Department of Commerce

University of Calcutta

Study Material

Cum

Lecture Notes

Only for the Students of M.Com. (Semester IV)-2020

University of Calcutta

(Internal Circulation)

Dear Students,

Hope you, your parents and other family members are safe and secured. We are going through a world-wide crisis that seriously affects not only the normal life and economy but also the teaching-learning process of our University and our department is not an exception.

As the lock-down is continuing and it is not possible to reach you face to face class room teaching. Keeping in mind the present situation, our esteemed teachers are trying their level best to reach you through providing study material cum lecture notes of different subjects. This material is not an exhaustive one though it is an indicative so that you can understand different topics of different subjects. We believe that it is not the alternative of direct teaching learning.

It is a gentle request you to circulate this material only to your friends those who are studying in Semester IV (2020).

Stay safe and stay home.

Best wishes.

Paper

CC 401

Strategic Management (STMGT)

CC 401: Strategic Management

Module 1
(Dr. Bikram Singh)

The content includes the topics covered before the suspension of classes and additional study materials for the students to have a basic understanding. The students are requested to read the content. Once the classes resume all queries will be answered; new topics will be explained and additional materials will be provided.

Chapter 1

i. Definition and Characteristics of Strategy

Definition

Strategy is the ***direction*** and ***scope*** of a organisation over the ***long term***, which achieves ***advantage*** for the organisation through the configuration of ***resources*** within a changing ***environment*** and to fulfill ***stakeholder*** expectations. [Ref: Johnson and Scholes (2006)]

Characteristics of Strategy

- Strategy is likely to be concerned with the long term direction of an organisation.
- Strategic decisions are normally about trying to achieve some advantage for the organisation over competition.
- Strategic decisions are concerned with the scope of the organisation's activities.
- Strategy can be seen as matching the resources and activities to the environment in which it operates.
- Strategy can be seen as stretching an organisation's resources and competences to create new opportunities or to capitalise on them.
- Strategies may require major resource changes for an organisation.
- Strategic decisions are likely to affect operational decisions.
- The strategy of an organisation is affected not only by environmental forces and resource availability but also by the values and expectations of those who have power in and around the organisation. [Ref: Johnson and Scholes (2006)]

ii. Consequence of the Characteristics of Strategy

There are a number of consequences of these characteristics. They are mentioned as under:

- Strategic Decisions are likely to be *complex in nature*.
- Likely to be made in *situations of uncertainty*.
- Likely to demand an *integrated approach*.
- Manage change *relationships and networks* outside the organisation.
- Strategic Decisions will very often involve *change* in organisations.

[Ref: Johnson and Scholes (2006)]

iii. Levels of Strategy

- Corporate Level Strategy

Is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation.

- Business Level (Unit) Strategy is about how to compete successfully in particular markets.
- Operational Level Strategy are concerned with how the component parts of an organisation deliver effectively the corporate and business level strategies in terms of resources, processes and people.

iv. Strategy Making Process

It includes the following steps:

- Select the corporate mission and major corporate goals.
- Analyse organisation's external competitive environment (O, T).
- Analyse organisation's internal competitive environment (S, W).
- Select Strategies.
- Implement the strategies.
- Feedback

Mission: is a general expression of the overall purpose of the organisation which is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organisation.

Vision: is the desired future state of an organisation. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organisation.

Values: The values of a company state how managers and employees should conduct themselves, how they should do business and what kind of organisation they should build to achieve the mission.

Major Goals: Well construed goals have the following four main characteristics:

- They are precise and measurable.
- They address crucial issues.
- They are challenging but realistic.
- They specify a time period.

Strategic Implementation:

It involves taking actions at the functional, business and corporate levels to execute a strategic plan. Implementation include, for example, putting quality improvement programs, changing the way product is designed, positioning the product differently, market segmentation, expanding through mergers and acquisitions and downsizing the company.

Feedback loop:

It indicates that the strategic planning is an ongoing process. It never ends. It needs to be continuously monitored to determine the extent to which strategic goals and objectives are actually being achieved and to what degree competitive advantage is being created and sustained.

[Ref: Hill and Jones (2015)]

v. Strategy Development Routes

Intended strategy: an expression of interest of desired strategic direction deliberately formulated or planned by managers.

Realised strategy: the strategy actually being followed by an organisation in practice.
Unrealised strategy: the strategy that does not come about in practice or only partially so. There may be all sorts of reasons for this; the plans are unworkable; the environment changes after the plan has been drawn up and managers decides that the strategy, as planned should not be put into effect, or people in the organisation or influential stakeholders do not go along with the plan.
Imposed strategy: there may be situations in which managers face what they see as the imposition of strategy by agencies or forces external to the organisation. Government may dictate a particular strategic course or direction- for e.g. in the public sector, or where it exercises extensive regulation in the public sector.

Emergent strategy: unplanned responses to unforeseen circumstances. They arise from autonomous action by individual managers deep within the organisation, from serendipitous discoveries or events, or from an unplanned strategic shift by the top-level managers in response to changed circumstances. They are not the product of formal top-down planning mechanism.
[Ref: Johnson and Scholes (2006)]

Chapter 2

i. Porter's five Forces Framework

Helps identify the sources of competition in an industry or sector.
The following are important to understand the framework

- It must be used at the level of SBUs and not at the level of the whole organisation .This is because organisations are diverse in their operations and markets.
- The framework must not be used just to give a snapshot in time.
- Understanding the connections between competitive forces and structural drivers is essential.
- The five forces are not independent of each other.
- Competitive behaviour may be concerned with disrupting these forces and not simply accommodating them.

The five forces are discussed hereunder:
Risk of Entry by Potential Competitors

- Economies of Scale

Economies of scale arise when unit costs fall as a firm expands its output. Sources of scale economies include: (1) cost reductions gained through mass producing a standardized output; (2) discounts on bulk purchases of raw material inputs and component parts; (3) the advantages gained by spreading fixed production costs over a large production volume; and (4) the cost savings associated with distributing, marketing, and advertising costs over a large volume of output. If the cost advantages from economies of scale are significant, a new company that enters the industry and produces on a small scale suffers a significant cost disadvantage relative to established companies. If the new company decides to enter on a large scale in an attempt to obtain these economies of scale, it must raise the capital required to build large-scale production facilities and bear the high risks associated with such an

investment. In addition, an increased supply of products will depress prices and result in vigorous retaliation by established companies, which constitutes a further risk of large-scale entry. For these reasons, the threat of entry is reduced when established companies have economies of scale.

- Brand Loyalty

Brand loyalty exists when consumers have a preference for the products of established companies. A company can create brand loyalty by continuously advertising its brand-name products and company name, patent protection of its products, product innovation achieved through company research and development (R&D) programs, an emphasis on high-quality products, and exceptional after-sales service. Significant brand loyalty makes it difficult for new entrants to take market share away from established companies. Thus, it reduces the threat of entry by potential competitors; they may see the task of breaking down well-established customer preferences as too costly.

- Absolute Cost Advantages

Sometimes established companies have an absolute cost advantage relative to potential entrants, meaning that entrants cannot expect to match the established companies' lower cost structure. Absolute cost advantages arise from three main sources: (1) superior production operations and processes due to accumulated experience, patents, or trade secrets; (2) control of particular inputs required for production, such as labor, materials, equipment, or management skills, that are limited in their supply; and (3) access to cheaper funds because existing companies represent lower risks than new entrants. If established companies have an absolute cost advantage, the threat of entry as a competitive force is weaker.

- Customer Switching Costs

Switching costs arise when a customer invests time, energy, and money switching from the products offered by one established company to the products offered by a new entrant. When switching costs are high, customers can be locked in to the product offerings of established companies, even if new entrants offer better products.

- Government Regulations

Historically, government regulation has constituted a major entry barrier for many industries. The competitive forces model predicts that falling entry barriers due to government deregulation will result in significant new entry, an increase in the intensity of industry competition, and lower industry profit rates.

Rivalry Among Established Companies

The second competitive force is the intensity of rivalry among established companies within an industry. Rivalry refers to the competitive struggle between companies within an industry to gain market share from each other. The competitive struggle can be fought using price, product design, advertising and promotional spending, direct-selling efforts, and after-sales service and support. Intense rivalry implies lower prices or more spending on non-price-competitive strategies, or both. Because intense rivalry lowers prices and raises costs, it squeezes profits out of an industry. Thus, intense rivalry among established companies constitutes a strong threat to profitability. Alternatively, if rivalry is less intense, companies may have the opportunity to raise prices or reduce spending on non-price competitive strategies, leading to a higher level of industry profits. Four factors have a major impact on

the intensity of rivalry among established companies within an industry: (1) industry competitive structure, (2) demand conditions, (3) cost conditions, and (4) the height of exit barriers in the industry.

- Industry Competitive Structure

The competitive structure of an industry refers to the number and size distribution of companies in it, something that strategic managers determine at the beginning of an industry analysis. Industry structures vary, and different structures have different implications for the intensity of rivalry. A fragmented industry consists of a large number of small or medium-sized companies, none of which is in a position to determine industry price. A consolidated industry is dominated by a small number of large companies (an oligopoly) or, in extreme cases, by just one company (a monopoly), and companies often are in a position to determine industry prices. Low-entry barriers and commodity-type products that are difficult to differentiate characterize many fragmented industries. This combination tends to result in boom-and-bust cycles as industry profits rapidly rise and fall. Low-entry barriers imply that new entrants will flood the market, hoping to profit from the boom that occurs when demand is strong and profits are high. Often the flood of new entrants into a booming, fragmented industry creates excess capacity, and companies start to cut prices in order to use their spare capacity. The difficulty companies' face when trying to differentiate their products from those of competitors can exacerbate this tendency. The result is a price war, which depresses industry profits, forces some companies out of business, and deters potential new entrants. A fragmented industry structure, then, constitutes a threat rather than an opportunity. Economic boom times in fragmented industries are often relatively short-lived because the ease of new entry can soon result in excess capacity, which in turn leads to intense price competition and the failure of less efficient enterprises. Because it is often difficult to differentiate products in these industries, trying to minimize costs is the best strategy for a company so it will be profitable in a boom and survive any subsequent bust. Alternatively, companies might try to adopt strategies that change the underlying structure of fragmented industries and lead to a consolidated industry structure in which the level of industry profitability is increased.

In consolidated industries, companies are interdependent because one company's competitive actions (changes in price, quality, etc.) directly affect the market share of its rivals, and thus their profitability. When one company makes a move, this generally "forces" a response from its rivals, and the consequence of such competitive interdependence can be a dangerous competitive spiral. Rivalry increases as companies attempt to undercut each other's prices, or offer customers more value in their products, pushing industry profits down in the process. Companies in consolidated industries sometimes seek to reduce this threat by following the prices set by the dominant company in the industry.

- Industry Demand

The level of industry demand is another determinant of the intensity of rivalry among established companies. Growing demand from new customers or additional purchases by existing customers tend to moderate competition by providing greater scope for companies to compete for customers. Growing demand tends to reduce rivalry because all companies can sell more without taking market share away from other companies. High industry profits are often the result. Conversely, declining demand results in increased rivalry as companies fight to maintain market share and revenues (as in the breakfast cereal industry example). Demand

declines when customers exit the marketplace, or when each customer purchases less. When this is the case, a company can only grow by taking market share away from other companies. Thus, declining demand constitutes a major threat, for it increases the extent of rivalry between established companies.

