UNIT-1

STRATEGIC MANAGEMENT

Strategic management is nothing but planning for both predictable as well as unachievable contingencies. Strategic management is relevant to both small as well as large businesses as even the smallest business face competition and, by formulating and implementing proper strategies, they can achieve sustainable competitive advantage.

- STRATEGY - an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage
- STRATEGIC COMPETITIVENESS - achieved when a firm successfully formulates and implements a value-creating strategy
- COMPETITIVE ADVANTAGE - when a firm implements a strategy that creates superior value for customers; competitors are unable to duplicate it or find too costly to imitate it .
- RISK - an investor's uncertainty about the economic gains or losses that will result from a particular investment

● ABOVE-AVERAGE RETURNS - returns in excess of what an investor expects to earn from other investments with a similar amount of risk .AVERAGE RETURNS - returns equal to those an investor expects to earn from other investments with a similar amount of risk

THE COMPETITIVE LANDSCAPE

Competitive landscape is a business analysis which identifies direct or indirect competitors and at the same time, it permits the comprehension of their mission, vision, core values, niche market, strengths and weaknesses.

TWO DRIVERS

1. GLOBALIZATION 2.TECHNOLOGY

GLOBALIZATION

- Goods, services, people, skills, and ideas move freely across geographic borders
- New opportunities and challenges emerge
- Competitive environments are broader and increasingly more complex

- Globalization is increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial capital, and knowledge across country borders. Globalization is the product of a large number of firms competing against one another in an increasing number of global economies Highly globalized firms must anticipate ever-increasing complexities in their operations as goods, services, people, etc. move freely across geographic borders

TECHNOLOGY AND TECHNOLOGICAL CHANGES

Technology is significantly altering the nature of competition and enabling unstable competitive environment

Technology Diffusion & Disruptive Technologies

The speed at which new technologies become available and are used; has increased substantially over the past 15 to 20 year

Eg: Telephone — 35 years
TV — 26 years
Radio — 22 years
PCs — 16 years
Internet — 7 years

■ Perpetual Innovation - describes how rapidly and consistently new, information-intensive technologies replace older ones

■ Competitive Premium - the shorter product life cycles resulting from rapid diffusions of new technologies place a competitive premium on being able to quickly introduce new, innovative goods and services

■ Rapid Technology Diffusion - now may take only 12 to 18 months for firms to gather information about research and development and product decisions for their competitors

■ Disruptive Technologies - technologies that destroy the value of an existing technology and create new markets, many times representing radical or breakthrough innovation

■ Examples: iPods, iPads, WiFi, and the browser

Information Age

■ Dramatic Changes - in information technology have occurred in recent years, e.g., personal computers, cellular phones, artificial intelligence, virtual reality, massive databases, and multiple social networking sites

Increasing Knowledge Intensity

■Knowledge - information, intelligence, and expertise are the basis of technology and its application

■ Knowledge Spillovers - knowledge falls into competitor's hands, e.g., hiring of professional staff/managers by competitors

■ Knowledge Diffusion - because of the potential for spillovers, firms must act quickly to use their knowledge in productive ways

TWO MODELS OF STRATEGIC DECISION MAKING

Firms use two major models to help develop their vision and mission and then choose one or more strategies in pursuit of strategic competitiveness and above-average returns.

1. **THE I/O MODEL OF ABOVE-AVERAGE RETURNS**
2. **THE RESOURCE-BASED MODEL OF ABOVE-AVERAGE RETURNS**

THE I/O MODEL OF ABOVE-AVERAGE RETURNS

Four Underlying Assumptions

First, the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns.

Second, most firms competing within an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources

Third, resources used to implement strategies are assumed to be highly mobile across firms, so any resource differences that might develop between firms will be short-lived.

Fourth, organizational decision-makers are assumed to be rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behavior

FIRMS CAN EARN ABOVE-AVERAGE RETURNS:

● Cost Leadership Strategy – producing standardized goods or services at costs below those of competitors

● Differentiation Strategy - producing differentiated goods or services for which customers are willing to pay a price premium.

The I/O model suggests that above-average returns are earned when firms are able to effectively study the external environment as the foundation for identifying an attractive industry and implementing the appropriate strategy.

THE RESOURCE-BASED MODEL OF ABOVE-AVERAGE RETURNS

The resource-based model assumes that each organization is a collection of unique resources and capabilities.

The uniqueness of its resources and capabilities is the basis of a firm's strategy and its ability to earn above-average returns.

The core assumption of the resource-based model is that the firm's unique resources, capabilities, and core competencies have more influence on selecting and using strategies than does the firm's external environment.

There are FOUR components to the Resource- Based Model:

1. **Resources**

- Resources are inputs into a firm's production process, such as capital equipment, the skills of individual employees, patents, finances, and talented managers.
- A firm's resources are either tangible or intangible and are classified into three categories: physical, human, and organizational capital.

2. **Capabilities**

- A capability is the capacity for a set of resources to perform a task or an activity in an integrative manner.

3. **Core Competencies**

- Core competencies are resources and capabilities that serve as a source of competitive advantage.

4. **Competitive Advantage**

There are FOUR criteria that if resources and capabilities fulfill, then they become Core Competencies:

● Valuable: They are valuable when they allow a firm to take advantage of opportunities or neutralize threats.

● Rare: They are rare when possessed by few, if any, current and potential competitors

● Costly to Imitate: Resources are costly to imitate when other firms cannot obtain them or are at a cost disadvantage.

● Non substitutable: They are non substitutable when they have no structural equivalents.

Four Underlying Assumptions

- First, differences in firms' performances across time are due primarily to their unique resources and capabilities rather than the industry's structural characteristics.
- Second, firms acquire different resources and develop unique capabilities based on how they combine and use the resources.
- Third, that resources and capabilities are NOT highly mobile across firms.
- Fourth, that the differences in resources and capabilities are the basis of competitive advantages.

Above-average returns are earned when the firm uses its valuable, rare, costly-to-imitate, and non- substitutable resources and capabilities to compete against its rivals in one or more industries.

STRATEGIC LEADERS

Strategic leaders are people located in different areas and levels of the firm using the strategic management process to select strategic actions that help the firm achieve its vision and fulfill its mission.

Successful strategic leaders are decisive, committed to nurturing those around them, and are committed to helping the firm create value for all stakeholder groups.

Increasingly, CEOs delegate strategic responsibilities to include decision-makers closest to the action due to the changing competitive landscape

STRATEGIC LEADERS AND ORGANIZATIONAL CULTURE

Visionary Strategic Leaders emphasize not only maximizing shareholder wealth, but maximizing the interests of all stakeholders, underscoring a civic and personal commitment to corporate citizenship.

Organizational culture affects strategic leaders and their work. In turn, strategic leaders' decisions and actions shape a firm's culture.

- Organizational culture is the social energy that drives—or fails to drive—the organization, the ideologies, symbols, and shared core values.

SUCCESSFUL STRATEGIC LEADERSHIP CHARACTERISTICS

- Hard working

Embraces dynamic competitive landscape
Brutally honest
Tenacious
Penchant for wanting the firm and its people to accomplish more
Strong strategic orientation
Innovative thinker
Exploratory learning of new and unique forms of knowledge
Exploitative learning, which adds incremental knowledge to existing knowledge bases
Global mindset
Dreams that challenges and energizes a company, i.e., vision

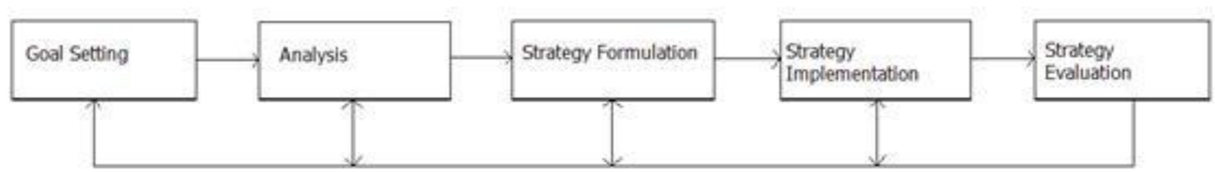
STRATEGIC MANAGEMENT PROCESS

Strategic Management Process is defined as the method through which an organization defines its strategy. It is a continuous process in which the business or organization decides to implement a selected few strategies, specifics the implementation plan and keeps on appraising the progress and success of implementation through consistent assessment.

The strategic management process has five stage as shown in the figure below.

1.Goal Setting:

The vision and goals of the any organization are clearly specified. The short-term and long-term



goals are defined, processes to accomplish the objectives are identified and current staff is evaluated to select capable people to work on the processes.

2. Analysis:
Data relevant to achieve the goals of the organization is collected, potential internal and external factors that can disturb the sustainable growth of the organization are observed and SWOT analysis is also performed.

3.Strategy Formulation:
When the analysis is done, the organization moves to the Strategy Formulation step where the plan to acquire the essential resources is designed, prioritization of the issues facing the business is done and lastly the strategy is formulated accordingly.

4. Strategy Implementation:

Afterwards formulation of the strategy, the employees of the business or organization are clearly made aware of their roles and responsibilities. It is confirmed that funds would be available all the time. Then the implementation initiates.

