** - Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are
the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation’s requirement, so as to make essential changes.

Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

Levels of strategy:

1. CORPORATE-LEVEL STRATEGY

Corporate-level strategies address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. For multi-business firms, the resource allocation process—how cash, staffing, equipment and other resources are distributed—is typically established at the corporate level. In addition, because market definition is the domain of corporate-level strategists, the responsibility for diversification, or the addition of new products or services to the existing product/service line-up, also falls within the realm of corporate-level strategy. Similarly, whether to compete directly with other firms or to selectively establish cooperative relationships—
Critical questions answered by corporate-level strategists thus include:

1. What should be the scope of operations; i.e.; what businesses should the firm be in?
2. How should the firm allocate its resources among existing businesses?
3. What level of diversification should the firm pursue; i.e., which businesses represent the company’s future? Are there additional businesses the firm should enter or are there businesses that should be targeted for termination or divestment?
4. How diversified should the corporation's business be? Should we pursue related diversification; i.e., similar products and service markets, or is unrelated diversification; i.e., dissimilar product and service markets, a more suitable approach given current and projected industry conditions? If we pursue related diversification, how will the firm leverage potential cross-business synergies? In other words, how will adding new product or service businesses benefit the existing product/service line-up?
5. How should the firm be structured? Where should the boundaries of the firm be drawn and how will these boundaries affect relationships across businesses, with suppliers, customers and other constituents? Do the organizational components such as research and development, finance, marketing, customer service, etc. fit together? Are the responsibilities or each business unit clearly identified and is accountability established?
6. Should the firm enter into strategic alliances—cooperative, mutually-beneficial relationships with other firms? If so, for what reasons? If not, what impact might this have on future profitability?

An example of corporate-level strategy: The February 2011 announcement an alliance between Microsoft and Nokia Corp. The alliance involve Nokia will produce phones running Windows Phone 7, a
recognition that Nokia’s investment in its own operating system has failed. The alliance gives Microsoft access to the world’s largest phone maker and its huge mindshare—in many developing nations a mobile phone is known as a Nokia. The deal with Microsoft gives both Nokia and Microsoft a route to the future in the smart-phone market.

2. BUSINESS-LEVEL STRATEGIES

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. In contrast to corporate-level strategy, however, they focus on only one rather than a portfolio of businesses. Business units represent individual entities oriented toward a particular industry, product, or market. In large multi-product or multi-industry organizations, individual business units may be combined to form strategic business units (SBUs). An SBU represents a group of related business divisions, each responsible to corporate head-quarters for its own profits and losses. Each strategic business unit will likely have its own competitors and its own unique strategy. A common focus of business-level strategies are sometimes on a particular product or service line and business-level strategies commonly involve decisions regarding individual products within this product or service line. There are also strategies regarding relationships between products. One product may contribute to corporate-level strategy by generating a large positive cash flow for new product development, while another product uses the cash to increase sales and expand market share of existing businesses. Given this potential for business-level strategies to impact other business-level strategies, business-level managers must provide ongoing, intensive information to corporate-level managers. Without such crucial information, corporate-level managers are prevented from best managing overall organizational direction. Business-level strategies are thus primarily concerned with:

1. Coordinating and integrating unit activities so they conform to organizational strategies (achieving synergy).
2. Developing distinctive competencies and competitive advantage in each unit.
3. Identifying product or service-market niches and developing strategies for competing in each.
4. Monitoring product or service markets so that strategies conform to the needs of the markets at the current stage of evolution.

This kind of strategy is concerned with succeeding in chosen markets

An example of a business-level strategy was Domino’s Pizza Turnaround which required all areas of the organization to pull together to achieve a simple understandable business goal: have a clear win against competitor in a taste test.

3. FUNCTIONAL-LEVEL STRATEGIES.

Functional-level strategies are concerned with coordinating the functional areas of the organization (marketing, finance, human resources, production, research and development, etc.) so that each functional area upholds and contributes to individual business-level strategies and the overall corporate-level strategy. This involves coordinating the various functions and operations needed to design, manufacturer, deliver, and support the product or service of each business within the corporate portfolio. Functional strategies are primarily concerned with:

- Efficiently utilizing specialists within the functional area.
- Integrating activities within the functional area (e.g., coordinating advertising, promotion, and marketing research in marketing; or purchasing, inventory control, and shipping in production/operations).
- Assuring that functional strategies mesh with business-level strategies and the overall corporate-level strategy.
This kind of strategy is concerned with making improvements to business functions that support business and corporate strategy.

Functional strategy include IT strategy, marketing strategy, IT strategy, human resources strategy, and operations. Typically, documents portraying functional strategy will list estimates and plans for operating expenses, headcount, and continuous improvement.

An example of functional-level strategy: In 2008, Swiss Life Group, a Zurich-based insurance company (ranked #373 on the Fortune Global 500 list) announced a change in its Information Technology functional strategy priorities. The implications of this was a decision to considerably scale back the number of IT projects in order to reduce costs through re-prioritization. This was successful as shown in this November 2010 announcement,

“Swiss Life increased its net profit in the first half of 2010 over the prior-year period from CHF 139 million to CHF 269 million. This improvement is mainly attributable to the significant operational progress made.”
Unit- 2

Strategic Intent

- Ambitious and Compelling Dream
- Emotional and Intellectual Energy
- Journey to the Future

Strategic Mindsets

**STRATEGIC FIT MODEL**

Strategic thinking is driven by the match between current capabilities and existing opportunities

- Searching for sustainable advantages
- Finding protected niches

**STRATEGIC INTENT MODEL**

Strategic thinking is driven by bridging gap between today’s reality and tomorrow’s vision

- Finding ways to leverage resources
- Outpacing competitors in building new advantages
- Making new industry rules
Characteristics of Strategic Intent

Essence of Winning

Within "arm's reach" of every consumer in the world

Stable over Time

Increased quality, reduced costs, cultivated export markets and then developed a new product

Planners

Planners ask “How will next year be different?"