- Cost Conditions

The cost structure of firms in an industry is a third determinant of rivalry. In industries where fixed costs are high, profitability tends to be highly leveraged to sales volume, and the desire to grow volume can spark intense rivalry. Fixed costs are the costs that must be paid before the firm makes a single sale. In industries where the fixed costs of production are high, firms cannot cover their fixed costs and will not be profitable if sales volume is low. Thus they have an incentive to cut their prices and/or increase promotional spending to drive up sales volume in order to cover fixed costs. In situations where demand is not growing fast enough and too many companies are simultaneously engaged in the same actions, the result can be intense rivalry and lower profits. Research suggests that the weakest firms in an industry often initiate such actions, precisely because they are struggling to cover their fixed costs.

- Exit Barriers

Exit barriers are economic, strategic, and emotional factors that prevent companies from leaving an industry. If exit barriers are high, companies become locked into an unprofitable industry where overall demand is static or declining. The result is often excess productive capacity, leading to even more intense rivalry and price competition as companies cut prices, attempting to obtain the customer orders needed to use their idle capacity and cover their fixed costs. Common exit barriers include the following:

a. Investments in assets such as specific machines, equipment, or operating facilities those are of little or no value in alternative uses, or cannot be later sold. If the company wishes to leave the industry, it must write off the book value of these assets.
b. High fixed costs of exit, such as severance pay, health benefits, or pensions that must be paid to workers who are being made laid off when a company ceases to operate.
c. Emotional attachments to an industry, such as when a company’s owners or employees are unwilling to exit from an industry for sentimental reasons or because of pride.
d. Economic dependence on the industry because a company relies on a single industry for its entire revenue and all profits.
e. The need to maintain an expensive collection of assets at or above a minimum level in order to participate effectively in the industry.
f. Bankruptcy regulations, particularly in the United States, bankruptcy provisions allow insolvent enterprises to continue operating and to reorganize under this protection. These regulations can keep unprofitable assets in the industry, result in persistent excess capacity, and lengthen the time required to bring industry supply in line with demand.

The Bargaining Power of Buyers

The third competitive force is the bargaining power of buyers. An industry’s buyers may be

the individual customers who consume its products (end-users) or the companies that distribute an industry's products to end-users, such as retailers and wholesalers. The bargaining power of buyers refers to the ability of buyers to bargain down prices charged by companies in the industry, or to raise the costs of companies in the industry by demanding better product quality and service. By lowering prices and raising costs, powerful buyers can squeeze profits out of an industry. Powerful buyers, therefore, should be viewed as a threat. Alternatively, when buyers are in a weak bargaining position, companies in an industry can raise prices and perhaps reduce their costs by lowering product quality and service, thus increasing the level of industry profits. Buyers are most powerful in the following circumstances:

a. When the buyers have choice of who to buy from. If the industry is a monopoly, buyers obviously lack choice. If there are two or more companies in the industry, the buyers clearly have choice.
b. When the buyers purchase in large quantities. In such circumstances, buyers can use their purchasing power as leverage to bargain for price reductions.
c. When the supply industry depends upon buyers for a large percentage of its total orders.
d. When switching costs are low and buyers can pit the supplying companies against each other to force down prices. When it is economically feasible for buyers to purchase an input from several companies at once so that buyers can pit one company in the industry against another.
e. When buyers can threaten to enter the industry and independently produce the product, thus supplying their own needs, also a tactic for forcing down industry prices.

The Bargaining Power of Suppliers

The fourth competitive force is the bargaining power of suppliers—the organizations that provide inputs into the industry, such as materials, services, and labour (which may be individuals, organizations such as labour unions, or companies that supply contract labour). The bargaining power of suppliers refers to the ability of suppliers to raise input prices, or to raise the costs of the industry in other ways—for example, by providing poor-quality inputs or poor service. Powerful suppliers squeeze profits out of an industry by raising the costs of companies in the industry. Thus, powerful suppliers are a threat. Conversely, if suppliers are weak, companies in the industry have the opportunity to force down input prices and demand higher-quality inputs (such as more productive labour). As with buyers, the ability of suppliers to make demands on a company depends on their power relative to that of the company. Suppliers are most powerful in these situations:

a. The product that suppliers sell has few substitutes and is vital to the companies in an industry.
b. The profitability of suppliers is not significantly affected by the purchases of companies in a particular industry, in other words, when the industry is not an important customer to the suppliers.
c. Companies in an industry would experience significant switching costs if they moved to the product of a different supplier because a particular supplier's

products are unique or different. In such cases, the company depends upon a particular supplier and cannot pit suppliers against each other to reduce prices.

d. Suppliers can threaten to enter their customers' industry and use their inputs to produce products that would compete directly with those of companies already in the industry.
e. Companies in the industry cannot threaten to enter their suppliers' industry and make their own inputs as a tactic for lowering the price of inputs.

Substitute Products

The final force in Porter's model is the threat of substitute products: the products of different businesses or industries that can satisfy similar customer needs. For example, companies in the coffee industry compete indirectly with those in the tea and soft drink industries because all three serve customer needs for non alcoholic drinks. The existence of close substitutes is a strong competitive threat because this limits the price that companies in one industry can charge for their product, which also limits industry profitability. If the price of coffee rises too much relative to that of tea or soft drinks, coffee drinkers may switch to those substitutes. If an industry's products have few close substitutes (making substitutes a weak competitive force), then companies in the industry have the opportunity to raise prices and earn additional profits.

Complementors

Andrew Grove, the former CEO of Intel, has argued that Porter's original formulation of competitive forces ignored a sixth force: the power, vigour, and competence of complementors. Complementors are companies that sell products that add value to (complement) the products of companies in an industry because, when used together, the use of the combined products better satisfies customer demands. For example, the complementors to the PC industry are the companies that make software applications to run on the computers. The greater the supply of high-quality software applications running on these machines, the greater the value of PCs to customers, the greater the demand for PCs and greater the profitability of the PC industry. Grove's argument has a strong foundation in economic theory, which has long argued that both substitutes and complements influence demand in an industry.

[Ref: Hill and Jones (2015)]

ii. Industry Life Cycle Analysis

A useful tool for analysing the effects of industry evolution on competitive forces is the Industry Life Cycle model. This model identifies five sequential stages in the evolution of an industry that lead to five distinct kinds of industry environment: embryonic, growth, shakeout, mature, and decline. The task managers' face is to anticipate how the strength of competitive forces will change as the industry environment evolves, and to formulate strategies that take advantage of opportunities as they arise and that counter emerging threats.

Embryonic Industries

- Is just beginning to develop (e.g., personal computers and biotechnology in the 1970s and nano technology today).
- Growth at this stage is slow.

- Buyers' unfamiliarity with the industry's product, high prices due to inability to reap any significant scale economies and poorly developed distribution channels.
- Barriers to entry can be quite high and established companies will be protected from potential competitors.
- Rivalry is based not much on price as on educating customers, opening up distribution channels, and perfecting the design of the product.
- It may also be the creation of one company's innovative efforts, as happened with microprocessors (Intel). In such circumstances, the developing company has a major opportunity to capitalize on the lack of rivalry and build a strong hold on the market.

Growth Industries

- Once the demand for the industry's product begins to take off, the industry develops the characteristics of a growth industry.
- First time demand is expanding as many customers enter the market.
- Typically, an industry grows - customers become familiar with the product - prices fall because experience and scale economies and distribution channels develop.
- Threat from potential competitors generally is highest at this point.
- Paradoxically, high growth usually means that new entrants can be absorbed into the industry without a marked increase in the intensity of rivalry.
- Rivalry tends to be relatively low.
- Prepares itself for the intense competition of the coming industry shake out.

Industry Shakeout

- Explosive growth cannot be maintained indefinitely.
- Sooner or later the rate of growth slows and the industry enters the shakeout stage.
- Demand approaches saturation levels.
- Most of the demand is limited to replacement because there are few potential first-time buyers.
- Rivalry between companies becomes intense.
- Companies that have become accustomed to rapid growth continue to add capacity at rate consistent with past growth.
- Demand is no longer growing at historic rates.
- Consequence is the emergence of excess productive capacity over time.
- Results in a price war, which drives many of the inefficient companies into bankruptcy, which is enough to deter any new entry.

Mature Industries

- The shakeout stage ends.
- Market is totally saturated.
- Demand is limited to replacement demand.
- Growth is low or zero.
- Growth comes from population expansion that brings new customers into the market or an increase in replacement demand.
- Barrier to entry increase and threat of entry from potential competitors decreases.
- Companies cannot maintain historic growth rates merely by holding market share.
- A competition for market share increases price war (airline and personal computers).
- To survive companies focus on minimizing costs and building brand loyalty.

- Most industries have consolidated and become oligopolies.
- Companies tend to recognise their interdependence and try to avoid price wars.
- Enter into price leadership models.
- Net effect is to reduce the intense rivalry among established companies and allowing greater profitability.
- Nevertheless the stability is always threatened by further price wars.

Declining Industries

- Most industries enter a decline stage.
- Growth becomes negative due to Technological substitution (air travel for rail), social changes (health consciousness), demographics (declining birth rate) and international competition (low cost foreign competition).
- Degree of rivalry among existing companies usually increases.
- Depending on the speed of the decline and the height of exit barriers, competitive pressures can become as fierce as in the shakeout stage.
- Falling demand lads to emergence of excess capacity.
- Companies begin to cut prices, thus sparking a price war.
- Exit barriers play a part in adjusting excess capacity.
- The greater the exit barrier the harder to reduce capacity and greater threat of severe price competition.

Limitations of the model

- Industry Life Cycle Model is a generalisation.
- They do not always follow the pattern as illustrated.
- In some cases growth is so rapid that the embryonic stage is skipped altogether.
- In some industries they fail to get past the embryonic stage.
- Growth can be revitalised after a long period of decline through innovation or social change (health boom and bicycle).
- The time span of the stages can also vary significantly from industry to industry.
- Some industries can stay in maturity indefinitely if their products become basic necessities of life.
- Some industries skip the mature stage and go straight into decline.
- Several industries may go through series of shakeouts before they enter full maturity (telecommunications industry).

[Ref: Hill and Jones (2015)]

Chapter 3

i. The Strategic Importance of Resource

- Threshold Resources

The resources needed to meet customers' minimum requirements and therefore to continue to exist.

- Unique Resources

Resources that underpin competitive advantage and are difficult for competitors to imitate or obtain are called unique resources.

ii. Critical Success Factors

Critical success Factors are those product features that are particularly valued by a group of customers, and, therefore, where the organisation must excel to outperform competition.

Major Sources of CSFs

Rockart has identified four major sources of CCFs

- Structure of the Industry:

Some CSFs are specific to the structure of the industry for e.g., the extent of service support expected by the customers. Automobile companies have to invest in building a national network of authorizes service stations to ensure service delivery to their customers.

- Competitive strategy, industry position and geographic location:

CSFs also arise from the above factors for e.g. the large pool of English- speaking manpower makes India an attractive location for outsourcing the BPO needs of American and British firms.

- *Environmental Factors:*

CSFs may also arise out of general/business environment of a firm, like the deregulation of Indian industry. With the deregulation of telecommunication industry, many private companies had opportunities of growth.