5.Strategy Evaluation:
In this process, the strategies being implemented are assessed regularly to check whether they are on track and are providing the desired outcomes. In case of deviations, the corrective actions are taken.

As shown in the above figure, the 5 stages are not stand-alone and always interact with each

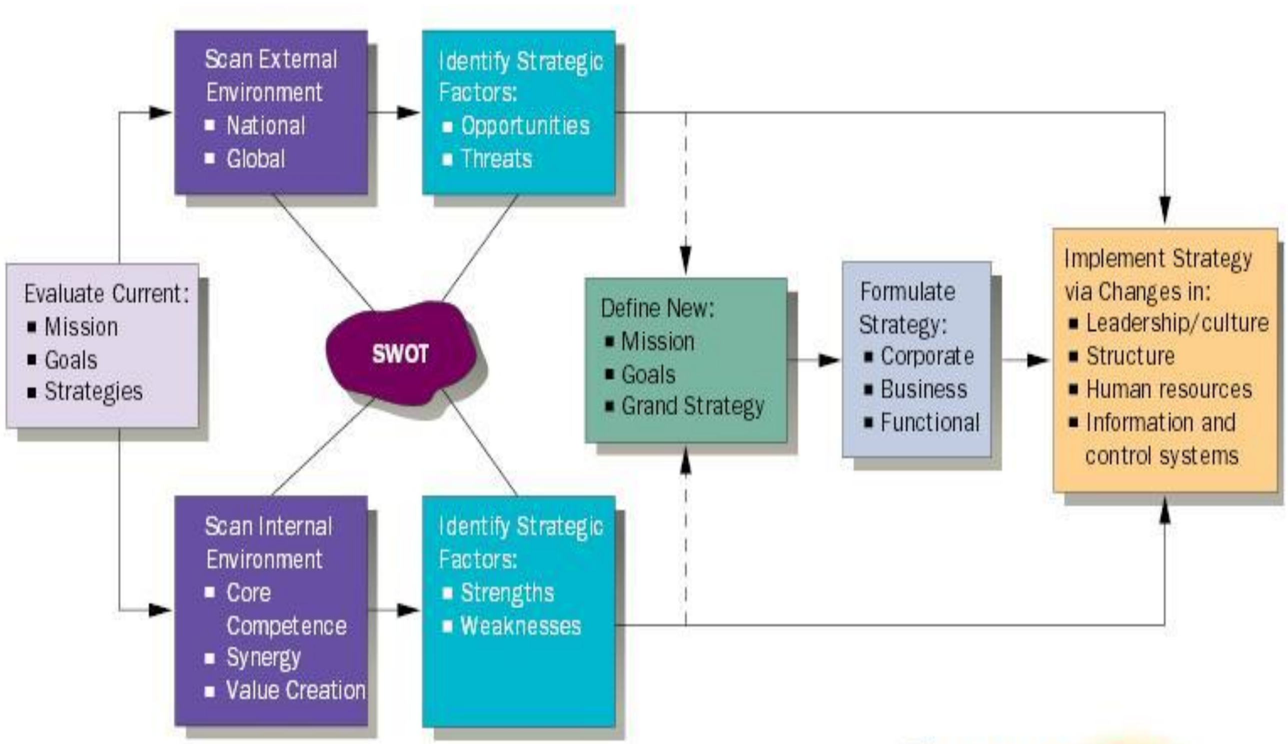


EXHIBIT 5.8

The Strategic Management Process

● General Environment

Dimensions in the broader society that influence an industry and the firms within it

● Industry Environment

Set of factors that directly influences a firm and its competitive actions and response

● Competitor Environment

Focuses on each company against which a firm directly competes

The General Environment is grouped into seven environmental segments:

[1] Demographic

[2] Economic

[3] Political/Legal

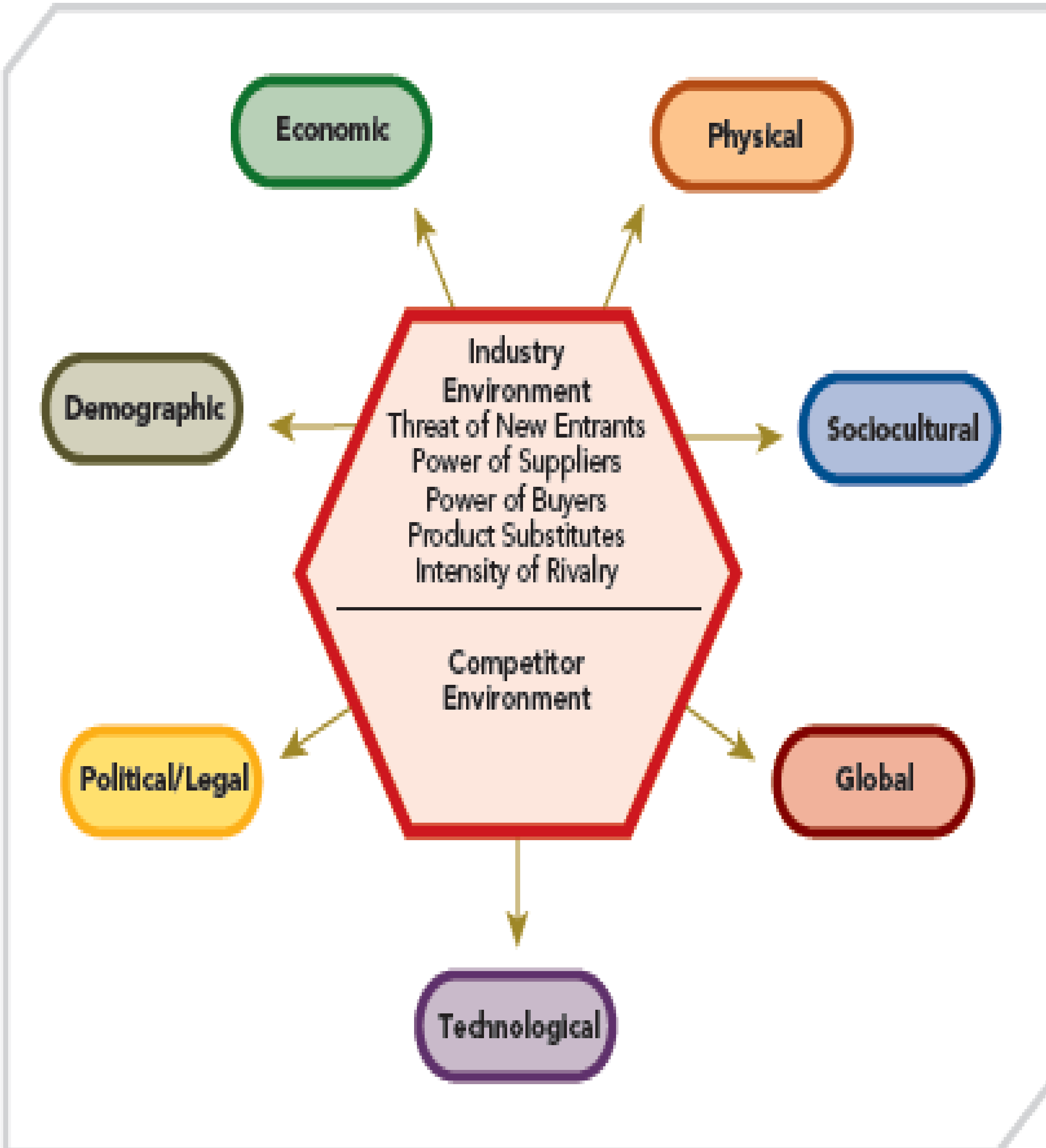
[4] Socio cultural

[5] Technological

[6] Global

[7] Physical

Figure 2.1 The External Environment



DEMOGRAPHIC SEGMENTS

These are commonly analyzed on a global basis because of their potential effects across countries' borders and because many firms compete in global markets.

Demographic Segment

- Population size
- Age structure
- Geographic distribution
- Ethnic mix
- Income distribution
-

THE ECONOMIC SEGMENT

- This segment refers to the nature and direction of the economy in which a firm competes or may compete. Firms generally seek to compete in relatively stable economies with strong growth potential.

Economic Segment

- Inflation rates
- Interest rates
- Trade deficits or surpluses
- Budget deficits or surpluses
- Personal savings rate
- Business savings rates
- Gross domestic product

THE POLITICAL/LEGAL SEGMENT

This segment represents how organizations and governments mutually try to influence each other, and how firms try to understand these influences (current and projected) on their strategic actions.

Political/Legal Segment

- Antitrust laws
- Taxation laws
- Deregulation philosophies
- Labor training laws
- Educational philosophies and policies

THE SOCIOCULTURAL SEGMENT

The socio cultural segment is concerned with a society's attitudes and cultural values. Because attitudes and values form the cornerstone of a society, they often drive demographic, economic, political/legal, and technological conditions and changes.

Socio cultural Segment

- Women in the workforce
- Workforce
- Diversity attitudes about the quality of work life
- Shifts in work and career preferences
- Shifts in product and service preference characteristics
- THE TECHNOLOGICAL SEGMENT

TECHNOLOGICAL

Changes occur through new products, processes, and materials. The technological segment includes the activities involved in creating new knowledge and translating that knowledge into new outputs, products, processes, and materials. Given the rapid pace of technological change and risk of disruption, it is vital for firms to study this segment.