Winners

Winners ask “What must we do differently?”

Hierarchy of Strategic intent:
"A strategist’s job is to see the company not as it is . . . but as it can become."

—John W. Teets, Chairman of Greyhound, Inc

**Strategic Intent**

Purpose the organisation strives for
Lays out the framework

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**VISION**

- A vision statement is sometimes called a picture of your company in the future. It is the dream of what you want your company to accomplish.
- Many organizations today develop a vision statement that answers the question “What do we want to become?”
- A vision articulates the position that a firm would like to attain in the distant future. It encapsulates the basic strategic intent.
- “A description of something (an organisation, corporate culture, a business, a technology, an activity) in the future.”

-Kotter
WHY SHOULD ORGANIZATIONS HAVE A “VISION”

- Good visions are **inspiring and exhilarating**.
- Good visions **foster long term thinking**.
- It creates a **common identity and a shared sense of purpose**.
- They are **competitive, unique and simple**.
- Good visions foster **risk-taking and experimentation**.
- They represent **integrity**.
VISION STATEMENT EXAMPLES

❌ General Motors’ vision is to be the world leader in transportation products and related services. *(Good statement)*

❌ Tyson Foods’ vision is to be the world’s first choice for protein solutions while maximizing shareholder value. *(Good statement, unless Tyson provides nonprotein products, too specific)*

❌ PepsiCo’s responsibility is to continually improve all aspects of the world in which we operate - environment, social, economic—creating a better tomorrow than today. *(Statement focuses on the concern of the company towards the community)*
Dell’s vision is to create a company culture where environmental excellence is second nature. *(Statement focuses on environmental concern of the company)*

Samsonite’s vision is to provide innovative solutions for the travelling world. *(Statement could have been more indicative of the specific product it deals in or its core values or concern for the society)*

Procter & Gamble’s vision is to be, and be recognized as, the best consumer products company in the world. *(Good Statement)*
MISSION

Mission is what an organization is and why it exists.

“Essential purpose of the organization, concerning particularly why it is in existence, the nature of business(ess) it is in and the customers it seeks to serve and satisfy”.

- Thompson (1997)

Mission is the "purpose or reason for the organization's existence".

- Hunger and Wheelen (1999)

The mission statement articulates the company’s purpose both for those in the organizations and for the society.
CHARACTERISTICS OF A MISSION STATEMENT

- It should be feasible
- It should be precise
- It should be clear
- It should be motivating
- It should be distinctive
- It should include major components of strategy
- It should indicate how objectives are to be accomplished
NINE COMPONENTS

1. Customers—Who are the firm’s customers?
2. Products or services—What are the firm’s major products or services?
3. Markets—Geographically, where does the firm compete?
4. Technology—Is the firm technologically current?
5. Concern for survival, growth, and profitability—Is the firm committed to growth and financial soundness?
6. Philosophy—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. Self-concept—What is the firm’s distinctive competence or major competitive advantage?
8. Concern for public image—Is the firm responsive to social, community, and environmental concerns?
9. Concern for employees—Are employees a valuable asset of the firm?
SOME MISSION STATEMENT EXAMPLES

- Dell's mission is to be the most successful computer company (2) in the world at delivering the best customer experience in markets we serve (1). In doing so, Dell will meet customer expectations of highest quality; leading technology (4); competitive pricing; individual and company accountability (6); best-in-class service and support (7); flexible customization capability (7); superior corporate citizenship (8); financial stability (5).

- Procter & Gamble will provide branded products and services of superior quality and value (7) that improve the lives of the world’s (3) consumers. As a result, consumers (1) will reward us with industry leadership in sales, profit (5), and value creation, allowing our people (9), our shareholders, and the communities (8) in which we live and work to prosper.
BUSINESS DEFINITION: DEREK ABELL'S

Customer functions: What is being satisfied?

Alternative technologies: How the need is being satisfied?

Customer groups: Who is being satisfied?

Business Definition
GOALS AND OBJECTIVES

- Goals denote what an organisation hopes to accomplish in a future period of time. They represent the future state or outcome of effort put in now.

- Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals that are generalised.
ROLE OF OBJECTIVES

- Objectives define the organisation's relationship with its environment
- Objectives help an organisation pursue its vision and mission
- Objectives provide the basis for strategic decision-making
- Objectives provide the standards for performance appraisal
CHARACTERISTICS OF OBJECTIVES

- Objectives should be understandable
- Objectives should be concrete and specific
- Objectives should be related to a time frame
- Objectives should be measurable and controllable
- Objectives should be challenging
- Different objectives should correlate with each other
- Objectives should be set within constraints
FACTORS FOR OBJECTIVE SETTING

- The forces in the environment
- Realities of enterprise' resources and internal power relationships
- The value system of the top executive
- Awareness by the management
Corporate Social Responsibility

Corporate social responsibility is the term used to describe the way that a business takes into account the financial, environmental and social impacts of decisions and actions it is involved in. It is an increasingly important issue in business, as managers, consumers, investors and employees have begun to understand how economic growth is linked to social and environmental well-being.

Corporate social responsibility is a key issue for any organization aiming for long term sustainability. It is a mostly voluntary concept, there is increasing pressure on organizations to make a positive contribution to society, or at the least, reduce their negative impact. Internationally, governments are also moving towards the enforcement of certain elements of corporate social responsibility, particularly in regards to the protection of the environment.
Meaning of CSR

Meaning:

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

Types of corporate social responsibility

CSR can encompass a wide variety of tactics, from giving a portion of a company's profits to non-profit organizations, to giving away a product or service to a worthy recipient for every sale made. Here are just a few of the broad categories of social responsibility businesses are practicing:

Environment: One primary focus of corporate social responsibility is the environment. Businesses, both large and small, have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society as a whole. Examples include everything from curbing pollution to developing clean energy solutions.