- *Temporal factors:*

Certain short-term organisational developments like sudden loss of critical manpower (like the charismatic CEO) or break-up of the family owned business, may necessitate CSFs like 'appointment of a new CEO' or 'rebuilding the company image'. Temporarily such CSFs would remain CSFs till the time they are achieved.

iii. Core Competences

Core competences are the skills and abilities by which resources are deployed through an organisation's activities and processes such as to achieve competitive advantage in ways that others cannot imitate or obtain. [Ref: Johnson and Scholes (2006)]

Characteristics of core competences

- Provide distinctive advantage for the firm.
- Difficult for the competitors to imitate.
- ❖ Competence is rare.
- ❖ Competence is concerned with managing complex activities or processes.
- ❖ Competitors are not clear which resource or competences have caused the success of the firm. This is known as causal ambiguity.
- ❖ The competence is embedded in the culture.
- They make a significant contribution to customer value and the end products offered by the firm.
- They provide access to a wide variety of markets.

Technological Core Competence

Technologies are fast altering the existing boundaries of business. Technological excellence, i.e., capacity to integrate multiple streams of technology and the expertise to harness diverse production skills can be one of the best routes for acquiring core. Obviously, for building core competence in technology, firm's competence may have to invest heavily in technology and R&D. They have to look for relevant technologies in the field and build competencies in them. They have to develop human skills that would use the technologies as building blocks

and work on them. It is through this route that manufacturing firms bring out propriety products which give them core-competence. Similarly in service industries, quality, customer care, timely delivery etc. can be considered as providers of core competence.

a. *Distinctive Technologies*

- Those technologies in which the company's standing gives it a distinctive competence.
- It gives an organisation an organisation its unique competitive advantage in the market place.
- Organisations must protect them, nourish them and capitalise on them because of the fact that they have something desirable that others do not have.
- However, distinctive technologies may not be in a form that permits commercialisation for e.g., a company holding a patent for a product design that constitutes a distinct technology has no way of reaching a consumer without the support of basic technologies, such as production technologies or logistic technologies like transportation and delivery.
- Manufacturing technology in this case, is a survival technology, without which the company's product cannot be produced and cannot reach the market.

b. *Basic Technologies*

- Those survival technologies on which the company's operations depend and without which it would be excluded from its markets.
- They are necessary for a company to stay in business
- They do not differentiate or distinguish it from competitors.

c. *External Technologies*

- Those technologies which are supplied by other companies.
- These types of technologies are available to the market place at large.
- Building core competence is a time consuming and challenging exercise.

Developing Core competences

The core competency building process has three stages

- ✓ Developing the ability to do something by upgrading or expanding the skills
- ✓ Learning to perform the activity consistently well, so that it transforms in to a competence or capability
- ✓ Sharpening performance such that it becomes better than rivals at performing the activity, thus raising the competence to the rank of a distinctive competence (or competitively superior capability). This opens an avenue to competitive advantage.
- Core skills are fundamental resources of an organisation

iv. Threshold competences

Activities and processes needed to meet customers' minimum requirements and therefore to continue to exist for e.g. individual training regimes, physiotherapy/injury management, diet planning, etc. [Ref: Johnson and Scholes (2006)]

v. The Value Chain

The value chain describes the categories of activities within and around an organisation, which together create a product or service. The concept was developed in relation to competitive strategy by Michael Porter.

Primary activities are *directly* concerned with the creation or delivery of a product or service. For example, for a manufacturing business:

Inbound logistics are activities concerned with receiving, storing and distributing inputs to the product or service including materials handling, stock control, transport, etc.

Operations transform these inputs into the final product or service: machining, packaging, assembly, testing, etc.

Outbound logistics collect, store and distribute the product to customers, for example warehousing, materials handling, distribution, etc.

Marketing and sales provide the means whereby consumers/users are made aware of the product or service and are able to purchase it. This includes sales administration, advertising and selling.

• *Service* includes those activities that enhance or maintain the value of product or service, such as installation, repair, training and spares.

Support activities help to improve the effectiveness or efficiency of primary activities:

Procurement: The *processes* that occur in many parts of the organisation for acquiring the various resource inputs to the primary activities.

Technology development: All value activities have a 'technology', even if it is just know-how. Technologies may be concerned directly with a product (for example, R&D, product design) or with processes (for example, process development) or with a particular resource (for example, raw materials improvements).

Human resource management: This transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organisation.

Infrastructure: The formal systems of planning, finance, quality control, information management, and the structures and routines that are part of an organisation's culture.

[Ref: Johnson and Scholes (2006)]

vi. Durability of Competitive Advantage

Durability of competitive advantage depends on three factors: barriers to imitation, the capability of competitors, and the general dynamism of the industry environment.

Barriers to imitation are a primary determinant of the speed of imitation. Barriers to imitation are factors that make it difficult for a competitor to copy a company's distinctive competencies; the greater the barriers to imitation, the more sustainable a company's competitive advantage. Barriers to imitation differ depending on whether a competitor is trying to imitate resources or capabilities.

Imitating Resources: In general, the easiest distinctive competencies for prospective rivals to imitate tend to be those based on possession of firm-specific and valuable tangible resources, such as buildings, manufacturing plants, and equipment. Such resources are visible to competitors and can often be purchased on the open market. Intangible resources can be more difficult to imitate. This is particularly true of brand names, which are important because they symbolize a company's reputation. Customers often display a preference for the products of such companies because the brand name is an important guarantee of high quality. Although competitors might like to imitate well-established brand names, the law prohibits them from doing so. Marketing and technological knowhow are also important intangible resources and

can be relatively easy to imitate. The movement of skilled marketing personnel between companies may facilitate the general dissemination of marketing knowhow. More generally, successful marketing strategies are relatively easy to imitate because they are so visible to competitors. With regard to technological knowhow, the patent system in theory should make technological knowhow relatively immune to imitation. In electrical and computer engineering, for example, it is often possible to invent and circumnavigate the patent process—that is, produce a product that is functionally equivalent but does not rely on the patented technology. This suggests that, in general, distinctive competencies based on technological knowhow can be relatively short-lived.

Imitating Capabilities: Imitating a company's capabilities tends to be more difficult than imitating its tangible and intangible resources, chiefly because capabilities are based on the way in which decisions are made and processes are managed deep within a company. It is hard for outsiders to discern them.

Capability of Competitors

According to work by Pankaj Ghemawat, a major determinant of the capability of competitors to rapidly imitate a company's competitive advantage is the nature of the competitors' 'prior strategic commitments'. Ghemawat states that once a company has made a strategic commitment, it will have difficulty responding to new competition if doing so requires a break with this commitment. Therefore, when competitors have long-established commitments to a particular way of doing business, they may be slow to imitate an innovating company's competitive advantage. The innovator's competitive advantage may be relatively durable as a result. Another determinant of the ability of competitors to respond to a company's competitive advantage is the absorptive capacity of competitors. 'Absorptive capacity' refers to the ability of an enterprise to identify, value, assimilate, and use new knowledge.

Industry Dynamism: A dynamic industry environment is one that changes rapidly. In dynamic industries, the rapid rate of innovation means that product life cycles are shortening and that competitive advantage can be fleeting. A company that has a competitive advantage today may find its market position outflanked tomorrow by a rival's innovation.

[Ref: Hill and Jones (2015)]

vii. Why Companies Fail?

There are three related reasons for failure: inertia, prior strategic commitments, and the Icarus paradox.

Inertia: The inertia argument states that companies find it difficult to change their strategies and structures in order to adapt to changing competitive conditions. One reason companies find it so difficult to adapt to new environmental conditions is the role of capabilities in causing inertia. Power struggles and the hierarchical resistance associated with trying to alter the way in which an organization makes decisions and manages its process—that is, trying to change its capabilities—bring on inertia. This is not to say that companies cannot change. However, those who feel threatened by change often resist it; change in most cases is induced by a crisis. By then, the company may already be failing.

Prior Strategic Commitments: A company's prior strategic commitments not only limit its ability to imitate rivals but may also cause competitive disadvantage.

The Icarus Paradox: Danny Miller has postulated that the roots of competitive failure can be found in what he termed the "Icarus paradox". According to Miller, many companies become so dazzled by their early success that they believe more of the same type of effort is the way to future success. As a result, they can become so specialized and myopic that they lose sight of market realities and the fundamental requirements for achieving a competitive advantage. Sooner or later, this leads to failure.
[Ref: Hill and Jones (2015)]

Avoiding Failures

- Focus on the Building Blocks of Competitive Advantage
- Institute Continuous Improvement and Learning
- Track Best Industrial Practices and Use Benchmarking
- Overcome Inertia

[Ref: Hill and Jones (2015)]

References

- C.W.L Hill and G.R. Jones (2015), *Strategic Management– An Integrated Approach*, 9th edn. Cengage Learning
- G. Johnson and K. Scholes (2006), *Exploring Corporate Strategy: Text and Cases*, 6th. edn., Pearson Prentice Hall

Study Material for the Period 16-03-2020 to 15-04-2020

M.Com. Programme Semester 4
Paper 401 (STMGT): Module 2

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Programme: M.Com. Day & Evening—Module 2 Unit 5

❖ Level 5 Leadership Pyramid

[Reference: Jim Collins (2001). ***Good to Great: Why some Companies Make the Leap… and Others Don't.*** **Harper Collins Publishers]**

- The concept of Level 5 Leadership was introduced by *Jim Collins* in his book *Good to Great: Why some Companies Make the Leap...and Others Don't*.
- The term "Level 5" refers to the highest or top level in a hierarchy of executive capabilities that was identified empirically by Collins and his research associates, as existing in each of the 11 "good-to-great" companies (out of the total number of 1435 Fortune 500 companies studied) during their pivotal transition years.

- Collins clarifies that Level-5 leaders embody all five layers of the pyramid, although, it is not necessary for a manager to move in sequence from Level 1 to Level 5.
- Level 5 leaders embody a paradoxical mix of extreme personal humility and intense professional will. Although they are incredibly ambitious, their ambition is first and foremost for the institution, and not themselves.
- Level 5 leaders set up their successors for even greater success in the next generation, unlike egocentric leaders who may set up their successors for failure.
- Level 5 leaders (termed Executive Strategic leaders) display a compelling modesty, are self-effacing, and often understated. They channel their ego needs away from themselves and into the larger goal of building a great company.
- Such leaders are fanatically driven to generate sustained results, and display a workmanlike diligence. They are committed to doing whatever is required to make the company great, irrespective of the complexity or difficulty of the decision situation.
- They "look out the window" to attribute success to factors other than themselves. However, when there is under-performance, they "look in the mirror", blame themselves and take full responsibility.

This is unlike the behaviour of most company CEOs who do just the opposite of looking in the mirror to take credit for success, and looking out the window to assign blame to others for poor or disappointing results.