Technological Segment

- Product innovations
- New communication technologies
- Applications of knowledge
- Focus of private and government-supported R&D expenditures

THE GLOBAL SEGMENT

Markets and consumers are more global. This segment includes relevant new global markets, existing markets that are changing, important international political events, and critical cultural and institutional characteristics of global markets.

Global Segment

- Important political events
- Critical global markets
- Newly industrialized countries

Different cultural and institutional attributes

THE PHYSICAL ENVIRONMENT SEGMENT

Concerned with trends oriented to sustaining the world's physical environment, firms recognize that ecological, social, and economic systems interactively influence what happens in this particular segment. This segment refers to potential and actual changes in the physical environment and business practices that are intended to positively respond to and deal with those changes.

Physical Environment Segment

- Energy consumption
- Practices used to develop energy sources
- Renewable energy efforts
- Minimizing a firm's environmental footprint
- Availability of water as a resource
- Producing environmentally friendly products
- Reacting to natural or man-made disasters.

External environments are:

- Turbulent
- Complex
- Global
- Uncertain

- Ambiguous
- Incomplete

Firms engage in external environmental analysis to better understand and cope with their environments.
This analysis has four parts:

1. **Scanning**: Scanning: the study of all segments in the general environment; through scanning, firms identify early signals of potential changes in the general environment and detect changes that are already underway
2. **Monitoring**: analysts observe meaningful environmental changes to see if an important trend is emerging from among those spotted through scanning
3. **Forecasting**: feasibility projections developed for what might happen, and how quickly, as a result of the changes and trends detected through scanning and monitoring, both of which focus on events at a point in time
4. **Assessing:** determining the timing and significance of the effects of environmental trends that have been identified; specifying the implications of the understanding gathered in the previous stages

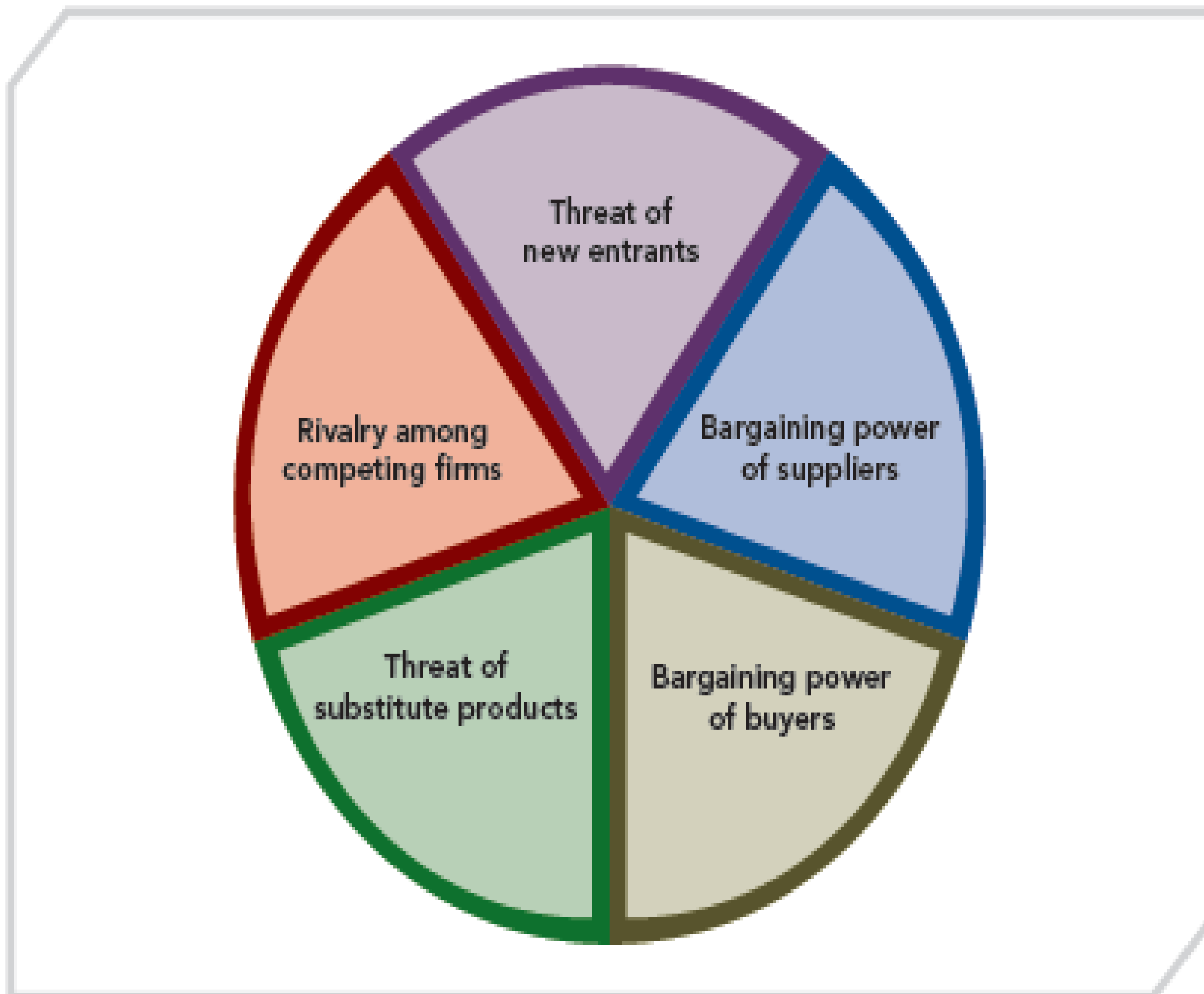
Firms use several sources to analyze the general environment:

- ☞ trade publications
- ☞ newspapers
- ☞ business publications
- ☞ academic research
- ☞ public polls
- ☞ trade shows
- ☞ suppliers
- ☞ customers
- ☞ employees

INDUSTRY ENVIRONMENT ANALYSIS

THE FIVE FORCES OF COMPETITION MODEL (PORTER'S)

Figure 2.2 The Five Forces of Competition Model



● The five forces model of competition expands the arena for competitive analysis. Historically, firms concentrated only on direct competitors.
● Today, firms must study many industries, as competitors are defined more broadly. For example, the communications industry now encompasses media companies, telecoms, entertainment companies, and smartphone producers.

1.THREAT OF NEW ENTRANTS

● Can threaten market share of existing competitors
● May stimulate additional production capacity

● New competitors may force existing firms to be more efficient and to learn how to compete on new dimensions
● Entry barriers make it difficult for new firms to enter an industry and often place them at a competitive disadvantage even when they are able to enter

Barriers to entry
● Economies of scale
● Product differentiation
● Capital requirements
● Switching costs
● Access to distribution channels
● Cost disadvantages independent of scale
● Government policy

2.BARGAINING POWER OF SUPPLIERS

Supplier power increases when:
● Suppliers are large and few in number
● Suitable substitute products are not available
● Industry firms are not a significant customer for the suppliers
● Suppliers' goods are critical to buyers' marketplace success
● Suppliers' products create high switching costs
● Suppliers have substantial resources and provide a highly differentiated product
● Suppliers pose a credible threat to integrate forward into the buyers' industry

3.BARGAINING POWER OF BUYERS

Buyer power increases when:
● Buyers purchase a large portion of an industry's total output
● Buyers' purchases are a significant portion of a seller's annual revenues
● Switching costs are low (to other industry product)
● The industry's products are undifferentiated or standardized
● Buyers pose a credible threat to integrate backward into the sellers' industry

4.THREAT OF SUBSTITUTE PRODUCTS

Threat of substitute products increases when:

- Buyers face few switching costs
- The substitute product's price is lower
- Substitute product's quality and performance are equal to or greater than the existing product
- Differentiated industry products that are valued by customers reduce this threat