Philanthropy: Businesses also practice social responsibility by donating to national and local charities. Whether it involves giving money or time, businesses have a lot of resources that can benefit charities and local community programs.

Ethical labor practices: By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility. This is especially true of businesses that operate in international locations with different labor laws than those in the United States. Research shows that
consumers will turn on companies extremely quickly if they are found operating sweatshops or violating other ethical labor practices.

**Examples of corporate social responsibility**

While many companies now practice some form of social responsibility, a few have made it a core of their operations. **Ben and Jerry's** ice cream offers one prominent example; the company uses only fair trade ingredients, and developed a dairy farm sustainability program in its home state of Vermont. **Tom's Shoes**, another notable example of a company with CSR at its core, donates one pair of shoes to a child in need for every pair a customer purchases.

If decisions [about social responsibility] are made behind closed doors, people will wonder if there are strings attached, and if the donations are really going where they say," Cooney said. "Engage your employees [and consumers] in giving back. Let them feel like they have a voice."

Why should business be socially responsible?
- Public image
- Government Regulation
- Survival and growth
• Employee satisfaction  
• Consumer Awareness  

**Social Responsibility towards different Interest groups:**  

1. **Responsibility towards owners:**  
Owners are the persons who own the business. They contribute capital and bear the business.  
• Run the business efficiently  
• Proper utilization of capital and other resources.  
• Regular and fair return on capital invested.  

2. **Responsibility towards Investors:**  
Investors are those who provide finance by way of investment in shares, bonds, etc. Banks, financial institutions and investing public are all included in this category  
• Ensuring safety of their investment  
• Regular payment of interest.  

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

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

5. **Responsibility towards competitors:**
Competitors are the other businessmen or organization involved in a similar type of business.
- Not to offer to customers heavy/discounts and or free products in every sale.
- Not to defame competitors through false advertisements

**Responsibility towards suppliers:**
Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders.
- Giving regular orders for purchase of goods
- Availing reasonable credit period
- Timely payment of dues.

**8. Responsibility towards Government:**
Business activities are governed by the rules and regulations framed by the government.
Payment of fees, duties and taxes regularly as well as honestly
Conforming to pollution control norms set up by government
Not to indulge in restrictive trade practices.

**9. Responsibility towards society:**
A society consists of individuals, groups, organizations, families etc. They all are the members of the society.
- To help the weaker and backward sections of the society.
- To generate employment.
- To protect the environment
- To provide assistance in the field of research on education, medical science, technology etc.

**UNIT-3 (ENVIRONMENTAL ANALYSIS)**

**Concept of Environment:**
Environment literally means the surroundings, external objects, Internal objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions events and influences that surround and affect
Characteristics of Environment:

- **Environment is Complex**: An environment consisting of inter-related factors and understanding these factors in groups is a difficult task and hence complex.

- **Environment is Dynamic**: Business environment changes continuously due to changes in the needs of customers and effects of competitors.

- **Environment is Multi-faceted**: Environmental developments are taken differently by different people. What is strength or opportunity from one point of view is weakness or threat from another.

- **Environment has a far-reaching impact**: The effect of environment or environmental factor is long-lasting and affects several issues related to business. Since environmental effect in different ways, it can harm future, so must be handled carefully.

**Macro Environmental Factors (external)**

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

**Environmental Scanning:**

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

**Internal analysis of the environment** is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors’ moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigile to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor’s activities, technology, market tastes and preferences.

**Internal Analysis: Distinctive Competencies, Competitive advantage, and Profitability**

Internal Analysis is a three step process:
Manager must understand process by which companies create value for customers and profit for themselves and they need to understand the role of resources, capabilities and distinctive competencies in this process
They need to understand how important superior efficiency, innovation, quality and responsiveness to customers are in creating value and
generating high profitability.
They must be able to identify how the strengths of the enterprise boost its profitability and how any weaknesses lead to lower profitability.

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

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

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

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

While in external analysis, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the industry environment needs an appraisal of the competitive structure of the organization’s industry, including the competitive position of a particular organization and it’s main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry
is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the national environment needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of macro-environment includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization’s external environment reveals opportunities and threats for an organization.

Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

**CPM (Competitive Profile Matrix)**

Competitive profile matrix is an essential strategic management tool to compare the firm with the major players of the industry. Competitive profile matrix show the clear picture to the firm about their strong points and weak points relative to their competitors. The CPM score is measured on basis of critical success factors, each factor is measured in same scale mean the weight remain same for every firm only rating varies. The best thing about CPM that it include your firm and also facilitate to add other competitors make easier the comparative analysis.

IFE matrix only internal factors are evaluated and in EFE matrix external factors are evaluated but CPM include both internal and external factors to evaluate overall position of the firm with respective to their major competitors.

The competitive profile matrix consists of following attributes mentioned below.

**Critical Success Factors**

Critical success factors are extracted after deep analysis of external and internal environment of the firm. Obviously there are some good and some bad for the company in the external environment and internal environment. The higher rating show
that firm strategy is doing well to support this critical success factors and lower rating means firm strategy is lacking to support the factor.

**Rating**

Rating in CPM represent the response of firm toward the critical success factors. Highest the rating better the response of the firm towards the critical success factor, rating range from 1.0 to 4.0 and can be applied to any factor.

There are some important point related to rating in CPM.

- Rating is applied to each factor.
- The response is poor represented by 1.0
- The response is average is represented by 2.0
- The response is above average represented by 3.0
- The response is superior represented by 4.0

**Weight**

Weight attribute in CPM indicates the relative importance of factor to being successful in the firm’s industry. The weight range from 0.0 means not important and 1.0 means important, sum of all assigned weight to factors must be equal to 1.0 otherwise the calculation would not be consider correct.