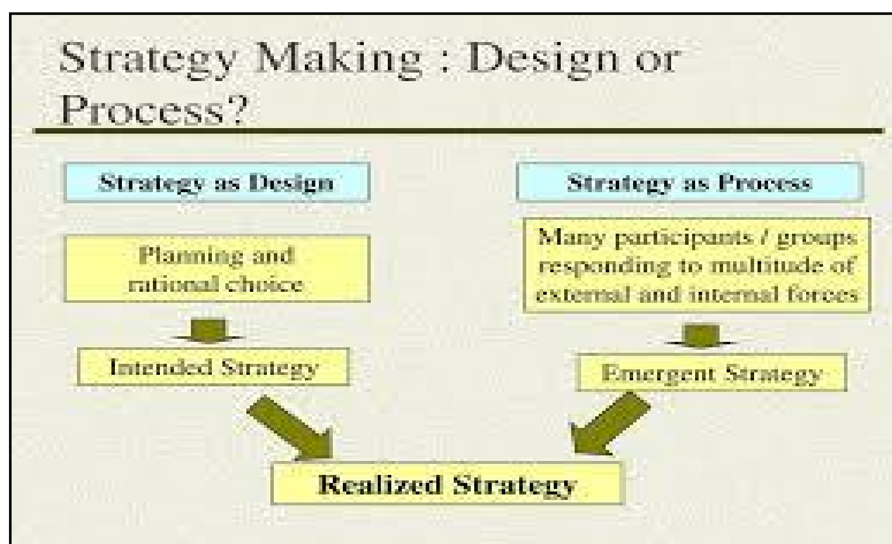
- The two sides of Level 5 leadership are summarised below:

	Professional Will	Personal Humility
1	Serves as a catalyst in the transition from a good to great company by creating excellent results.	Demonstrates a compelling modesty, shunning arrogance and public adulation.
2	Demonstrates a firm commitment to do what is necessary for producing the best long-term results, despite the complexity and difficulty of a decision.	Acts with quiet, calm determination, relying strongly on inspired standards to motivate, and not demonstrating celebrity charisma or glamour.
3	Establishes the standard of and works towards building an enduring great company	Channels ambition into the company, and not the individual self; sets up successors for even greater success in the next generation.
4	Looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, bad luck or external factors.	Looks out the window, not in the mirror, to apportion credit for the success of the company—to other people, external factors, and good luck.

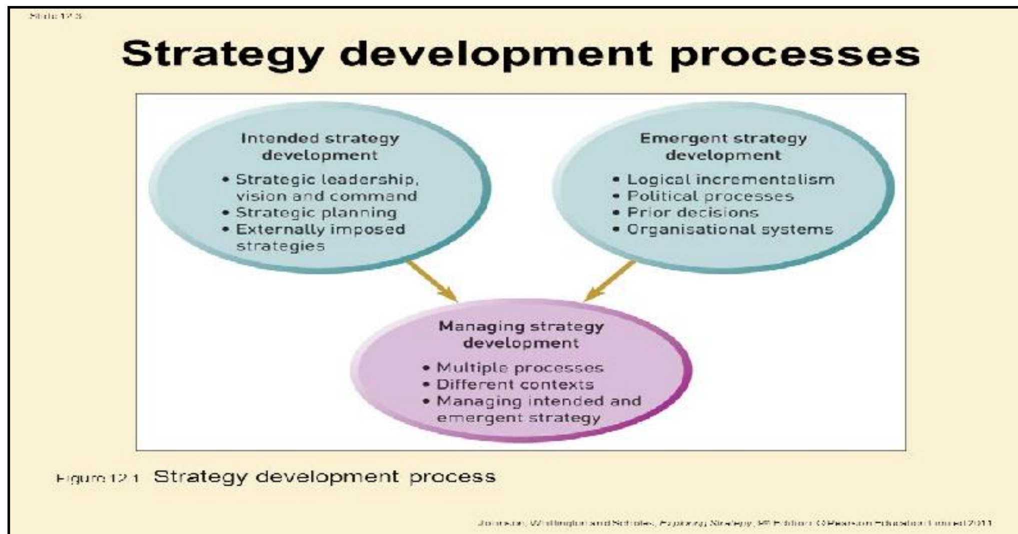
❖ Strategy as Planned Emergence—Strategy Development Routes

[Reference: Chapter 12 of Johnson, G., K. Scholes and Whittington, R. (2011) *Exploring Corporate Strategy: Text and Cases*; 9th edition. Pearson Prentice Hall]

- There are two views of strategy development—(1) the *design/rational-analytic view* of strategy as *intended* and (2) the *process/variety and discourse view* of strategy as *emergent*. These two views are not mutually exclusive. According to the first view, strategies come about as the result of the deliberations of top management, whereas, the second view of emergent strategy emphasizes that strategies do not develop on the basis of a grand plan but tend to emerge in organisations over time.



- *Intended strategy* is deliberately formulated or planned by managers, as the result of (i) strategic leadership, vision and command (ii) strategic planning, and (iii) externally imposed strategies deliberately formulated elsewhere. On the other hand, *emergent strategy* development highlights: (i) logical incrementalism, (ii) political processes, (iii) prior decisions, and (iv) organisational systems.



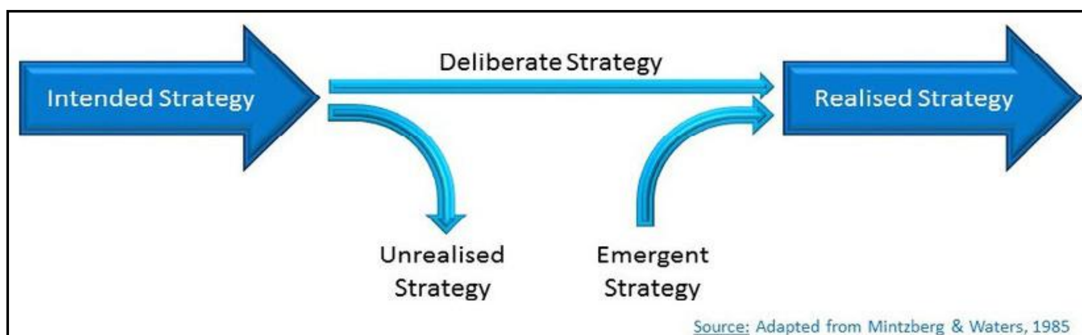
- Firstly, an organisations' intended strategy may be influenced by the deliberate intention of (a) *strategic leadership as command* (i.e., dictated by an individual usually in small owner-managed firms) with the advantage of speed of adaptation, innovativeness, and difficult- to- imitate strategies. The downsides could be hubris, excessive risk-taking, and sometimes, irrelevant strategies. An organisation's strategy could be based upon (b) *strategic leadership as vision*, if the strategic leader (s) have articulated an overall vision, mission, or strategic intent to motivate others, and to create shared beliefs for people to work together effectively (e.g., a strategy driven by the core purpose of creating value for customers as the primary stakeholders, and therefore, to earn lifetime customer loyalty. A strategy may also represent an embodiment of (c) *strategic leadership as symbolic* of the organisation (e.g., Richard Branson is seen as the embodiment of the strategy of Virgin Airlines and the public face of the company, even though he is not involved in its day-to-day management. A strategy can also be the outcome of (d) *strategic leadership as decision-ma*king when there are multiple views in an organisation not backed by evidence, thus requiring the leader to weigh the different views, interpret data, take timely decisions, and exercise authority to ensure the support of the decision by others.
- Secondly, intended strategies can be developed through *formalised strategic planning systems* that take the form of systematised, step-by-step procedures to develop an organisation' s strategy. This might include (a) initial guidelines, (b) business-level planning, (c) corporate-level planning, and (d) financial and strategic targets. A strategic planning system may play four different roles within an organisation, namely: (i) Providing managers the means to understanding strategic issues; (ii) Providing a means to learning by being discovery-driven in emphasizing the need to challenge conventional wisdom, and whatever is taken-for-granted; (iii) Enabling coordination of business-level strategies within an overall corporate strategy; and (iv) Helping communicate intended strategy throughout an organisation and provide agreed objectives or strategic milestones for performance review. On the flip side, strategic planning raises potential dangers including (i) confusing strategy with strategic plan, (ii) detachment from reality, (iii) paralysis by analysis, (iv) lack of ownership, and (v) dampening of innovation.

- Thirdly, intended strategies manifest in situations where managers encounter *imposition of strategy by powerful external stakeholders*. Strategies thus imposed have been determined elsewhere by regulatory bodies, investors, etc., either through systematic strategic planning or developed through an emergent fashion.
- According to Henry Mintzberg, emergent strategy development is based upon the assumption that strategy development may not always be associated with the intentionality of top management. An alternative explanation is that strategies emerge on the basis of a series of decisions, a pattern that becomes clear over time. Thus, an organisation's strategy is not a 'grand plan' but as a developing 'pattern in a stream of decisions'. These cumulative decisions may subsequently be more formally described in strategic plans and annual reports, and be seen as the intentional strategy of the organisation. In effect, it will be the emerging strategy that informs the plan, and not the plan that develops the strategy.
- There are *four different explanations of emergent strategy* that exist in a continuum, from the most deliberately managed to the least deliberately managed processes. The various explanations consider strategy as the outcome of: (i) logical incrementalism, (ii) political processes, (iii) adaptation from prior decisions, and (iv) organisational systems and routines.

- *Logical incrementalism* (a term coined by James Quinn) is the development of strategy by experimentation and learning from partial commitments instead of global formulations of total strategies. The four main characteristics of strategy development through logical incrementalism are environmental uncertainty, general goals, experimentation, and coordinating emergent strategies. Logical incrementalism emphasizes learning, and so, upholds the idea of a "learning organisation"—an organisation capable of continual regeneration from the variety of knowledge, experience and skills within a culture that encourages questioning and challenge. Learning organisations are social networks where the emphasis is on different interest groups (not on hierarchies) that need to cooperate and learn from each other. Logical incrementalism views strategy development as stemming from ideas bubbling up from below and being moulded at the top rather than being directed from the top.
- The second explanation of emergence of strategies is that they are the outcome of *political processes—the bargaining and power politics* that go on between executives or between coalitions within the organisation and major stakeholders. The political view of strategy development maintains that strategies develop as the outcome of bargaining and negotiation among powerful stakeholders/ interest groups. A political perspective on strategic management suggests that the rational and analytic processes often associated with developing strategy may not be as objective and dispassionate as they appear, because of the influence of personal experience, competition for

resources and influence between different subsystems and powerful people within them, relative influence of stakeholders on different parts of the organisation, and differential access to information, in terms of roles and functional affiliations.