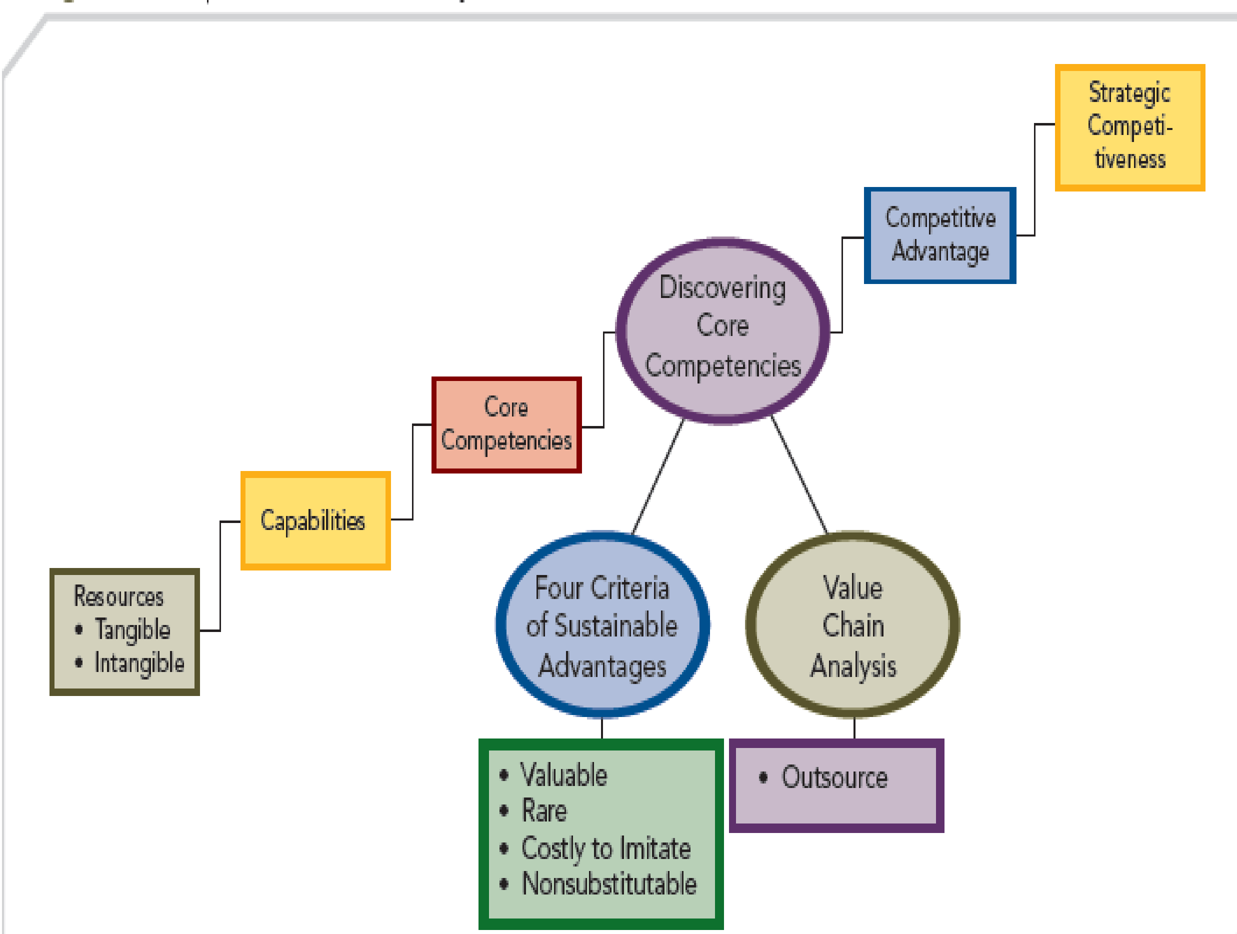
5. INTENSITY OF RIVALRY AMONG COMPETITORS

● Competitors are rarely homogeneous; they differ in resources and capabilities and seek to differentiate themselves from competitors
● Firms seek to differentiate their products in ways that customers value and in which the firms have a competitive advantage
● Common rivalry dimensions:
■ Price
■ Service after the sale
■ Innovation

THE INTERNAL ENVIRONMENT: RESOURCES, CAPABILITIES, & CORE COMPETENCIES

What a firm can do:
Function of resources, capabilities, and core competencies

Figure 3.1 Components of an Internal Analysis



<u>Core Competencies</u>

Resources and superior capabilities that are sources of competitive advantage over a firm's rivals
Resources

Tangible Resources

- FINANCIAL RESOURCES - the firm's capacity to borrow and generate internal funds
- ORGANIZATIONAL RESOURCES - formal reporting structures
- PHYSICAL RESOURCES - sophistication and location of a firm's plant and equipment; distribution facilities; product inventory
- TECHNOLOGICAL RESOURCES - stock of technology, such as patents, trademarks, copyrights, and trade secrets

Intangible Resources

- HUMAN RESOURCES - knowledge; trust; skills; collaborative abilities
- INNOVATION RESOURCES - scientific capabilities; capacity to innovate
- REPUTATIONAL RESOURCES - brand name; perceptions of product quality, durability, and reliability; positive reputation with stakeholders, e.g., suppliers/customers

<u>Capabilities</u>

An integrated and coordinated set of actions taken to exploit core competencies and gain competitive advantage

■ Emerge over time through complex interactions among tangible and intangible resources
■ From employees
Unique skills and knowledge
Functional expertise
■ Are activities that a firm performs exceptionally well relative to rivals
■ Are activities through which the firm adds unique value to its goods or services over an extended period of time
■ often developed in specific functional areas such as

- Distribution
- Human resources
- Management information systems
- Marketing
- Management
- Manufacturing
- Research & Development

BUILDING CORE COMPETENCIES

The Four Criteria of Sustainable Competitive Advantage

Capabilities must fulfill four specific criteria in order to be
CORE COMPETENCIES

1. Valuable
2. Rare
3. Costly-to-imitate
4. Non substitutable capabilities
5.

VALUE CHAIN ANALYSIS

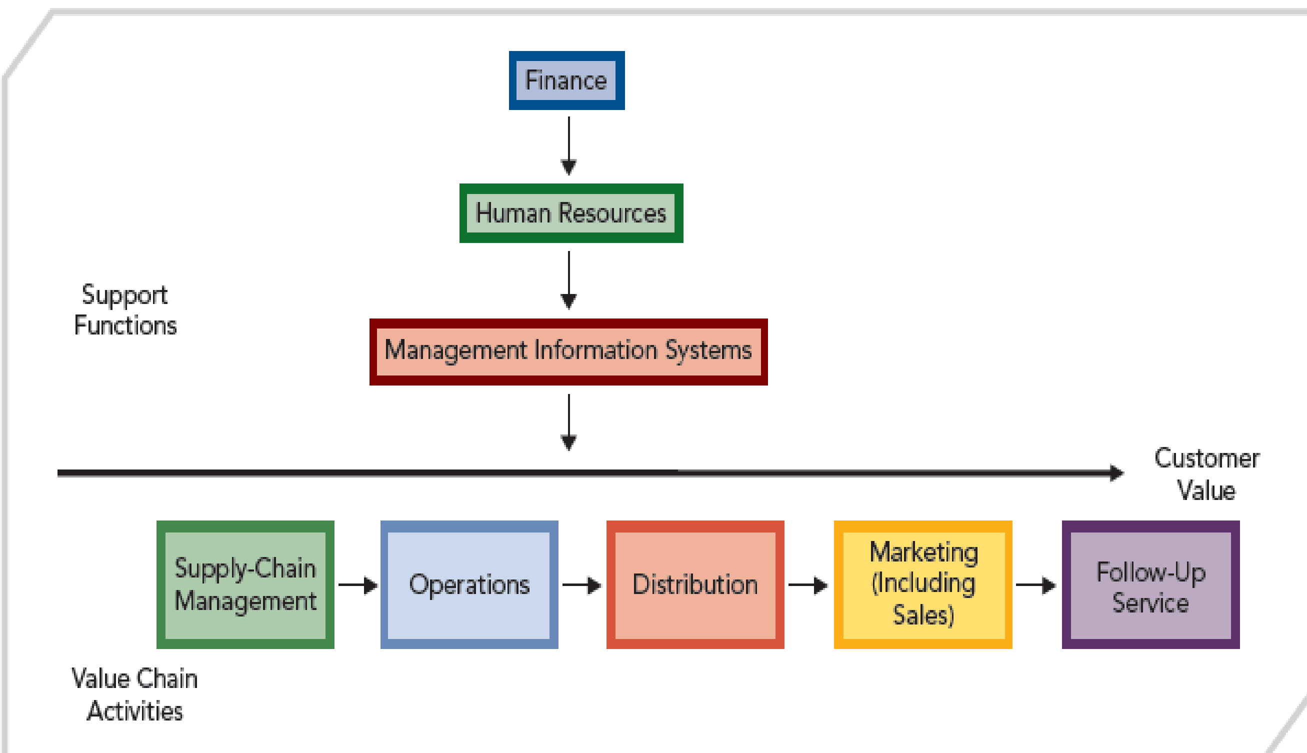
Allows the firm to understand the parts of its operations that create value and those that do not.

VALUE CHAIN ACTIVITIES: activities the firm completes in order to produce products and then sell, distribute, and service those products in ways that create value for customers

SUPPORT FUNCTIONS: activities the firm completes in order to support the work being done to produce, sell, distribute, and service the products the firm is producing

To become a core competence and a source of competitive advantage, a capability must allow

Figure 3.3 A Model of the Value Chain



the firm:

1. to perform an activity in a manner that provides superior value relative to competitors, or

2. to perform a value-creating activity that competitors cannot perform

OUTSOURCING

Definition: purchase of a value-creating activity or support function from an external supplier

- Effective execution includes an increase in flexibility and risk mitigation, and a reduction in capital investment
- Global industries trend continues at a rapid pace
- Firms must outsource activities where they cannot create value or are at a substantial disadvantage compared to competitors
- Few organizations are competitively superior in all value chain activities and support functions
- By outsourcing activities where it lacks competence, the firm can fully concentrate on those areas in which it can create value
- Freeing resources for other purposes
- redirects efforts from non-core activities toward those that serve customers more effectively
- Specialty suppliers can perform outsourced capabilities more efficiently.
- Sharing risks - reduces investment requirements and makes firm more flexible, dynamic, and better able to adapt to changing opportunities
- Providing access to world-class standards –
- the specialized resources of outsourcing providers makes world-class capabilities available to firms
- Outsource those value chain activities and support functions that are NOT a source of core competence
- Concerns: innovation, technological uncertainty, and job loss; usually revolves around firm's innovative ability and loss of jobs to external supplier

BUSINESS-LEVEL STRATEGIES

Business-level strategies are the courses of action adopted by an organization for each of its business separately.