**Weighted Score**

Weighted score value is the result achieved after multiplying each factor rating with the weight.
The sum of all weighted score is equal to the total weighted score, final value of total weighted score should be between range 1.0 (low) to 4.0 (high). The average weighted score for CPM matrix is 2.5 any company total weighted score fall below 2.5 consider as weak. The company total weighted score higher then 2.5 is consider as strong in position. The other dimension of CPM is the firm with higher total weighted score considered as the winner among the competitors.

**Competitive Profile Matrix Example**

CPM matrix shown below show the comparison among Harley, Honda and Yamaha.

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<th>Rating</th>
<th>Weighted Score</th>
<th>Honda</th>
<th>Rating</th>
<th>Weighted Score</th>
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<tr>
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<tr>
<td>Expansion</td>
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<tr>
<td>Market Share</td>
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<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.00</strong></td>
<td><strong>3.25</strong></td>
<td></td>
<td><strong>2.30</strong></td>
<td></td>
<td></td>
<td><strong>2.15</strong></td>
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</tbody>
</table>

As the result show Harley davidson is dominating on critical success factors because the total weighted score is high compare to Yamha and Honda.
Benefits of the CPM: (competitive profile matrix)

- The same factors are used to compare the firms. This makes the comparison more accurate.
- The analysis displays the information on a matrix, which makes it easy to compare the companies visually.
- The results of the matrix facilitate decision-making. Companies can easily decide which areas they should strengthen, protect or what strategies they should pursue.

Porter’s five forces model:
Industry analysis is an important step in Porter’s framework. He says there are five competitive forces at work in an industry; together, these five forces determine industry attractiveness and profitability.

1. Risk of entry by potential competitors
2. Bargaining power of suppliers
3. Bargaining power of buyers
4. Intensity of Rivalry among established firms
5. Threat of substitutes

Porter proposes that the following five factors can be used to assess an industry’s attractiveness:

1) **Threat of new entrants.** How likely is it that new competitors will come into the industry? Managers should assess barriers to entry, which are factors that determine how easy or difficult it would be for new competitors to enter the industry.

2) **Threat of substitutes.** How likely is it that products of other industries could be substituted for a company’s products?

3) **Bargaining power of buyers.** How much bargaining power do buyers (customers) have?

4) **Bargaining power of suppliers.** How
much bargaining power do a company’s suppliers have?

5) **Current rivalry.** How intense is the competition among firms that are currently in the industry?

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

According to Porter, managers must choose a strategy that will give their organization a competitive advantage. Porter identifies three generic competitive strategies. Which strategy managers select depends on the organization’s strengths and core competencies and the particular weaknesses of its competitor(s).

a. A **cost leadership strategy** is a business or competitive strategy in which the organization competes on the basis of having the *lowest costs* in its industry.

b. A **differentiation strategy** is a business or competitive strategy in which a company offers *unique products* that are widely valued by customers.

c. A **focus strategy** is a business or competitive strategy in which a company pursues a cost or differentiation advantage in a *narrow industry segment*.
6. An organization that has been not been able to develop either a low cost or a differentiation competitive advantage is said to be “stuck in the middle.”

7. Subsequent research indicates that it is possible, though very difficult, for organizations that are stuck in the middle to achieve high performance.

C. Functional Strategy

*Functional strategy* is the strategies used by an organization’s various functional departments to support the business or competitive strategy.

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### Six Components of Organizational Capability

Capability is an abstract term that describes a wide range of capabilities, knowledge, and resources. Through its more than 25 years of experience, Fieldstone Alliance has learned that six components of organizational capability are critical for high performance:

**Mission, Vision, and Strategy:** The organization has a vital mission and a clear understanding of its identity. It is actively involved in regular, results-oriented, strategic, and self-reflective thinking and planning that aligns strategies with the mission and organizational capacity. The planning process involves stakeholders in an ongoing dialogue that ensures that the organization's mission and programs are valuable to the neighborhood or constituency it serves.

**Governance and Leadership:** The organization's board of directors is engaged and representative, with defined governance practices. The board effectively oversees the policies, programs, and organizational operations including review of achievement of strategic goals, financial status, and executive director performance. The organization is accomplished at recruiting, developing, and retaining capable staff and technical resources. The organization's leadership is alert to changing community needs and realities.
**Finance:** The organization successfully secures support from a variety of sources to ensure that the organization's revenues are diversified, stable, and sufficient for the mission and goals. The resource development plan is aligned with the mission, long-term goals, and strategic direction. The organization has high visibility with key stakeholders and links clear, strategic messages to its resource development efforts.

**Internal Operations and Management:** The organization has efficient and effective operations and strong management support systems. Financial operations are responsibly managed and reflect sound accounting principles. The organization utilizes information effectively for organizational and project management purposes. Asset, risk, and technology management are strong and appropriate to the organization's purpose.

**Program Delivery and Impact:** The organization operates programs that demonstrate tangible outcomes commensurate with the resources invested. Programs are high quality and well regarded. The organization utilizes program evaluation results to inform its strategic goals. The organization has formal mechanisms for assessing internal and external factors that affect achievement of goals.

**Strategic Relationships:** The organization is a respected and active participate and leader in the community, and maintains strong connections with its constituents. It participates in strategic alliances and partnerships that significantly advance their goals and expand their influence.

Mission, vision, and strategy are the driving forces that give the organization its purpose and direction. Program delivery and impact are the nonprofit's primary reasons for existence, just as profit is a primary aim for many for-profit companies. Strategic relationships, resource development, and internal operations and management are all necessary mechanisms to achieve the organization's ends. Absent any one of them, an organization flounders or does not reach its full potential. Leadership and
governance is the lubricant that keeps all the parts aligned and moving. The model also suggests the need for constant feedback from the external environment and routine monitoring of program audience and outcomes to inform mission and strategy. When assessing nonprofit organizations and planning intervention strategies, it is best to examine each element separately, in relation to the others, and within the organization's overall context.