- The third explanation of how strategies emerge is the *adaptation from prior decisions*, which inform or constrain strategy development. Managers deliberately seek to maintain a continuity of strategy because it would be dysfunctional for an organisation to frequently change its strategy fundamentally. Such continuity could be the outcome *of path dependency* or of *organisational culture*. The strategy of an organisation may develop on the basis of a series of strategic moves each of which coheres with previous moves, in order to manage continuity. A less deliberate explanation of such continuity is explained through the term 'path dependency' which implies that early events and decisions establish 'policy paths' that have lasting impact on subsequent events and decisions. Hence, strategic decisions are historically conditioned. Strategy development is also influenced by organisation culture, as an outcome of taken-for-granted assumptions, routines, and behaviours within organisations.
- The fourth explanation of how strategies may emerge is on the basis of an *organisation's systems*. Strategy development can be seen as the outcome of managers at lower levels (not top management) making sense and dealing with problems and opportunities by applying established ways of doing things. In this regard, they may be strongly influenced by the systems and routines with which they are familiar in a particular context. Two useful explanations for this are—(a) the resource allocation process (RAP) and (ii) the attention-based view (ABV) of strategy development. Both emphasize that established ways of allocating resources in organisations will tend to play a significant role in the kind of solutions to problems that are advocated and to those which resources are allocated.
- In conclusion, the implications for management of the strategy development process are as follows: (1) The views explained above are *not discrete or mutually exclusive*, and hence, multiple processes may be used for effective management of strategy development. In fact, organisations manifest processes that are, in effect, *"planned emergence" with top-down overall intent taking into account and building upon bottom-up emergence of strategy*. (2) Processes of strategy development are likely to *differ according to organisational context*. Three major contextual influences are organisational characteristics, nature of environment, and life cycle effects of organisational development over time. (3) Managing strategy development requires an understanding of how a *realised strategy is different from an intended strategy*. *Intended strategy* is the strategy deliberately formulated or planned by senior executives. It may be expressed in a formal document and accompanied by mechanisms designed to implement the intentions (e.g., objectives, targets, projects). *Emergent strategy* is that which emerges on the basis of a series of decisions, a pattern which becomes clear over time. *Realised strategy* is what the organisation is actually doing in practice. This may have come about as a result of the intended strategy, but it is also the outcome of the emergent strategy process. It will, thus, be a combination of the two. *Unrealised strategy* refers to the aspects of the intended strategy that are eliminated because the environment changes and managers decide that the strategy as planned , should not be put into effect—either the plans prove unworkable or unacceptable in practice; or the emergent strategy comes to dominate.



❖ Role of Values, Vision, and Mission in Managing Strategy

[References: (1) Chapter 4 of Johnson, G., K. Scholes and Whittington, R. (2011) *Exploring Corporate Strategy: Text and Cases*; 9th edition. Pearson Prentice Hall
(2) Chapter 2 of David, F. R. (2011) *Strategic Management: Concepts and Cases*; 13th edition. Prentice Hall]

- Organisations reflect and express their *strategic purpose*, i.e., the unique purpose and reason that drives their strategy, through statements of values, vision, mission and objectives.
- Strategic purpose of an organisation is influenced by (i) its *corporate governance structure* and regulatory framework, (ii) *corporate responsibility* and ethical behaviour of individuals within the organisation, and (iii) different *stakeholder expectations* and their relative influence in terms of power and interest.
- P.F. Drucker says that developing a clear business vision and mission statement is the "first responsibility of strategists". According to Cynthia Montgomery of Harvard University, the definition and expression of a clear and motivating organisational purpose is the foremost task of a strategist, in order to clarify the organisation's strategy to an organisation's internal and external stakeholders. The stated purpose of the organisation must address the question: '*Why does and organisation exist, and what can it do to make a difference, and to whom?*' If the stakeholders of an organisation can relate to such a purpose, it becomes highly motivating. Hence, executives need to find ways to express strategic purpose in ways that are easy to grasp and to which people can relate.
- There are *three ways* in which executives typically attempt to express strategic purpose: (1) a *statement of corporate values*, (2) *a vision statement*, and (3) a *mission statement*.
- A *statement of corporate values* communicates the underlying and enduring core 'principles' that guide an organisation's strategy and define ways in which the organisation should operate. The major question addressed here is: 'Would these values change with circumstances?' And if the answer is 'yes' then they are not 'core' and not 'enduring'. An example is the importance of leading-edge research in some universities. Whatever the constraints on funding, such universities hold to the enduring centrality of academic rigour and responsibility in the research process.
- A *vision statement* is concerned with the desired future state of the organisation, an aspiration that will enthuse, gain commitment and stretch performance. The primary question addressed, is: 'What do we want to achieve?' Porras and Collins suggest managers can identify this by asking: 'If we were sitting here in twenty years what do we want to have created or achieved?' They cite the example of Henry Ford's original vision in the very early days of automobile production that the ownership of a car should be within the reach of everyone.
- A *mission statement* aims to provide employees and stakeholders with clarity about the overriding purpose of the organisation, in terms of the challenging question: 'What business are we in?' A mission statement should make this clear in terms of an organisation's long-term purpose. Managers need to ask two interrelated questions: (i) 'What would be lost if the organisation did not exist?' and (ii) 'How do we make a difference?' Jim Collins and Jerry Porras suggest this can best be addressed by managers starting with a descriptive statement of what the organisation does, then repeatedly delving deeper into the purpose of what the organisation is there for, by asking 'Why do we do this?' They use the example of managers in an asphalt company defining its mission of making people's lives better by improving the quality of built structures.
- Clear vision and mission statements yield many *benefits*. They: (i) achieve clarity of purpose among all managers and employees; (ii) provide a basis for all other strategic planning activities (including internal and external analysis, establishing objectives, developing strategies, choosing among alternative strategies, devising policies, establishing organisational structure, allocating resources, and evaluating performance); (iii) provide organisational direction; (iv) provide a focal point for all organisational stakeholders; (v) resolve divergent views among managers; (vi) promote a sense of

shared expectations among all managers and employees; (vii) project a sense of worth and intent to all stakeholders; (viii) project an organised, motivated organisation worthy of support; (ix) achieve higher organisational performance; and (x) achieve synergy among all managers and employees.

❖ Product- oriented versus Customer-oriented Vision Statements

[Reference: Chapter 2 of David, F. R. (2011) *Strategic Management: Concepts and Cases*; 13th edition. Prentice Hall]

- The nature of communication of a business vision statement can represent either a competitive advantage or disadvantage for an organisation.
- *Product-oriented vision statements* define a business in terms of a good or service provided. For example, "We are in the software development business". They are not based upon the needs of customers, and are hence, myopic and not flexible.
- Strategic flexibility is a necessary condition for achieving competitive advantage. *Market-oriented or customer-oriented vision statements* allow firms to adapt to changing environments in terms of customer needs and preferences, technological developments, and societal expectations.
- For example, the product-oriented vision statement of Walt Disney Productions was: 'We run theme parks". Their market/customer-oriented vision statement is: "We make people happy by providing fantastic experiences and entertainment.
- A vision statement written from a customer perspective and included in both oral and written communication with customers can help attract and retain customers.

❖ Strategic and Social Entrepreneurship

[References: Chapter 7 of Rothaermel, F.T. (2015) *Strategic Management;* 2nd edition. McGraw Hill International Education]

- Entrepreneurship is the process by which *change agents undertake economic risk to innovate*—to create new products, processes, and sometimes, new organisations.

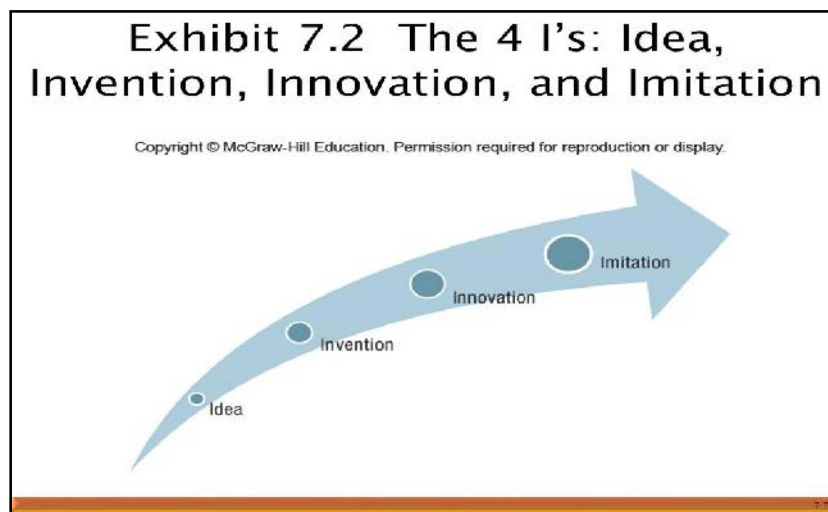
- Entrepreneurs innovate by *commercializing ideas and inventions*. They seek out or create new business opportunities, and then assemble the resources necessary to exploit them.
- Successful entrepreneurship *drives the competitive process* as well as *creates value* for the individual entrepreneurs and the society at large.
- *Strategic entrepreneurship* describes the pursuit of innovation using tools and concepts from strategic management. Innovation can be *leveraged for competitive advantage* by applying a strategic management lens to entrepreneurship. The fundamental question addressed by strategic entrepreneurship is how to combine entrepreneurial actions, creating new opportunities or exploiting existing ones, with strategic actions being taken in the pursuit of competitive advantage.
- *Social entrepreneurship* describes the pursuit of social goals by using entrepreneurship. Social entrepreneurs evaluate the performance of their ventures by ecological and social contribution, in addition to financial metrics. For this, they use a *triple-bottom-line approach* to performance management.

❖ Strategic Innovation—Process, Types and Relationship with Industry Life Cycle

[References: (1) Chapter 9 of Johnson, G., K. Scholes and Whittington, R. (2011) *Exploring Corporate Strategy: Text and Cases*; 9th edition. Pearson Prentice Hall
(2) Chapter 7 of Rothaermel, F.T. (2015) *Strategic Management;* 2nd edition. McGraw Hill International Education]

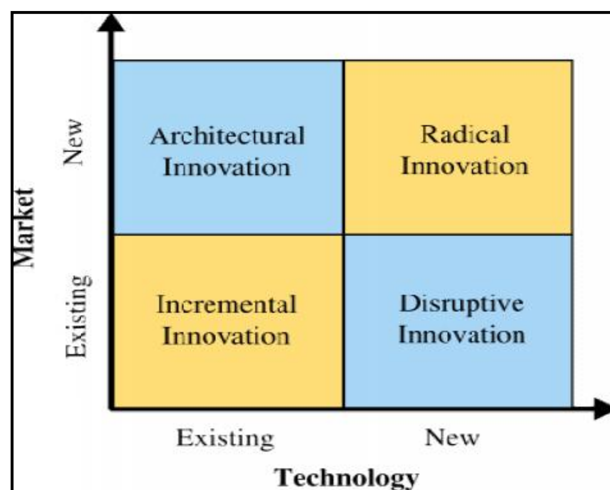
- Strategic innovation involves the conversion of new knowledge into a new product, process or service and subsequently, facilitation of the actual use of this new product, process or service.
- Strategists need to make choices about *four fundamental issues* with regard to innovation: (i) How far should we to follow technological opportunity as against market demand? (Technology push versus market pull) (ii) How much should we invest in product innovation rather than process innovation? (Product development focus versus process improvement focus) (iii) How far should we open up to innovative ideas from outside? (open-collaborative approach versus closed-internal resources approach) and (iv) Should we focus on technological innovation rather than extending innovation to the whole business model? (Technology-oriented or business model-oriented)
- According to the *technology-push view*, it is the new knowledge created by technologists or scientists that pushes the innovation process. R&D laboratories produce new products, processes or services, which are handed over to the rest of the organisation for manufacturing, marketing and distribution. Hence, managers have to invest in R&D budgets and depend upon their scientists and technologists for promoting innovation. The *market-pull view* of innovation goes beyond invention and sees the importance of actual use. This view was promoted by MIT professor Eric von Hippel, who found that in many sectors, users rather than producers are the common sources of important innovations. In designing their innovation strategies, managers should listen to users rather than their own scientists and technologists. Von Hippel clarifies that in many markets, lead-users (not ordinary users) are the source of innovation. For example, in medical surgery, top surgeons often adapt existing surgical instruments to carry out new types of operations.
- *Product innovation* relates to the final product (or service) that will be sold, especially with regard to its features. *Process innovation* relates to the way in which this product is produced and distributed, especially with regard to improvements in cost or reliability. The relative importance of product innovation and process innovation typically changes as industries evolve over time. Usually the earlier stages of an industry are dominated by product innovation based on new features. Industries eventually converge upon a dominant design, i.e., the standard configuration of basic features. Once a dominant design is established, innovation switches to process innovation, as competition shifts to producing the dominant design as efficiently as possible.