Foundations of Business strategies:

- Business strategies operate below the corporate-level strategies and are derived from them.
- Corporate –level strategies deal with a portfolio of businesses in such a manner that the overall returns are optimized. So, corporate –level strategies can guide the individual business towards growth.
- Business definition involving the 'what, who and how' related to a business provide the direction in which action has to be taken to formulate the business strategies.

Purpose of business-level strategies:

- To serve identified customer groups.
- To provide value to the customer by satisfaction of their needs.
- To use its competencies to gain, sustain and enhance its strategic or competitive advantage.

Michael E.Porter is credited with extensive pioneering work in the area of business-level strategies or what he calls competitive strategies.

Porter believes that the basic unit of analysis for understanding competition is the industry. An industry is a group of competitors producing products or services that compete directly with each other. It is the industry where competitive advantage is ultimately won or lost. To compete in their industry, organisations attempt to define and establish a competitive strategy.

According to Porter, the factors determining the choice of a competitive strategy are-

1. **Industry structure**
2. **Positioning of the firm in the industry**

1. **Industry structure-** It is determined by the five competitive forces-

a. The threat of new entrants
b. The threat of substitute products or services
c. The bargaining power of suppliers
d. The bargaining power of the buyers and
e. The rivalry among the existing competitors in an industry.

These five forces vary from industry to industry, i.e., every industry has a unique structure and these factors determine the long-term profitability of organizations in that industry.

2. **Positioning of the firm in the industry**

The positioning of the firm within the industry is the overall approach of the firm towards competing. It is designed to gain a sustainable competitive advantage.

Positioning is based on two variables- **Competitive advantage and Competitive scope**

a. Competitive advantage- A firm can adopt 2 generic types of competitive approaches for positioning in the industry. They are –
   - **Low-cost approach-** The competence of an organization to design, produce and market a comparable product, more efficiently than its competitors.
   - **Differentiation approach-**The competence of a firm to provide unique and superior value to the buyer in terms of product quality, special features or after-sale service.

b. Competitive scope- Porters defines competitive scope as the breadth of an organisation's target within the industry. By the breadth of a firms target it is meant the range of products, distribution channels, types of buyers, the geographic areas served and the array of the industries in which the firm would also compete.
Depending on the scale of a firms operations, a firm can adopt a –

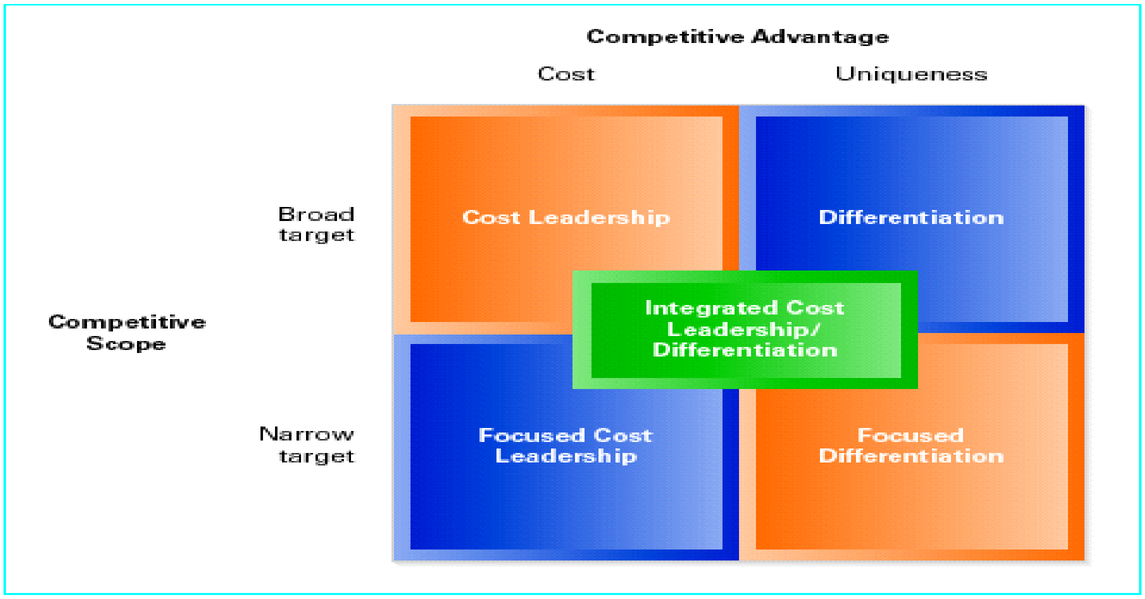
   - **Broad target approach**-A firm can offer a full range of products/services to a wide range of customers groups located in a widely-scattered geographical area.
   - **Narrow target approach-**A firm can choose to offer a limited range of products/services to a fewer customer groups in a restricted geographical area.

When the two factors of positioning, the competitive advantage and competitive scope, are combined, what results is a set of **generic competitive strategies.** These are called as the **Business-level strategies.**

Generic competitive strategies

Business-level strategy, defined as an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets.
Customers are the foundation of successful business-level strategies. Firm examines issues of who, what, and how-

- **Who** are the customer groups to be served
- **What** needs those customers have that the firm seeks to satisfy
- **How** can the firm use core competencies to satisfy customer needs.



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Business-level strategies

1.Cost leadership strategy

- Using a cost leadership strategy, a firm
- Produces no-frills, standardized products for typical customers
- Offers these low-cost products with competitive levels of differentiation. Focuses on efficiency so costs are lower than competitors' costs.

Risks of cost leadership strategy

Competitive risks associated with the cost leadership strategy include

- a loss of competitive advantage to newer technologies
- a failure to detect changes in customers' needs, and
- the ability of competitors to imitate the cost leader's competitive advantage through their own unique strategic actions.

2.Differentiation strategy

- Firms using differentiation strategy
- Provide products that have different, valued features that are sold at a premium price
- Differentiate their products along as many dimensions as possible.
- The less similarity to competitors' products, the more buffered a firm is from competition with its rivals.

Risks of differentiation strategy

- Customers decide that the differences between the differentiated product and the cost leader's product are not worth a higher price
- Firms can't sufficiently differentiate a product to create value for which customers will pay a premium price
- Competitors offer similar products at a lower cost

- Counterfeiters offer a cheap “knockoff” of a differentiated good or service.

3.Focus strategies

The focus strategy is an integrated set of actions taken to produce goods or services that serve the needs of a particular competitive segment.

Firms choose a focus strategy to serve the needs of a specific customer segment or industry segment.

Examples

a particular buyer group (such as youths or senior citizens)

a different segment of a product line (such as products for professional painters or the do-it-yourself group), or

a different geographic market (such as East or West in the U.S).

Firms can create value for a specific segment of the market by using the focused cost leadership strategy or the focused differentiation strategy.

To be successful, firms must have the core competencies required to provide more value to the specific market segment than can competitors serving the entire industry.

Risks of focus strategies

Competitive risks of focus strategies

A competitor is able to focus on an even more narrowly defined market segment

Industry-wide competitors decide to focus on specific customer segments

The differences are reduced between the needs of a specific market segment and those of the rest of the industry

4. Integrated cost leadership/differentiation strategy

Using this strategy, firms

Provide relatively low cost products with valued differentiated features.

Use primary and support activities to produce differentiated products at relatively low costs.

Risk of this strategy

A firm produces products that lack sufficient low cost or differentiation.

COMPETITIVE RIVALRY

The intensity of rivalry among competitors in an industry refers to the extent to which firms within an industry put pressure on one another and limit each other’s profit potential.

If rivalry is fierce, then competitors are trying to steal profit and market share from one another. As a result, this reduces profit potential for all firms within the industry.

According to Porter’s 5 forces framework, the intensity of rivalry among firms is one of the main forces that shape the competitive structure of an industry.
Porter’s intensity of rivalry in an industry affects the competitive environment and influences the ability of existing firms to achieve profitability.

- **High intensity** of competitive rivalry can make an industry more competitive and decrease profit potential for the existing firms.
- **Low intensity** of competitive rivalry makes an industry less competitive. It also increases profit potential for the existing firms.

Factors determining the Competitive rivalry

Several factors determine the intensity of competitive rivalry in an industry, whether it increases or decrease it.

Intensity of Rivalry is High if…

- Competitors are numerous
- Industry growth is slow
- Fixed costs are high
- Competitors have equal size
- Products are undifferentiated
- Brand loyalty is insignificant
- Consumer switching costs are low
- Competitors have equal market share
- Competitors are strategically diverse
- There is excess production capacit
- Exit barriers are high

Intensity of Rivalry is Low if…

- Competitors are few
- Unequal size among competitors
- Competitors have unequal market share
- Industry growth is fast
- Fixed costs are low
- Products are differentiated
- Brand loyalty is significant
- Consumer switching costs are high
- Competitors are not strategically diverse
- There is no excess production capacity
- Exit barriers are low

COMPETITOR ANALYSIS

In formulating business strategy, managers must consider the strategies of the firm's competitors. While in highly fragmented commodity industries the moves of any single competitor may be less important, in concentrated industries **competitor analysis** becomes a vital part of strategic planning.