A variety of factors can influence an organization's needs at any time, including:

- Age and developmental stage of the organization
- Size of the organization
- Kind of work the organization does
- Cultural or ethnic identity of the organization
- Environment in which the organization functions

**SWOT ANALYSIS**

SWOT Analysis is a useful technique for understanding Strengths and Weaknesses, and for identifying both the Opportunities Threats which are faced in business.

**Business SWOT Analysis**

What makes SWOT particularly powerful is that, with a little thought, it can to uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

Strengths and weaknesses are often internal to your organization, while opportunities and threats generally relate to
external factors. For this reason, SWOT is sometimes called Internal-External Analysis and the SWOT Matrix is sometimes called an IE Matrix.

**Strengths**

- What advantages does your organization have?
- What do you do better than anyone else?
- What unique or lowest-cost resources can you draw upon that others can't?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?
- What is your organization's **Unique Selling Proposition**

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your market.

Also, if you're having any difficulty identifying strengths, try writing down a list of your organization's characteristics. Some of these will hopefully be strengths!

When looking at your strengths, think about them in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not a strength in your organization's market, it's a necessity.

**Weaknesses**

- What could you improve?
- What should you avoid?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

Again, consider this from an internal and external basis: Do other people seem to perceive weaknesses that you don't see? Are your competitors doing any better than you?

It's best to be realistic now, and face any unpleasant truths as soon as possible.
Opportunities

- What good opportunities can you spot?
- What interesting trends are you aware of?

Useful opportunities can come from such things as:
- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events

Threats

- What obstacles do you face?
- What are your competitors doing?
- Are quality standards or specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

Example

A start-up small consultancy business might draw up the following SWOT Analysis:

Strengths

- We are able to respond very quickly as we have no red tape, and no need for higher management approval.
- We are able to give really good customer care, as the current small amount of work means we have plenty of time to devote to customers.
- Our lead consultant has strong reputation in the market.
- We can change direction quickly if we find that our marketing is not working.
- We have low overheads, so we can offer good value to customers.

Weaknesses
- Our company has little market presence or reputation.
- We have a small staff, with a shallow skills base in many areas.
- We are vulnerable to vital staff being sick, and leaving.
- Our cash flow will be unreliable in the early stages.

Opportunities
- Our business sector is expanding, with many future opportunities for success.
- Local government wants to encourage local businesses.
- Our competitors may be slow to adopt new technologies.

Threats
- Developments in technology may change this market beyond our ability to adapt.
- A small change in the focus of a large competitor might wipe out any market position we achieve.

As a result of their analysis, the consultancy may decide to specialize in rapid response, good value services to local businesses and local government.

Marketing would be in selected local publications to get the greatest possible market presence for a set advertising budget, and the consultancy should keep up-to-date with changes in technology where possible.

The McKinsey 7S Framework

How well your organization is positioned to achieve its intended objective?
This is a question that has been asked for many years, and there are many different answers. Some approaches look at internal factors, others look at external ones, some combine these perspectives, and others look for congruence between various aspects of the organization being studied. Ultimately, the issue comes down to which factors to study.

While some models of organizational effectiveness go in and out of fashion, one that has persisted is the McKinsey 7S framework.

Developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company consulting firm, the basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

The 7S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The McKinsey 7S model can be applied to elements of a team or a project as well. The alignment issues apply, regardless of how you decide to define the scope of the areas you study.

The Seven Elements

The McKinsey 7S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements
"Hard" elements are easier to define or identify and management can directly influence them: These are strategy statements; organization charts and reporting lines; and formal processes and IT systems.

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

The way the model is presented in Figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.

<table>
<thead>
<tr>
<th>Hard Elements</th>
<th>Soft Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Shared Values</td>
</tr>
<tr>
<td>Structure</td>
<td>Skills</td>
</tr>
<tr>
<td>Systems</td>
<td>Style</td>
</tr>
<tr>
<td></td>
<td>Staff</td>
</tr>
</tbody>
</table>
Placing Shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created, and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition.
  - What is our strategy?
  - How do we intend to achieve our objectives?
  - How do we deal with competitive pressure?
  - How are changes in customer demands dealt with?
  - How is strategy adjusted for environmental issues?
- **Structure**: the way the organization is structured and who reports to whom.
  - How is the company/team divided?
  - What is the hierarchy?
  - How do the various departments coordinate activities?
  - How do the team members organize and align themselves?
  - Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
  - Where are the lines of communication? Explicit and implicit?

- **Systems**: the daily activities and procedures that staff members engage in to get the job done.
  - What are the main systems that run the organization? Consider financial and HR systems as well as communications and document storage.
  - Where are the controls and how are they monitored and evaluated?
  - What internal rules and processes does the team use to keep on track?

- **Shared Values**: called "super ordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
  - What are the core values?
  - What is the corporate/team culture?
  - How strong are the values?
  - What are the fundamental values that the company/team was built on?

- **Style**: the style of leadership adopted.
  - How participative is the management/leadership style?
  - How effective is that leadership?
Do employees/team members tend to be competitive or cooperative?

Are there real teams functioning within the organization or are they just nominal groups?

**Staff:** the employees and their general capabilities.
- What positions or specializations are represented within the team?
- What positions need to be filled?
- Are there gaps in required competencies?

**Skills:** the actual skills and competencies of the employees working for the company.
- What are the strongest skills represented within the company/team?
- Are there any skills gaps?
- What is the company/team known for doing well?
- Do the current employees/team members have the ability to do the job?
- How are skills monitored and assessed?

### External Factor Evaluation Matrix

The EFE matrix allows strategies to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information.