- The traditional *'closed' model approach* to innovation is secretive, inclined to protect intellectual property to avoid competitors free-riding on ideas, and relies on the organisation's own internal resources (laboratories and marketing departments). The *newer, widely accepted 'open model'* of innovation involves the deliberate import and export of knowledge by an organisation to accelerate and enhance its innovation through the exchange of ideas openly, and to produce better products more quickly than the closed internal approach. Speedier and superior products (not obsessive secrecy) are necessary to out-beat the competition.
- Many successful innovations do not rely simply upon new science or technology, but involve reorganising all the elements of a business into new combinations. Here innovators are creating *whole new business models*, bringing customers, producers and suppliers together in new ways, with or without new technologies. A business model describes how an organisation manages incomes and costs through the structural arrangement of its activities. Opportunities for business-model innovation can be analysed in terms of the value chain, value net or activity systems frameworks.



- The *innovation process* involves the *4-Is—Idea, Invention, Innovation and Imitation*. This is shown in the figure above. The process begins with an *idea* often presented as abstract concepts or findings derived from basic research conducted to discover new knowledge. This is followed by *invention*, which involves transformation of the idea into a new product or process, or the modification and recombination of existing ones. This often gives rise to new technology that is novel, useful and non-obvious, and therefore requires to be patented. A patent is a form of intellectual property that gives the inventor exclusive rights to benefit from commercializing a technology for a specified time period, in exchange for public disclosure of the underlying idea. The third stage involves *innovation*, which is concerned with the successful commercialization of any new product or process, or the modification and recombination of existing ones. Innovation can drive organisational growth only if it is useful and successfully implemented. Innovation is usually led by entrepreneurs, who are the agents that introduce change within a competitive system. Successful innovators can benefit from first-mover advantages such as critical patents, network effects, experience and learning curve effects as well as economies of scale. The innovation process ends with imitation. If an innovation is successful in the marketplace, competitors will try to imitate it.
- Four different types of innovation may be categorised by combining newness of markets and technologies in a 2x2 matrix, as shown above. Technology refers to the methods and materials used to achieve a commercial objective. The market where an innovation is introduced may be an existing market or a new one. Along the horizontal axis of the matrix, we observe whether an innovation builds on existing technologies or creates a new one. On the vertical axis, we observe whether the

innovation is targeted towards existing or new markets. Four types of innovation emerge—(1) *Incremental innovation* targets existing markets using existing technology; it builds upon an established knowledge base and steadily improves an existing product or service offering. (2) Radical innovation targets new markets using new technology; it draws upon novel methods or materials derived either from an entirely different knowledge base or from a recombination of existing knowledge bases with a new stream of knowledge. (3) *Architectural innovation* leverages existing technologies into new markets. This requires a reconfiguration of the components of a technology, i.e., the overall "architecture" of the product is altered. It results in a new product in which known components, based upon existing technologies, are reconfigured in a novel way to create new markets. (4) *Disruptive innovation* leverages new technologies to attack existing markets; it invades an existing market from the bottom up, e.g., laptops disrupted desktop computers, whereas smartphones and tablets have disrupted laptops.



- Innovations often lead to the birth of new industries. For example, advances in nanotechnology are revolutionizing industries such as medical diagnostics, surgery and airplane components. Industries tend to follow a *predictable industry life cycle* consisting of five distinct stages as they evolve—introduction, growth, shakeout, maturity and decline. Each stage of the life cycle has different strategic implications for competing firms. During each of these stages, the type of innovation changes, as also the manner in which innovation can initiate and drive a new life cycle.

	Introduction	**Growth**	**Shakeout**	**Maturity**	**Decline**
Strategic objective	Achieving market acceptance	Creating strong strategic position/ generating "deep pockets"	Surviving by drawing on "deep pockets"	Maintaining strong strategic position	Exit, harvest, maintain or consolidate
Market size	Small	Moderate	Large	Largest	Small to moderate
Number of competitors	Few, if any	Many	Fewer	Large	Few, if any
Types and level of innovation	Product innovation at a maximum; process innovation at a minimum	Product innovation decreasing; process innovation increasing	Product innovation decreasing rapidly; process innovation increasing rapidly	Product innovation low; process innovation high	Product innovation at a minimum; process innovation at a maximum

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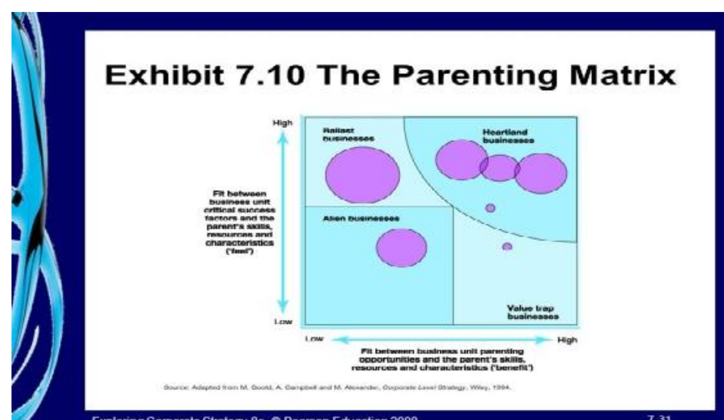
(M.Com. Evening Module 2—Units 6 and 7)

Unit 6 Corporate Level Strategy (in continuation of classes taken till 13th March, 2020)

(Dr. Amit Mazumdar)

❖ The Parenting Matrix

- The parenting matrix (or Ashridge Portfolio Display) developed by consultants Michael Goold and Andrew Campbell introduces parental fit as an important criterion for including businesses in the portfolio (1994). This matrix works with two dimensions- "Feel"- which denotes the fit between critical success factors and parent's skills, resources and characteristics of parent i.e. clear understanding of the parent on the types of business of business units which it is parenting and "Benefit"-which indicates match between business unit parenting opportunities and parent's skills and capabilities i.e. parents must have right capabilities to match parenting opportunities.
- The matrix shows four kinds of businesses-
- Heartland business units are ones which the parent understands well and can continue to add value to. They should be at the core of future strategy.
- Ballast business units are ones the parent understands well but can do little for. They would probably be at least as successful as independent companies. If not divested, they should be spared as much corporate bureaucracy as possible.
- Value-trap business units are dangerous. They appear attractive because there are opportunities to add value (for instance, marketing could be improved). But they are deceptively attractive; because the parent's lack of feel will result in more harm than good (i.e. the parent lacks the right marketing skills). The parent will need to acquire new capabilities if it is to be able to move value-trap businesses into the heartland. It might be easier to divest to another corporate parent which could add value, and will pay well for the chance.
- Alien business units are clear misfits. They offer little opportunity to add value and the parent does not understand them anyway. Exit is definitely the best strategy.

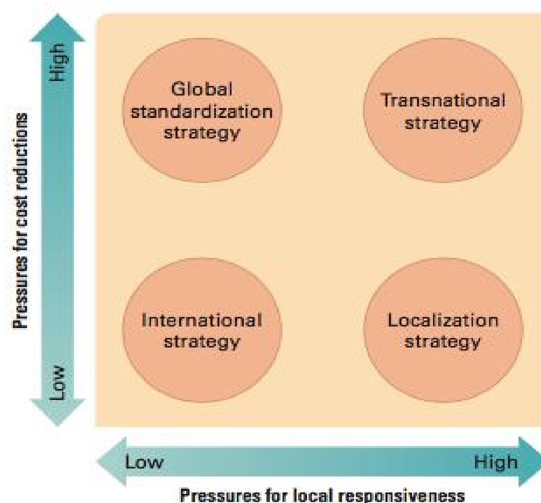


- <u>Retrenchment Strategies:-</u> This strategy is about withdrawal from marginal activities in order to concentrate on the most valuable segments and products within their existing business. This corporate strategy is used by the firm in declining markets to maintain market share as well as identify and focus on established strengths.
- <u>Corporate Restructuring:-</u> It is the process of reorganizing and divesting business units and exiting industries to refocus upon a company's core business and rebuild its distinctive competencies.

Restructuring is often required to correct the problems that result from (a) a business model that no longer creates competitive advantage, (b) the inability of investors to assess the competitive advantage of a highly diversified company from its financial statements, (c) excessive diversification because top managers desire to pursue empire building that results in growth without profitability, and (d) innovations in strategic management such as strategic alliances and outsourcing that reduce the advantages of vertical integration and diversification.

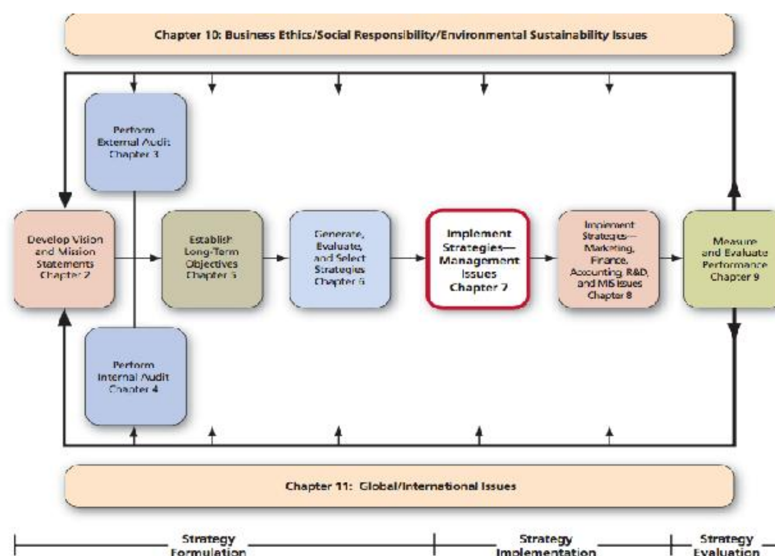
- Strategic Outsourcing:- It is the decision to allow one or more of a company's value-chain activities or functions to be performed by independent specialist companies that focus all their skills and knowledge on just one kind of activity. The activity to be outsourced may encompass an entire function, such as the manufacturing function, or it may be just one kind of activity that a function performs. There has been a clear move among many companies to outsource activities that managers regard as being "noncore" or "nonstrategic," meaning they are not a source of a company's distinctive competencies and competitive advantage.
- Benefits of Strategic Outsourcing:- a) lower cost structure by getting the works done at low cost by specialists through outsourcing compared to enhanced costs to manufacture it at home, b)Enhanced differentiation by outsourcing certain noncore activities to specialists, c) Focus on core business by channelizing energies and their company's resources on performing those core activities that have the most potential to create value and competitive advantage.
- Risks of Strategic Outsourcing:- a)Holdup refers to the risk that a company will be- come too dependent upon the specialist provider of an outsourced activity and that the specialist will use this fact to raise prices beyond some previously agreed-upon rate, b)Increased competition, c) loss of information and forfeited learning opportunities.