Competitor analysis has two primary activities,

1) Obtaining information about important competitors, and

2) Using that information to predict competitor behavior. The goal of competitor analysis is to understand:

- with which competitors to compete,
- competitors' strategies and planned actions,
- how competitors might react to a firm's actions,
- how to influence competitor behavior to the firm's own advantage.

Casual knowledge about competitors usually is insufficient in competitor analysis. Rather, competitors should be analyzed systematically, using organized competitor intelligence-gathering to compile a wide array of information so that well informed strategy decisions can be made.

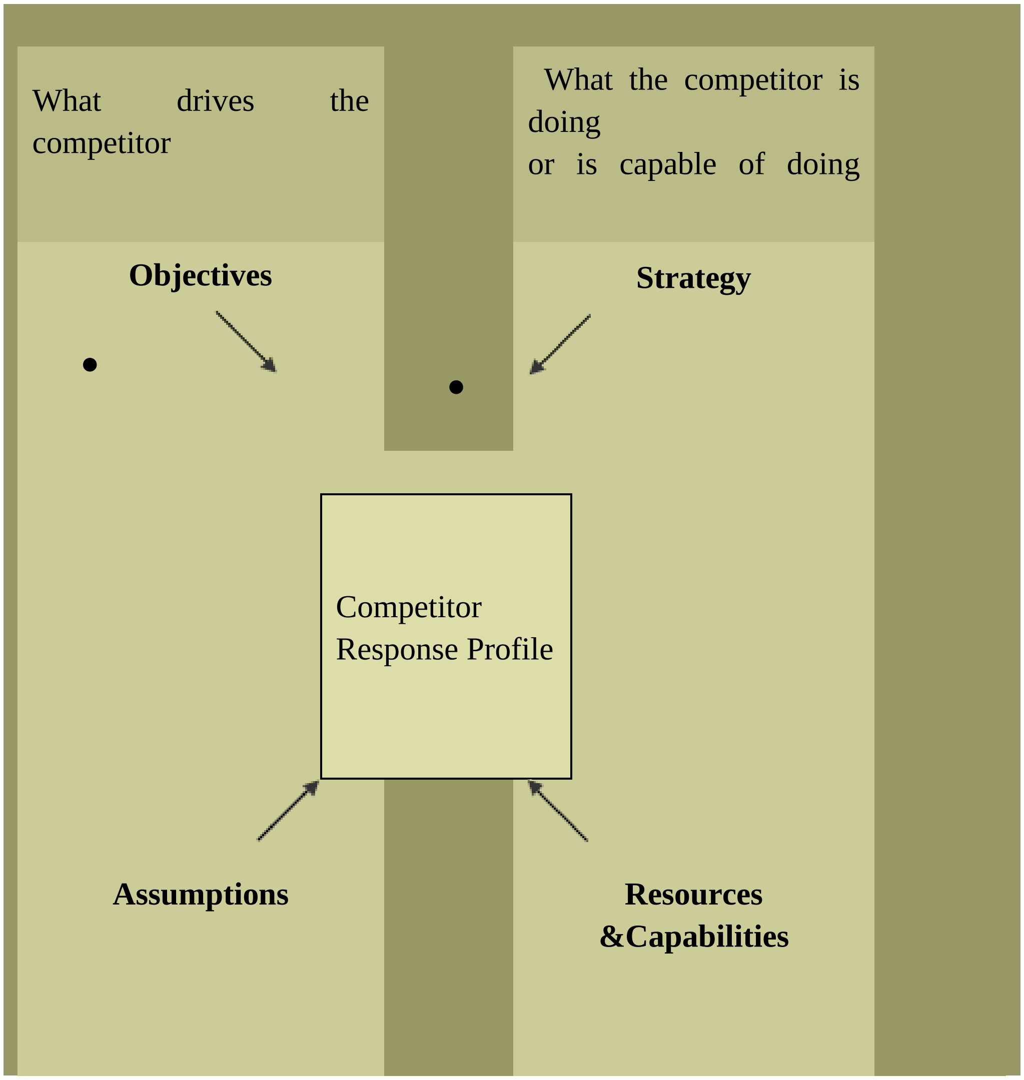
Competitor Analysis Framework

Michael Porter presented a framework for analyzing competitors. This framework is based on the following four key aspects of a competitor:

- Competitor's objectives
- Competitor's assumptions
- Competitor's strategy
- Competitor's capabilities

Objectives and assumptions are what drive the competitor, and strategy and capabilities are what the competitor is doing or is capable of doing. These components can be depicted as shown in the following diagram:

Competitor Analysis Components



Adapted from Michael E. Porter, Competitive Strategy, 1980, p. 49.

A competitor analysis should include the more important existing competitors as well as potential competitors such as those firms that might enter the industry, for example, by extending their present strategy or by vertically integrating.

Competitor's Current Strategy

The two main sources of information about a competitor's strategy is what the competitor says and what it does. What a competitor is saying about its strategy is revealed in:

- annual shareholder reports
- 10K reports

- interviews with analysts
- statements by managers
- press releases

However, this stated strategy often differs from what the competitor actually is doing. What the competitor is doing is evident in where its cash flow is directed, such as in the following tangible actions:

- hiring activity
- R & D projects
- capital investments
- promotional campaigns
- strategic partnerships
- mergers and acquisitions

Competitor's Objectives

Knowledge of a competitor's objectives facilitates a better prediction of the competitor's reaction to different competitive moves. For example, a competitor that is focused on reaching short-term financial goals might not be willing to spend much money responding to a competitive attack. Rather, such a competitor might favor focusing on the products that hold positions that better can be defended. On the other hand, a company that has no short term profitability objectives might be willing to participate in destructive price competition in which neither firm earns a profit.

Competitor objectives may be financial or other types. Some examples include growth rate, market share, and technology leadership. Goals may be associated with each hierarchical level of strategy - corporate, business unit, and functional level.

The competitor's organizational structure provides clues as to which functions of the company are deemed to be the more important. For example, those functions that report directly to the chief executive officer are likely to be given priority over those that report to a senior vice president.

Other aspects of the competitor that serve as indicators of its objectives include risk tolerance, management incentives, backgrounds of the executives, composition of the board of directors, legal or contractual restrictions, and any additional corporate-level goals that may influence the competing business unit.

Whether the competitor is meeting its objectives provides an indication of how likely it is to change its strategy.

Competitor's Assumptions

The assumptions that a competitor's managers hold about their firm and their industry help to define the moves that they will consider. For example, if in the past the industry introduced a new type of product that failed, the industry executives may assume that there is no market for the product. Such assumptions are not always accurate and if incorrect may present opportunities. For example, new entrants may have the opportunity to introduce a product similar to a previously unsuccessful one without retaliation because incumbent firms may not take their threat seriously. Honda was able to enter the U.S. motorcycle market with a small motorbike because U.S. manufacturers had assumed that there was no market for small bikes based on their past experience.

A competitor's assumptions may be based on a number of factors, including any of the following:

- beliefs about its competitive position
- past experience with a product
- regional factors
- industry trends
- rules of thumb

A thorough competitor analysis also would include assumptions that a competitor makes about its own competitors, and whether that assessment is accurate.

Competitor's Resources and Capabilities

Knowledge of the competitor's assumptions, objectives, and current strategy is useful in understanding how the competitor might want to respond to a competitive attack. However, its resources and capabilities determine its ability to respond effectively.

A competitor's capabilities can be analyzed according to its strengths and weaknesses in various functional areas, as is done in a SWOT analysis. The competitor's strengths define its capabilities. The analysis can be taken further to evaluate the competitor's ability to increase its capabilities in certain areas. A financial analysis can be performed to reveal its sustainable growth rate.

Finally, since the competitive environment is dynamic, the competitor's ability to react swiftly to change should be evaluated. Some firms have heavy momentum and may continue for many years in the same direction before adapting. Others are able to mobilize and adapt very quickly. Factors that slow a company down include low cash reserves, large investments in fixed assets, and an organizational structure that hinders quick action.

Competitor Response Profile

Information from an analysis of the competitor's objectives, assumptions, strategy, and capabilities can be compiled into a response profile of possible moves that might be made by the competitor. This profile includes both potential offensive and defensive moves. The specific moves and their expected strength can be estimated using information gleaned from the analysis.

The result of the competitor analysis should be an improved ability to predict the competitor's behavior and even to influence that behavior to the firm's advantage.

UNIT-3
CORPORATE LEVEL STRATEGY

What is Strategy?
Strategy is the direction and scope of an organization in a changing business environment through the configuration of its resources and competence with a view to meeting stakeholder expectation.

Characteristics of Strategy

- Long term in nature: The plan can be made in a short time, but the effect or impact it has on the organization is in the long term or in the forseeable future.
- Strategy contains elements of uncertainty
- It is directed towards the goals of the organization
- Dynamic in nature
- Strategy are normally complex
- Strategy affects the whole organization

There are basically three different levels where strategy can be formulated, they are:

- Corporate level strategy
- Business level strategy
- Functional level strategy

Today, we would be analyzing the corporate level strategies, with the other levels of strategy to come in subsequent posts. I hope you enjoy.

Corporate level Strategy:
Corporate level strategies are concerned with questions about what business to compete in. Corporate Strategy involves the careful analysis of the selection of businesses the company can successful compete in. Corporate level strategies affect the entire organization and are considered delicate in the strategic planning process.