Steps in developing the EFE matrix:

* Identify a list of KEY external factors (critical success factors).
* Assign a weight to each factor, ranging from 0 (not important) to 1.0 (very important).
* Assign a 1-4 rating to each critical success factor to indicate how effectively the firm’s current strategies respond to the factor. (1 = response is poor, 4 = response is extremely good)
**EFE matrix example**

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industry Consolidation</td>
<td>11 %</td>
<td>4</td>
<td>0.44</td>
</tr>
<tr>
<td>2. Increase in air travel in Mexico</td>
<td>12 %</td>
<td>3</td>
<td>0.36</td>
</tr>
<tr>
<td>3. Privatization in CE countries</td>
<td>10 %</td>
<td>2</td>
<td>0.20</td>
</tr>
<tr>
<td>4. Growth of low-cost sector</td>
<td>8 %</td>
<td>4</td>
<td>0.32</td>
</tr>
<tr>
<td>5. Increased demand in Chiana</td>
<td>16 %</td>
<td>3</td>
<td>0.48</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Declining margins</td>
<td>10 %</td>
<td>1</td>
<td>0.10</td>
</tr>
<tr>
<td>2. Government oversight</td>
<td>5 %</td>
<td>3</td>
<td>0.15</td>
</tr>
<tr>
<td>3. Climbing prices of key inputs</td>
<td>8 %</td>
<td>2</td>
<td>0.16</td>
</tr>
<tr>
<td>4. New security tax</td>
<td>5 %</td>
<td>2</td>
<td>0.10</td>
</tr>
<tr>
<td>5. Economic downturn</td>
<td>15 %</td>
<td>1</td>
<td>0.15</td>
</tr>
</tbody>
</table>

**Total Weighted Score**

| Weighted Score | 100 % | 2.46 |

Total weighted score of 2.46 indicates that the business has slightly less than average ability to respond to external factors.

**IFE Matrix (Internal Factor Evaluation)**

Internal Factor Evaluation (IFE) matrix is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business. IFE matrix also provides a basis for identifying and evaluating relationships among those areas. The Internal Factor Evaluation matrix or short **IFE matrix** is used in strategy formulation.

- The IFE matrix can be created using the following five steps:

  1. Key internal factors.

- Conduct internal audit and identify both strengths and weaknesses in all your business areas. It is suggested you identify 10 to 20 internal factors, but the more you can provide
for the IFE matrix, the better. First, list strengths and then weaknesses

2. Weights...

- assign a weight that ranges from 0.00 to 1.00 to each factor. The weight assigned to a given factor indicates the relative importance of the factor. Zero means not important. One indicates very important. After assigning weight to individual factors, make sure the sum of all weights equals 1

3. Rating...

- Assign a 1 to X rating to each factor. Your rating scale can be per your preference. Practitioners usually use rating on the scale from 1 to 4. Rating captures whether the factor represents a major weakness (rating = 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4). If you use the rating scale 1 to 4, then strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating.

4. Multiply...

- Multiply each factor's weight by its rating. This will give a **weighted score** for each factor.

5. Sum.

- The last step in constructing the IFE matrix is to sum the weighted scores for each factor. This provides the **total weighted score** for your business.

Example of IFE matrix
Total weighted scores well below 2.5 point to internally weak business. Scores significantly above 2.5 indicate a strong internal position.

Benefits OF IFE AND EFE

Both matrices have the following benefits:

- **Easy to understand.** The input factors have a clear meaning to everyone inside or outside the company. There’s no confusion over the terms used or the implications of the matrices.
- **Easy to use.** The matrices do not require extensive expertise, many personnel or lots of time to build.
- **Focuses on the key internal and external factors.** Unlike some other analyses (e.g. value chain analysis, which identifies all the activities in the company’s value chain, despite their importance), the IFE and EFE only highlight the key factors that are affecting a company or its strategy.
- **Multi-purpose.** The tools can be used to build SWOT analysis, IE matrix, GE-McKinsey matrix or for benchmarking.

**Limitations**

- **Easily replaced.** IFE and EFE matrices can be replaced almost completely by PEST analysis, SWOT analysis, competitive profile matrix and partly some other analysis.
- **Doesn’t directly help in strategy formation.** Both analyses only identify and evaluate the factors but do not help the company directly in determining the next strategic move or the best strategy. Other strategy tools have to be used for that.
- **Too broad factors.** SWOT matrix has the same limitation and it means that some factors that are not specific enough can be confused with each other. Some strengths can be weaknesses as well, e.g. brand reputation, which can be a strong and valuable brand reputation or a poor brand reputation. The same situation is with opportunities and threats. Therefore, each factor has to be as specific as possible to avoid confusion over where the factor should be assigned.

**Unit -5**

**Strategy Formulation**

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically**
involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations’ objectives** - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is 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. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. **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 qualitative and quantitative review of an organizations existing product line. The purpose 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.

3. **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.

4. Aiming in context with the divisional plans - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5. Performance Analysis - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. 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.

Types of Diversification strategies:
Diversification is a strategic approach adopting different forms. Depending on the applied criteria, there are different classifications. Depending on the direction of company diversification, the different types are:

- **Horizontal Diversification**
acquiring or developing new products or offering new services that could appeal to the company’s current customer groups. In this case the company relies on sales and technological relations.
to the existing product lines. For example, a dairy, producing cheese adds a new type of cheese to its products.

- **Vertical Diversification** occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle - production of raw materials or distribution of the final product. For example, if you have a company that does reconstruction of houses and offices and you start selling paints and other construction materials for use in this business. This kind of diversification may also guarantee a regular supply of materials with better quality and lower prices.

- **Concentric Diversification** enlarging the production portfolio by adding new products with the aim of fully utilising the potential of the existing technologies and marketing system. The concentric diversification can be a lot more financially efficient as a strategy, since the business may benefit from some synergies in this diversification model. It may enforce some investments related to modernizing or upgrading the existing processes or systems. This type of diversification is often used by small producers of consumer goods, e.g. a bakery starts producing pastries or dough products.