- Integration-Responsiveness Framework and Strategic Positioning under Globalisation- Companies that compete in the global marketplace typically face two types of conflicting competitive pressures: pressures for cost reductions and pressures to be locally responsiveness. Responding to pressures for cost reductions requires that a company attempt to minimize its unit costs. To attain this goal, it may have to base its productive activities at the most favorable low-cost location, wherever in the world that might be. It may also need to offer a standardized product to the global marketplace in order to realize the cost savings that come from economies of scale and learning effects. On the other hand, responding to pressures to be locally responsive requires that a company differentiate its product offering and marketing strategy from country to country in an effort to accommodate the diverse demands arising from national differences in consumer tastes and preferences, business practices, distribution channels, competitive conditions, and government policies. Because differentiation across countries can involve significant duplication and a lack of product standardization, it may raise costs.
- Global Strategic Positioning:- Based on challenges of pressure for cost reductions and local responsiveness we may have four different generic global strategies:- a) International strategy, b) Localization strategy c) Global standardisation strategy and e) Transnational strategy.



Source: Strategic Management-Theory, Hill, C.W.L., Jones, G.R. and Schilling, M.A. (2015), Cengage,11e, p. 262

- a) International Strategy:- This nascent strategy is being followed by the firms being confronted with low cost pressures and low pressures for local responsiveness.
- b) Localisation Strategy:- It focuses on increasing profitability by customizing the company's goods or services so that the goods provide a favorable match to tastes and preferences in different national markets. Localization is most appropriate when there are substantial differences across nations with regard to consumer tastes and preferences, and where cost pressures are not too intense. By customizing the product offering to local demands, the company increases the value of that product in the local market.
- c) Global Standardization Strategy:- This strategy focuses on increasing profitability by reaping the cost reductions that come from economies of scale and location economies; that is, their business model is based on pursuing a low-cost strategy on a global scale. The production, marketing, and research and development (R&D) activities of companies pursuing a global strategy are concentrated in a few favorable locations. This strategy makes most sense when there are strong pressures for cost reductions and demand for local responsiveness is minimal.
- d) Transnational Strategy:- This strategy tries to develop a a business model that simultaneously achieves low costs, differentiates the product offering across geographic markets, and fosters a flow of skills between different subsidiaries in the company's global network of operations. Christopher Bartlett and Sumantra Ghoshal, argue that in today's global environment, competitive conditions are so intense that, to survive, companies must do all they can to respond to pressures for both cost reductions and local responsiveness. They must try to realize location economies and economies of scale from global volume, transfer distinctive competencies and skills within the company, and simultaneously pay attention to pressures for local responsiveness.
- Strategy Implementation:-The Nature of Strategy Implementation



Source: Fred R. David, "How Companies Define Their Mission," Long Range Planning 22, no. 3 (June 1988): 40.

- Interrelationship of Strategic Implementation with Strategic Formulation

Strategy Formulation	Strategy Implementation
1.Strategy formulation is positioning forces before the action	1. Strategy implementation is managing forces during the action.
2. Strategy formulation focuses on effectiveness.	2. Strategy implementation focuses on efficiency.
3. Strategy formulation is primarily an intellectual process.	3. Strategy implementation is primarily an operational process.
4. Strategy formulation requires good intuitive and analytical skills.	4. Strategy implementation requires special motivation and leadership skills.
5. Strategy formulation requires coordination among a few individuals.	5. Strategy formulation requires coordination among a few individuals.
6. Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or nonprofit organizations.	6. Strategy implementation varies substantially among different types and sizes of organizations.

- Key Management Issues Central to Strategy Implementation:-

I. Establish annual objectives:- Annual objectives are essential for strategy implementation because they (1) represent the basis for allocating resources; (2) are a primary mechanism for evaluating managers; (3) are the major instrument for monitoring progress toward achieving long-term objectives; and (4) establish organizational, divisional, and departmental priori- ties. Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented.

II. Devise policies:- Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives.

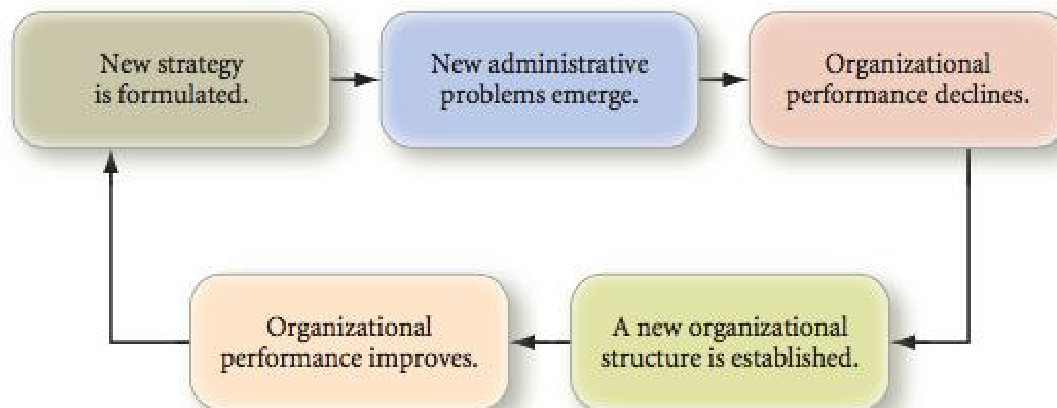
III. Allocate resources:- Resource allocation is a central management activity that allows for strategy execution. Strategic management enables resources to be allocated according to priorities established by annual objectives. All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.

IV. Managing Conflict:- Establishing objectives can lead to conflict because managers and strategists must make trade-offs, such as whether to emphasize short-term profits or long-term growth, profit

margin or market share, market penetration or market development, growth or stability, high risk or low risk, and social responsiveness or profit maximization. Trade-offs are necessary because no firm has sufficient resources pursue all strategies to would benefit the firm. Managing and resolving conflict can be classified into three categories: avoidance (ignoring the problem in hopes that the conflict will resolve itself), defusion (playing down differences between conflicting parties while accentuating similarities and common interests, compromising so that there is neither a clear winner nor loser, resorting to majority rule, appealing to a higher authority, or redesigning present positions), and confrontation (exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view).

V. Matching Structure with Strategy:- Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. Chandler found a particular structure sequence to be repeated often as organizations grow and change strategy over time.

Chandler's Strategy-Structure Relationship



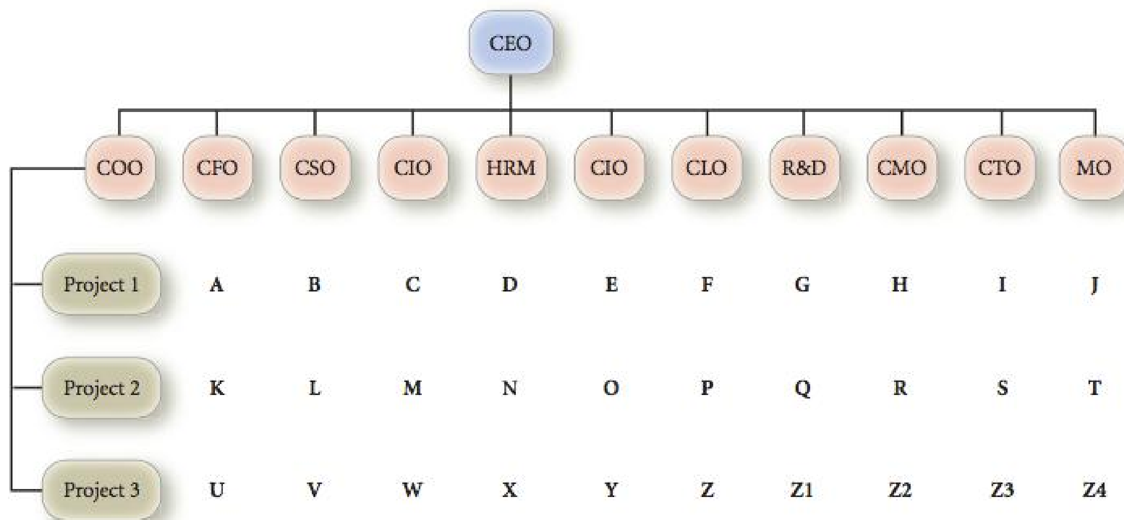
Source: Adapted from Alfred Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962).

There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm. Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. Generally there are seven basic types of organizational structure: a) functional (based on business functions like production, finance, marketing, HR, R&D etc), b) divisional by geographic area, c) divisional by product, d) divisional by customer, e) divisional by process, f) strategic business unit (SBU) (grouping of similar divisions into SBUs and delegating authority and responsibility for each unit to a senior executive who reports directly to the CEO thereby facilitating strategy implementation by improving coordination between similar divisions and channeling accountability to distinct SBUs) and g) Matrix Structure (focussing upon both vertical and horizontal flows of authority and communication).

Source: Strategic Management-Concepts and Cases, David, F. R. (2011),13e, p. 228

VI. Alter an existing organizational structure Restructure and Reengineer:- Restructuring—also called

An Example Matrix Structure



Notes: Titles spelled out as follows.

Chief Executive Officer (CEO)
Chief Finance Officer (CFO)
Chief Strategy Officer (CSO)
Chief Information Officer (CIO)
Human Resources Manager (HRM)
Chief Operating Officer (COO)
Chief Legal Officer (CLO)
Research & Development Officer (R&D)
Chief Marketing Officer (CMO)
Chief Technology Officer (CTO)
Competitive Intelligence Officer (CIO)
Maintenance Officer (MO)

downsizing, rightsizing, or delayering—involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure. This reduction in size is intended to improve both efficiency and effectiveness. Restructuring is concerned primarily with shareholder well-being rather than employee well-being. In contrast, reengineering is concerned more with employee and customer well-being than shareholder well-being. Reengineering—also called process management, process innovation, or process redesign—involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed with the help of advancement of technology. Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs. Whereas restructuring is concerned with eliminating or establishing, shrinking or enlarging, and moving organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out to rationalise the expenditure.

VII. Linking Performance and Pays to Strategies (through profit sharing, gain sharing, bonus systems, Employee Stock Ownership Scheme or ESOPs or Sweat Equity)

VIII. Minimize resistance to change:- by using strategies like a) force change strategy by giving orders and enforcing those orders, b) educative change strategy by presenting information to convince people of the need for change and c) rational or self-interest change strategy by convincing individuals that the change is to their personal advantage.