Characteristics of Corporate Strategy

- Corporate level strategies are formulated by the top management with inputs from middle level management and lower level management in the formulation process and designing of sub strategies
- Decisions are complex and affects the entire organization
- It is concerned with the efficient allocation and utilization of scarce resources for the benefit of the organization
- Corporate level strategies are mapped out around the goal and objectives of an organization. They seek to translate these goals and objectives to reality

- Typical examples of decisions made are decisions on products and markets

Types of corporate Strategy: The three main types of corporate strategies are Growth strategies, stability, Retrenchment, cooperation strategies

I. GROWTH STRATEGY

Like the name implies, corporate strategies are those corporate level strategies designed to achieve growth in key metrics such as sales / revenue, total assets, profits etc. A growth strategy could be implemented by expanding operations both globally and locally; this is a growth strategy based on internal factors which can be achieved through internal economies of scale. Aside from the illustration of internal growth strategies above, an organization can also grow externally through mergers, acquisitions and strategic alliances. The two basic growth strategies are concentration strategies and diversification strategies.

A. Intensification strategy: This is mostly utilized for company's producing product lines with real growth potentials. The company concentrates more resources on the product line to increase its participation in the value chain of the product. The main types of intensification strategies are

1. Market penetration: **Market Penetration Strategy**. **Market penetration** is one of the four alternative growth **strategies** in the Ansoff Matrix. A **market penetration strategy** involves focusing on selling your existing products or services into your existing **markets** to gain a higher **market** share.

2. Market development: **Market development** is a growth **strategy** that identifies and develops new **market** segments for current products. A **market development strategy** targets non-buying customers in currently targeted segments. It also targets new customers in new segments. ... Another way is to expand sales through new uses for the product.

3. Product development: This **strategy** is employed when a company's existing market is saturated, and revenues and profits are stagnant or falling. ... A **product development** diversification **strategy** takes a company outside its existing business and a new **product** is developed for a new market.

Innovation: An **innovation strategy** is a plan to grow market share or profits through product and service **innovation**. When it comes to creating the solution, an **innovation strategy** must also indicate whether a product improvement or a disruptive or breakthrough 4.**innovation** approach is best.

II. DIVERSIFICATION STRATEGY

Richard Rummelt, a strategy guru at UCLA Anderson School of Management, is of the opinion that companies think about diversification strategies when growth has reached its peak and there is no opportunity for further growth in the original business of the company. What then is this diversification strategy we speak of? A company is diversified when it is in two or more lines of business operating in distinct and diverse market environments. Under diversification strategy we have,

1. Vertical growth strategy: As mentioned above, by utilizing this strategy, the company participates in the value chain of the product by either taking up the job of the supplier or distributor. If the company assumes the function or the role previously taken up by a supplier, we call it **a) backward integration,** while it is called b) **forward integration** if a company assumes the function previously provided by a distributor.

2. Horizontal growth strategy: Horizontal growth is achieved by expanding operations into other geographical locations or by expanding the range of products or services offered in the existing market. Horizontal growth results into horizontal integration which can be defined as the degree in which a company increases production of goods or services at the same point on an industry's value chain. Two important aspects of horizontal growth strategy are,

a) Concentric Diversification: This is also called related diversification. It involves the diversification of a company into a related industry. This strategy is particularly useful to companies in leadership position as the firm attempts to secure strategic fit in a new industry where the firm's product knowledge, manufacturing capability and marketing skills it used so effectively in the original industry can be used just as well in the new industry it is diversifying into.

b) Conglomerate Diversification: This is also called unrelated diversification; it involves the diversification of a company into an industry unrelated to its current industry. This type of diversification strategy is often utilized by companies in saturated industries believed to be unattractive, and without the knowledge or skill it could transfer to related products or services in other industries.

III.Stability Strategy

Stability strategies are mostly utilized by successful organizations operating in a reasonably predictable environment. It involves maintaining the current strategy that brought it success with little or no change. There are three basic types of stability strategies, they are:

- **No change Strategy**: When a company adopts this strategy, it indicates that the company is very much happy with the current operations, and would like to continue with the present strategy. This strategy is utilized by companies who are "comfortable" with their competitive position in its industry, and sees little or no growth opportunities within the said industry.
- **Profit Strategy**: In using this strategy, the company tries to sustain its profitability through artificial means which may include aggressive cost cutting and raising sales prices, selling of investments or assets, and removing non-core businesses. The profit strategy is useful in two instances:

1. To help a company through tough times or temporary difficulty; and
2. To artificially boost the value of a company in the case of an Initial Public Offering (IPO)

- **Pause/ Proceed with caution Strategy**: This strategy is used to test the waters before continuing with a full fledged strategy. It could be an intermediate strategy before proceeding with a growth strategy or retrenchment strategy. The pause or proceed with caution strategy is seen as a temporary strategy to be used until the environment becomes more hospitable or consolidate resources after prolonged rapid growth.

IV. Retrenchment Strategies

Retrenchment strategies are pursued when a company's product lines are performing poorly as a result of finding itself in a weak competitive position or a general decline in industry or markets. The strategy seeks to improve the performance of the company by eliminating the weakness pulling the company back. Examples of retrenchment strategies are:

- **Turnaround Strategy**: This strategy is adopted for the purpose of reversing the process of decline. This strategy emphasizes operational efficiency and is most appropriate at the beginning of the decline rather than the critical stage of the decline.
- **Divestment Strategy**: Divestment also known as divestiture is the selling off of assets for the different goals a company seeks to attain. This strategy involves the cutting off of loss making units, divisions or Strategic Business Units ("SBU").
- **Liquidation Strategy**: Liquidation strategy is considered a last resort strategy, it is adopted by company's when all their efforts to bringing the company to profitability is futile. The company chooses to abandon all activities totally, sell off its assets and see to the final close and winding up of the business.
- **Bankruptcy** is a legal status of a person or other entity that cannot repay debts to creditors. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor.

V. COMBINATION/ COOPERATION STRATEGY

Mergers and acquisitions that are usually referred to as M&As are an important part of corporate restructuring.

Merger: A merger is a strategy of joining two businesses. Basically a merger occurs when two companies join or merge to form one single company but with a new name.

Acquisition: 'Acquisition refers to a situation where one firm acquires another and the latter ceases to exist. Simply put in what happens in an acquisition is that one business buys another usually smaller business that might be absorbed within the parent organization or run as a subsidiary.

THE IMPORTANCE OF MERGERS AND ACQUISITIONS Mergers and acquisitions generally referred to as M&A are a very important means whereby companies respond to the ever-changing strategic environment. Mergers and acquisitions enable successful companies to grow faster than their competition by combining the strengths of the companies that have merged. On the other hand, they lead to total extinction of the weaker companies by having them acquired by other large and successful companies. 'Mergers and acquisitions are a vital part of any healthy economy and importantly, the primary way that companies are able to provide returns to owners and investors.' and also that 'Merger and acquisitions are among the most powerful and versatile growth tools employed by companies of all sizes and in all industries.'

REASONS FOR ACQUISITIONS AND PROBLEMS IN ACHIEVING SUCCESS

Market power is increased by:

- Horizontal acquisitions: other firms in the same industry
- Vertical acquisitions: suppliers or distributors of the acquiring firm
- Related acquisitions: firms in related industries

Overcoming Entry Barriers

Entry Barriers

- Factors associated with the market or with the firms operating in it that increase the expense and difficulty faced by new ventures trying to enter that market

Cross-Border Acquisitions

- Acquisitions made between companies with headquarters in different countries

Cost of New Product Development and Increased Speed to Market

- Internal development of new products is often perceived as high-risk activity.

- Acquisitions allow a firm to gain access to new and current products that are new to the firm.
- Compared with internal product development, acquisitions:

Lower Risk Compared to Developing New Products

- Outcomes for an acquisition can be more easily and accurately estimated than the outcomes of an internal product development process.

- Acquisition strategies are a common means of avoiding risky internal ventures and risky R&D investments.
- Acquisitions may become a substitute for innovation, and thus should always be strategic rather than defensive in nature

Increased Diversification

- Using acquisitions to diversify a firm is the quickest and easiest way to change its portfolio of businesses.