- **Heterogeneous (conglomerate) diversification** is moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry. Furthermore, the decision to go for this kind of diversification can lead to additional opportunities indirectly related to further developing the main company business - access to new technologies, opportunities for strategic partnerships, etc.

- **Corporate Diversification** involves production of unrelated but definitely profitable goods. It is often tied to large investments where there may also be high returns.

**Integrative Strategies in Strategic Management**
The strategic management process provides an organization with a specific framework within which decisions are made. The goal of strategic management is to align the day-to-day activities of the organization with its mission statement. Integration in the strategic management process is a common issue for corporations that own more than one business. Strategic integration consists of incorporating the strategies of a corporation's various business units to share resources and provide greater return on investment for the organization as a whole.

**Vertical Integration**

Vertical integration refers to the degree to which a business unit is integrated with its suppliers and buyers. Suppliers are typically referred to as existing "upstream" from the organization, while buyers are considered "downstream." Vertical integration strategies in strategic management are typically used when organizational leaders have identified a need or desire to expand into new industries. For example, the vertical integration strategies of a fast food chain might include the purchase of a cup factory or a bun factory in order to cut the costs of those supplies. Benefits of vertical integration strategies include enhanced product quality and increased profitability.

**Horizontal Integration**

Horizontal integration in strategic management is typically a single-industry strategy. Horizontal integration often includes the practice of acquiring and/or merging with other
businesses within the same industry to achieve organizational objectives. For example, a shoe company may decide to acquire a competitor in order to obtain a greater share of the market. Some of the benefits of horizontal integration strategies include a lower cost structure, reduced industry rivalry and increased product differentiation.

Considerations

The strategic management of integrative strategies is essential for identifying all possible factors which may contribute to or hinder the success of the multi-business corporation. Organizational leaders must consider a variety of factors when choosing the appropriate strategies for their individual situation. For example, while a horizontal integration strategy might improve the corporation's market share, too much horizontal integration may lead to anti-trust issues. The strategic management process is designed to identify such issues in advance through the use of such tools as the PEST analysis, which identifies the political, economical, societal and technological factors that impact the organization as a whole.

Intensification Strategies:

Intensification refers to growth by working with its current businesses more vigorously. Intensification, in turn, encompasses three alternative routes:

1. Market Penetration:

It refers to concentrating on the current business and directing resources and efforts to the profitable growth of a single product, in a single market, and with a single technology.
It aims at reaching deeply into each segment of current market for existing products and also increasing consumption of existing customers.

2. Market Development:

It consists of selling existing products, to new customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

3. Product Development:

It involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels.

**Retrenchment / reconstruction Strategies**

Retrenchment is a corporate level strategy that aims to reduce the size or diversity of an organization. Retrenchment is also reduction in expenditure to become financially stable.

Retirement is one of the retrenchment strategy. It is a point where a person stops employment completely. A person may also semi retire by reducing work hours. Many people choose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions do not allow them to work any more.

Different Types of Retrenchment Strategies of Business are given below:

Retrenchment can be divided into the following categories:

**1. Turn around Strategies**

Turnaround strategy means backing out, withdrawing or retreating from a decision wrongly taken earlier in order to reverse the process of decline.
There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are as follows:

a) Persistent negative cash flow  
b) Continuous losses  
c) Declining market share  
d) Deterioration in physical facilities  
e) Over-manpower, high turnover of employees, and low morale  
f) Uncompetitive products or services  
g) Mismanagement  

2. Divestment Strategies

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful or it was ignored. A divestment strategy may be adopted due to the following reasons:

a) A business cannot be integrated within the company.  
b) Persistent negative cash flows from a particular business create financial problems for the whole company.  
c) Firm is unable to face competition  
d) Technological upgradation is required if the business is to survive which company cannot afford.  
e) A better alternative may be available for investment

3. Liquidation Strategies

Liquidation strategy means closing down the entire firm and selling its assets. It is considered the most extreme and the last resort because it leads to serious consequences such as loss of employment for employees, termination of opportunities where
a firm could pursue any future activities, and the stigma of failure.

Generally it is seen that small-scale units, proprietorship firms, and partnership, liquidate frequently but companies rarely liquidate. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies do not generally prefer liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

Liquidation strategy may be difficult as buyers for the business may be difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Reasons for Liquidation include:

(i) Business becoming unprofitable
(ii) Obsolescence of product/process
(iii) High competition
(iv) Industry overcapacity
(v) Failure of strategy
Unit-6 (Strategy Evaluation Process and its Significance)

Meaning:
Strategic evaluation is the assessment process that provide executives and managers performance information about programs, projects and activities designed to meet business goals and objectives.

Strategy Evaluation is as significant as strategy formulation because it throws light on 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 by managers, groups, departments etc, through control of performance.
Strategic Evaluation is significant because of various factors such as -

1. developing inputs for new strategic planning,
2. the urge for feedback,
3. appraisal and reward,
4. development of the strategic management process,
5. judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

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. **Measurement of performance** - The standard performance is a benchmark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as managers contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

3. **Analyzing Variance** - While measuring the actual performance and comparing it 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. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern
because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

4. **Taking Corrective Action** - Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

**Joint Venture and its Advantages and disadvantages**

When two or more persons join together to carry out a specific business venture and share the profits on an agreed basis it is called a 'joint venture'. Each one of them who join as a party to the joint venture is called 'Co-Venturer'. No firm name is normally used for the joint venture business because its duration is limited to a short period. During this period, the co-ventures are free to carry on their own business as usual, unless agreed otherwise. The business relationship amongst the co-venturer comes to an end as soon as the venture is completed. Thus, a joint venture is some kind of a temporary partnership between tow or more persons who have agreed to jointly carry out specific venture. The joint ventures are quite common in construction business, consignment, sale and purchase of property, underwriting of shares and debentures, etc. **For example**, A and B agreed to construct a college building for
which they pooled their resources and skill. A provided Rs. 6 lakh and B Rs. 4 lakh as capital. They completed the building and shared the profits in the ration of their contributions to capital. In this example, joining hands by A and B to construct a building is a joint venture. A and B are co-ventures. They will share the profits in the ration of 6 and 4 (same as the ratio of their capitals).