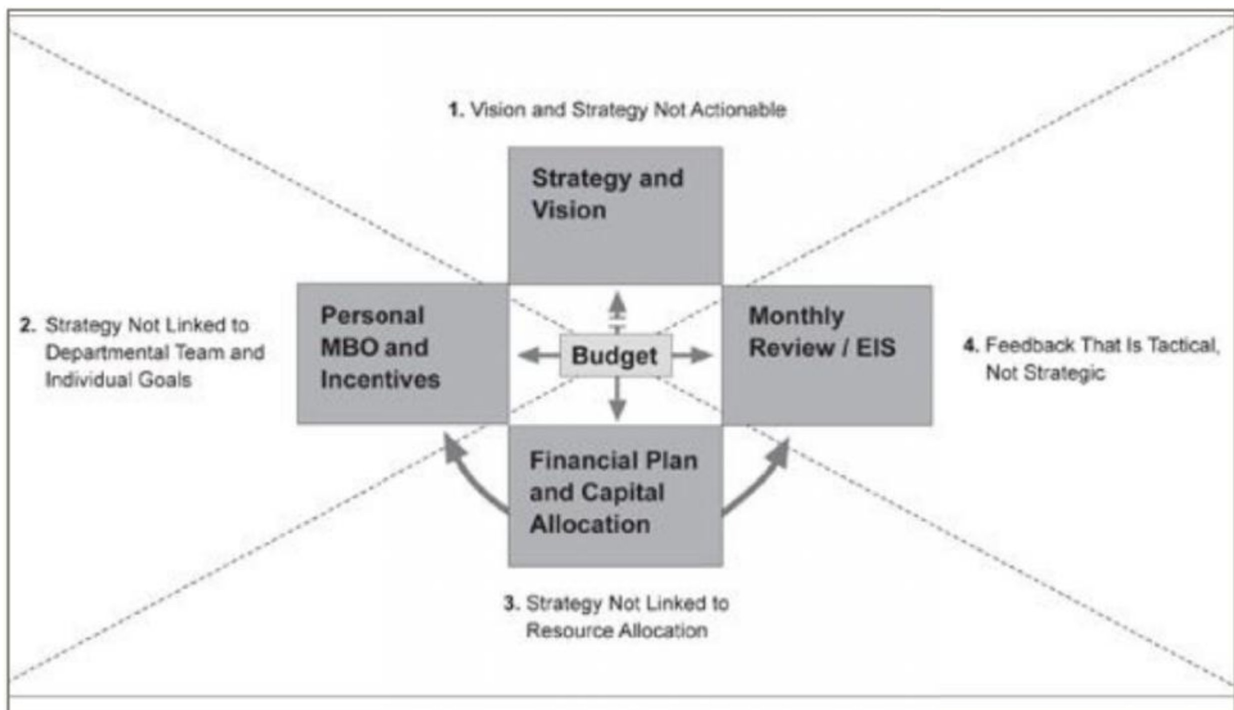
IX. Creating a Strategy-Supportive Culture:- by preserving , emphasizing, and building upon aspects of an existing culture that support proposed new strategies. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer, promotion, restructure of an organization's design, role modelling, positive reinforcement, and mentoring.

X. Adapt production/ operations processes:-Production-related decisions on plant size, plant location, product design, choice of equipment, kind of tooling, size of inventory, inventory control, quality control, cost control, use of standards, job specialization, employee training, equipment and resource utilization, shipping and packaging, and technological innovation can have a dramatic impact on the success or failure of strategy-implementation efforts. A common management practice, cross-training of employees, can facilitate strategy implementation and can yield many benefits. Employees gain a better understanding of the whole business and can contribute better ideas in planning sessions.

XI. Develop an effective human resources function Downsize and furlough as needed:- *Furloughs* are temporary layoffs for both white collar and blue collar employees to cut costs as an alternative to laying off employees. Strategic responsibilities of the human resource manager include assessing the staffing needs and costs for alternative strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. HR Mangers should also be concerned about issues like linking pay of the employees with performance like ESOPs, organising corporate wellness program, balancing work life and home life, encouraging diversity in workforce in general and gender diversity in particular.

- **Barriers to Strategic Implementation**:- Kaplan and Norton (1996) had identified four barriers to Strategic Implementation.

Source: The Balance Scorecard: Translating Strategy into Action, Kaplan, R.S. and Norton D.P. (1996),



HBU, p. 259

1. **Visions and Strategies that are not actionable**:-This barrier occurs when organization can not translate its vision and strategy into terms that can be understood and acted upon. Where fundamental disagreement exists about how to translate the lofty vision and mission statements into actions, the consequence is fragmentation and suboptimization of efforts. The CEO and the senior executive team have failed to gain consensus among themselves about what their vision and strategy

really mean. Lacking consensus and clarity, different groups pursue different agendas- quality, continuous improvement, reengineering, empowerment-according to their own interpretations of vision and strategy. Their efforts are neither integrated nor cumulative since they are not linked coherently to an overall strategy.

2. **Strategies that are not linked to departmental, team and individual goals**:-This barrier arises when the long-term requirements of the business unit's strategy are not translated into goals for departments, teams, and individuals. Instead, departmental performance remains focused on meeting the financial budgets established as part of the traditional management control process. And teams and individuals within departments have their goals linked to achieving departmental short-term and tactical goals, to the exclusion of building capabilities that will enable longer-term strategic goals to be achieved. This barrier can perhaps be attributed to the failure of human resource managers to facilitate the alignment of individual and team goals to oval organizational objectives.
3. **Strategies that are not linked to long-term and short-term resource allocation**:-This barrier arises due to the failure to link action programs and resource allocation to long-term strategic priorities. Many organizations used to maintain separate processes for long-term strategic planning and for short-term annual) budgeting. The consequence is that discretionary funding and capital allocations are often unrelated to strategic priorities. Major initiatives like reengineering are undertaken with little sense of priority or strategic impact, and monthly and quarterly reviews focus on explaining deviations between actual and budgeted operations, not on whether progress is being made on strategic objectives. The failure can be jointly attributed to both manager assigned for strategic planning as well as finance head for not seeing how their efforts need to be integrated, not pursued as separate, functional agendas.
4. **Feedback that is tactical, not strategic**:-The final barrier to strategic implementation is the lack of feedback on how the strategy is being implemented and whether it is working. Most management system used to provide feedback only about short-term, operational performance, and the bulk of this feedback is on financial measures, usually comparing actual results to monthly and quarterly budgets. Little or no time is spent examining indicators of strategy implementation and success. This will result in the organizations have no way of getting feedback on their strategy. And without feedback they have no way to test and learn about their strategy.

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(M.Com. Day Module 2 Unit 7)

STRATEGY IMPLEMENTATION

(Dr. Anupam Karmakar)

MEANING OF STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives.
Implementation of strategy is the process through which a chosen strategy is put into action. The process of strategy implementation is a complicated one that encompasses a number of issues that should be carefully considered by strategists. It involves the design and management of systems to achieve the best integration of people, structure, processes and resources in achieving organizational objectives. Implementation of Strategy affects an organization from top to bottom; it affects all the functional and divisional areas of business. So strategy implementation is the managerial practice of putting a formulated strategy into place.

STRATEGY IMPLEMENTATION AND STRATEGY FORMULATION

The relationship between the strategy implementation and strategy formulation is discussed below:

➢ **STRATEGY FORMULATION**

- Strategy Formulation involves developing organization's strategic goals and plans.
- Strategy Formulation emphasizes on effectiveness.
- Strategy Formulation requires a great deal of initiative and logical skills.
- Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.
- Strategic Formulation precedes Strategy Implementation.
- Strategy Formulation requires co-ordination among few individuals.
- Strategy Formulation is a rational process.

➢ **STRATEGY IMPLEMENTATION**

- Strategy Implementation is basically an operational process.
- Strategy Implementation involves all those means related to executing the strategic plans.
- Strategy Implementation requires co-ordination among many individuals.
- Strategy Implementation is managing forces during the action.
- Strategic Implementation is mainly an Administrative Task based on strategic and operational decisions.
- Strategy Implementation emphasizes on efficiency.

BASICS OF DESIGNING STRUCTURE

Two basic aspects which require the attention of a strategist while designing the structure is: Differentiation and Integration

- Differentiation: It means the way in which a company allocated people and resources to organizational tasks in order to create value. Differentiation is of two types:

(i)Vertical Differentiation is the way in which decision-making authority gets distributed at functional/divisional level towards value creation activity.

(ii)In Horizontal Differentiation management pays attention to division of tasks into functions and divisions to increase their ability to create value.

- Integration: In order to promote coordination between functions and divisions, integration and control systems are established. Integration is the means by which a firm tries to coordinate people and functions to accomplish organizational tasks.

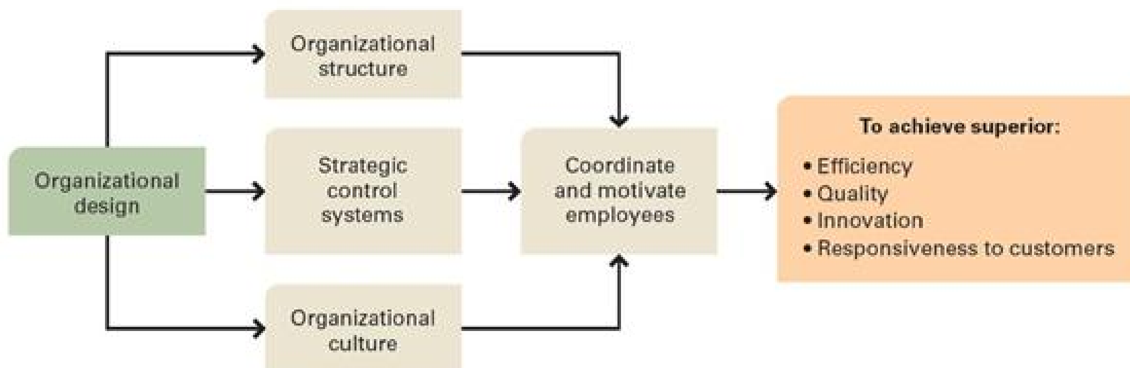
BARRIERS TO STRATEGY IMPLEMENTATION

There are different reasons for the failure of a strategy. They are as follows:

1. Weak Strategy;
2. Ineffective training;
3. Lack of resources;
4. Lack of communication;
5. Lack of follow through
6. Poorly implemented strategy;
7. External Inputs Barrier: Sometimes an input from outside the organization has a negative impact on the execution of a strategy or a difficulty that reduces positive effects of external inputs.
8. External Process Barrier: It may happen that inter-organizational processes may be disrupted due to an external issue.
9. Resistance to change;
10. Leadership;
11. Organizational structure;
12. Information systems and technology or external factors;
13. Changes to the operating environment;
14. Un-anticipated competition or entrants by new players in the industry and
15. Changes in government policies.

IMPLEMENTING STRATEGY THROUGH ORGANIZATIONAL DESIGN

Strategy is required to be oriented as per organizational design. Designing a good organization structure is hard and time consuming because it involves matching the structure of the organization to their strategies.



Source:https://slideplayer.com/slide/13633417/83/images/5/Implementing+Strategy+through+Organizational+Design.jpg

STRATEGY-CULTURE RELATIONSHIP

The importance of corporate culture is to be considered in the implementation of strategy. The correct relationship between corporate cultural values and beliefs and organizational strategy enhances organizational performance. The fit between culture and strategy is associated with four categories of culture. They are adaptability, mission, involvement and consistency. The adaptability culture is characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages norms and beliefs that support the capacity of the organization to detect, interpret and translates signals from the external and internal environment into new behaviour responses. There are five stages involved in creating an organizational culture which is fully harmonized with the strategic plan.

Step 1: The first step is to diagnose which facets of the present culture are in line with strategy and which are not.
Step 2: In this step organization tries to make the required changes in the culture in different ways and recognize the time required to make such changes in the culture.
Step 3: Now the available opportunities are properly used to make incremental changes that improve the alignment of culture and strategy.
Step 4: In this step subordinate managers take actions of their own to set an example and to do things which will further instill organizational values and reinforce culture.
Step 5: This the final step where emotional commitment of the managers and employees are nurtured proactively in order to produce a temperamental fit between culture and overall strategic plan.

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