### Features or characteristics of Joint Venture:

From the above the essential features of a joint venture can be listed as follows:

1. It is formed by two or more persons.
2. The purpose is to execute a particular venture or project.
3. No specific firm name is used for the joint venture business.
4. It is of a temporary nature. Hence, the agreement regarding the venture automatically stand terminated as soon as the venture is completed.
5. The co-venturers share profit and loss in the agreed ratio. However, in the absence any other agreement between the co-venturers, the profits and loss are to be shared equally.
6. During the tenure of joint venture, the co-venturers are free to continue with their own business unless agreed otherwise.

2. The main advantages of a joint venture are:

1. **Sufficient Resources:** Since two or more persons pool their resources, there is sufficient capital available.
2. **Ability and Experience:** In joint venture the different venturers may be having different skills and experience. The benefit of their common wisdom will be available to the venture.

3. **Spreading of Risk:** The co-ventures agree to share the profits and losses in a particular ratio. The implies that the risk is also borne by them in that ratio.

4. **Access to new markets:** By engaging with a foreign collaborator, the products and services can be marketed in a foreign country.

5. **Diversification of business** By producing new products or new area of business, business can be diversified

**Disadvantages:**
There many disadvantage in the joint venture form of business. They are:

1. It take time and efforts to form the right relationship.
2. The objectives of each partner may differ. The objectives needs to be clearly defined and communicated to everyone involved.
3. Imbalance in the share of capital, expertise, investment etc., may cause friction in between the partners.
4. Difference in the culture and style of business lead to poor co-operation.
5. Lack of assuming responsibility by the partners may lead the collapse of business.
6. Lack of communication between the partners may affect the business.

**Takeover and Acquisition**

In the corporate world, the terms merger, acquisition, and takeover are quite commonly used to describe a scenario in which two companies are joined together to act as one. There maybe many reasons for two companies to combine their operations; it maybe in a friendly manner with agreement from both parties or in a hostile unfriendly manner.
The following article provides a clear explanation of what the two terms mean and outlines how they are different and similar to each other.

**Takeover**

Takeover is very similar to an acquisition where one company will purchase another for an agreed sum in cash or number of shares.

The important point to note is that, as the term suggests, a takeover will most probably be a hostile and unfriendly action in which one company acquires enough shares of another (more than 50%) so that the acquirer is able to take over the operations of the target company. A takeover may also be a friendly one, in which the company that wishes to acquire the target may take an offer to the board of directors who may (in a friendly takeover) accept the offer if it seems beneficial to the future operations of the target company.
Takeover might be:

**Hostile Takeover**
A takeover attempt that is strongly resisted by the target firm

**Friendly Takeover**
Target company’s management and board of directors agree to a merger or acquisition by another company.

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**Acquisition**

An acquisition is quite similar to a takeover, in that, one company will purchase the other; however, it is usually on a pre-planned and orderly manner in which both parties strongly agree if beneficial to both firms. In an acquisition,

- the company that acquires the target will be entitled to all the target company’s assets, properties, equipment, offices,
- patents, trademarks etc. The acquirer will either pay in cash to acquire the firm or provide shares in the acquirer’s firm as compensation.
In most cases, after the acquisition is complete the target company will not exist, and would have been swallowed up by the acquirer and will operate as an indistinguishable part of the larger acquirer firm. In other instances, the target may also operate as a separate unit under the larger firm.

**What Does Merger Mean?**

The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.
Benefits of merger

• Diversification of product and service offerings

• Increase in plant capacity

• Larger market share

• Utilization of operational expertise and research and development (R&D)

• Reduction of financial risk
Why do mergers fail?

- Lack of human integration
- Mismanagement of cultural issues
- Lack of communication

Types of Merger

1. Horizontal Merger
2. Vertical Merger
3. Conglomerate Merger
4. Concentric Merger
Horizontal Merger

- Horizontal mergers are those mergers where the companies manufacturing similar kinds of commodities or running similar type of businesses merge with each other.

Examples of Horizontal Merger

- Lipton India and Brooke Bond.

- Bank of Mathura with ICICI Bank.

- BSES Ltd with Orissa Power Supply Company.

- Associated Cement Companies Ltd Damodar Cement.
Vertical Merger

• A merger between two companies producing different goods or services.

Example of Vertical Merger

• Time Warner Incorporated, a major cable operation, and the Turner Corporation, which produces CNN, TBS, and other programming.

• Pixar-Disney Merger
Conglomerate Merger

A merger between firms that are involved in totally unrelated business activities.

Two types of conglomerate mergers:

1. Pure conglomerate mergers involve firms with nothing in common.

2. Mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Example of Conglomerate Merger

• Walt Disney Company and the American Broadcasting Company.
Concentric Merger

A merger of firms which are into similar type of business.

Example of Concentric Merger

- Nextlink is a competitive local exchange carrier offering services in 57 cities and building a nationwide IP network.
- Concentric, a national ISP, offers dedicated and dial-up Internet access, high-speed DSL and VPN services across the U.S. and overseas.

Examples from India
For example, merger of Hindustan Computers Ltd, Hindustan Instruments Ltd, Indian Software Company Ltd into an entirely new company called HCL Ltd.

For example, absorption of Tata Fertilisers Ltd (TFL) by Tata Chemicals Ltd. (TCL). TCL, an acquiring company (a buyer), survived after merger while TFL, an acquired company (a seller), ceased to exist. TFL transferred its assets, liabilities and shares to TCL.