- Both related diversification and unrelated diversification strategies can be implemented through acquisitions

Reshaping the Firm's Competitive Scope

- Reduce the negative effect of an intense rivalry on a firm's financial performance.
- Reduce a firm's dependence on one or more products or markets

Learning and Developing New Capabilities

- Special technological capability
- A broader knowledge base
- Reduced inertia

RESTRUCTURING

A strategy through which a firm changes its set of businesses or financial structure

- Failure of an acquisition strategy often precedes a restructuring strategy

- Restructuring may occur because of changes in the external or internal environments

Restructuring strategies:

1. **Downsizing:** Reduction in the number of a firm's employees and in the number of its operating units, but it does not change the essence of the business

- Tactical
- Short-term
- Cut labor costs

- Acquisition failed to create anticipated value
- Paid too much for target

2. **Down scoping**: Refers to divestiture, spin-off, or some other means of eliminating businesses that are unrelated to a firm's core businesses

- Strategic
- Long-term
- Focus on core businesses
- More positive effect on firm performance than downsizing

3. **Leveraged buyouts (LBOs)** : A party buys all of the assets of a business, financed largely with debt, and takes the firm private

Three types of LBOs

- Management buyouts (MBOs)
- Employee buyouts (EBOs)
- Whole-firm buyouts

RESTRUCTURING OUTCOMES

- **Short-term**
  - Reduced costs: labor and debt
  - Emphasis on strategic controls
- **Long-term**
  - Loss of human capital
  - Performance: higher/lower
  - Higher risk

LEVELS OF DIVERSIFICATION

Diversified firms vary according to their level of diversification and the connections between and among their businesses

The single- and dominant-business categories denote relatively low levels of diversification; more fully diversified firms are classified into related and unrelated categories

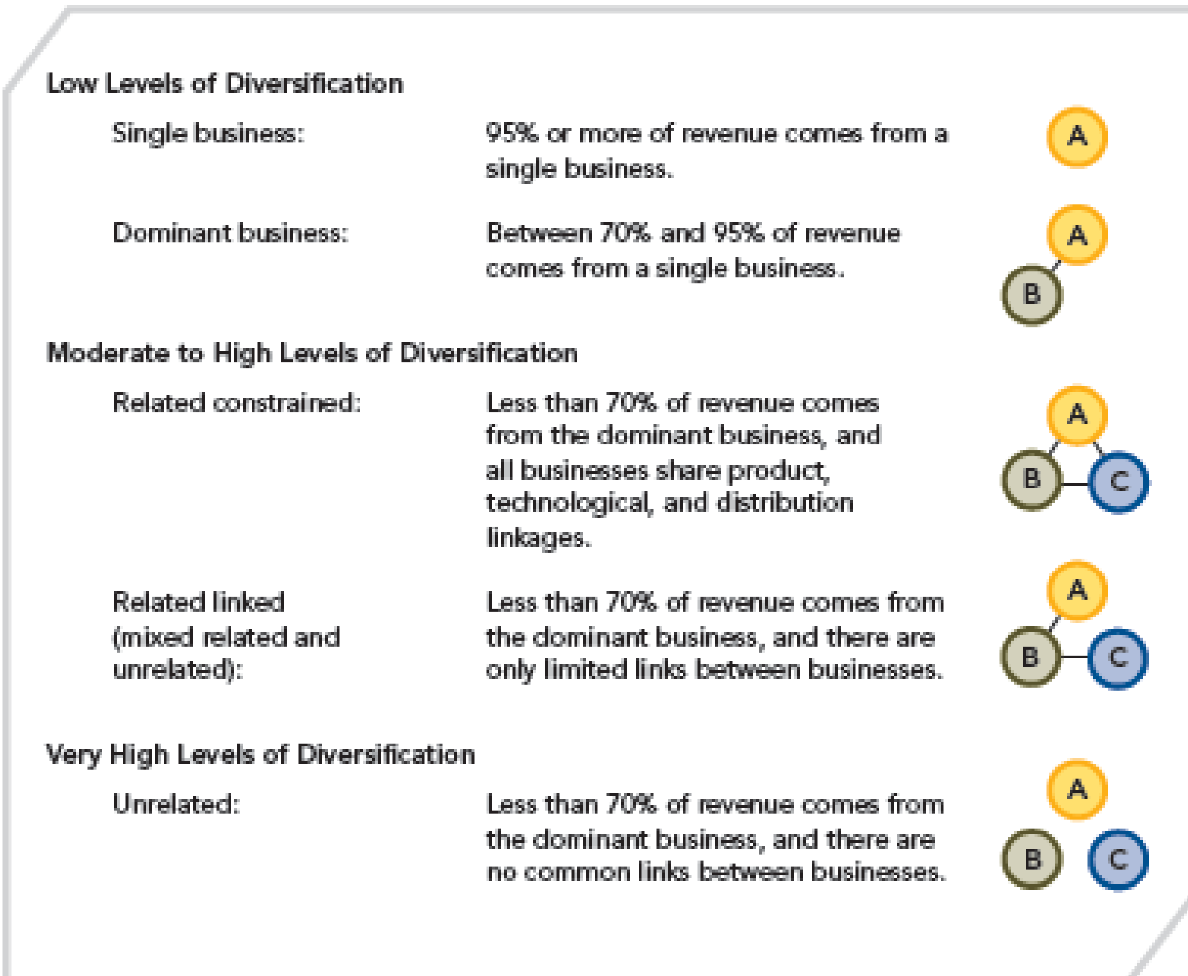
A firm is related through its diversification when its businesses share links across:

■ PRODUCTS (goods or services)
■ TECHNOLOGIES
■ DISTRIBUTION CHANNELS

1. Low Levels
   - Single Business Strategy.

- Corporate-level strategy in which the firm generates 95% or more of its sales revenue from its core business area.

2. Moderate to High Levels
   - Related Constrained Diversification Strategy



Source: Adapted from R. P. Rumelt, 1974, *Strategy, Structure and Economic Performance*, Boston: Harvard Business School.

- Less than 70% of revenue comes from the dominant business
- Direct links (i.e., share products, technology, and distribution linkages) between the firm's businesses

3. Very High Levels: Unrelated
   - Less than 70% of revenue comes from dominant business
   - No relationships between businesses

REASONS FOR DIVERSIFICATION

Value-Creating Diversification
■ Economies of scope (related diversification)
• Sharing activities
• Transferring core competencies
■ Market power (related diversification)
• Blocking competitors through multipoint competition
• Vertical integration
■ Financial economies (unrelated diversification)
• Efficient internal capital allocation
• Business restructuring
Value-Neutral Diversification
■ Antitrust regulation
■ Tax laws
■ Low performance
■ Uncertain future cash flows
■ Risk reduction for firm
■ Tangible resources
■ Intangible resources
Value-Reducing Diversification
■ Diversifying managerial employment risk
■ Increasing managerial compensation

VALUE-CREATING DIVERSIFICATION

- FIRM CREATES VALUE BY BUILDING UPON OR EXTENDING:
  - Resources
  - Capabilities
  - Core competencies

PURPOSE: gain market power relative to competitors

ADVANTAGE: ECONOMIES OF SCOPE

- Cost savings that occur when a firm transfers capabilities and competencies developed in one of its businesses to another of its businesses .
- Operational relatedness in sharing activities
- Corporate relatedness in transferring skills or corporate core competencies among units
- MARKET POWER: Exists when a firm is able to sell its products above the existing competitive level, to reduce costs of primary and support activities below the competitive level, or both. Exists when two or more diversified firms simultaneously compete in the same product or geographic markets.

UNIT-4
GLOBAL STRATEGY

Global strategy: the organization treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis.
It covers

1. **International strategy**: the organization's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage – important in strategy development – is developed mainly for the *home* market.

2. **Multinational strategy**: the organization is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined *separately for each country*.

Why is global strategy important?

From a company perspective, international expansion provides the opportunity for new sales and profits. In some cases, it may even be the situation that profitability is so poor in the home market that international expansion may be the only opportunity for profits.

From a customer perspective, international trade should – in theory at least – lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base. For example, Nike sources its sports shoes from low labour cost countries like the Philippines and Vietnam. In addition, some customers like to purchase products and services that have a global image. For example, Disney cartoon characters or 'Manchester United' branded soccer shirts.

From the perspective of international governmental organizations – like the World Bank – the recent dominant thinking has been to bring down barriers to world trade while giving some degree of protection to some countries and industries. Thus global strategy is an important aspect of such international negotiations.

IDENTIFYING INTERNATIONAL OPPORTUNITIES

International Strategy: a strategy through which the firm sells its goods or services outside its domestic market

Reasons for having an international strategy

- International markets yield new opportunities
- Needed resources can be secured
- Greater potential product demand
- Borderless demand for globally branded products
- Pressure for global integration
- New market expansion extends product life cycle

THREE BASIC BENEFITS OF INTERNATIONAL STRATEGY

1. INCREASED MARKET SIZE

● Domestic market may lack the size to support efficient scale manufacturing facilities

● Generally, larger international markets offer higher potential returns and pose less risk for firms

● The strength of international markets may facilitate efforts to more effectively sell and/or produce products that create value for customers

2. ECONOMIES OF SCALE AND LEARNING

● Firms may also be able to exploit core competencies in international markets through resource and knowledge sharing between units and network partners across country borders

● By sharing resources and knowledge in this manner, firms can learn how to create synergy, which in turn can help each firm learn how to produce higher-quality products at a lower cost

3. LOCATION ADVANTAGES

● Certain markets may offer superior access to critical resources, e.g., raw materials, lower-cost labor, energy, suppliers, key customers

● Cultural influences may be advantageous—a strong cultural match facilitates international business transactions

● Physical distances influence firms' location choices, i.e., transportation costs

RISKS IN AN INTERNATIONAL ENVIRONMENT

POLITICAL RISKS

- Government instability
- Conflict or war
- Government regulations

- Conflicting and diverse legal authorities
- Potential nationalization of private assets
- Government corruption
- Changes in government policies

ECONOMIC RISKS

- Government oversight and control of economic/financial capital.
- Weak Intellectual Property (IP) rights protections, impact FDI attractiveness.
- Investment losses due to political risks
- Terrorism
- Security risk of foreign firms acquiring key natural resources or strategic IP.

LIMITS TO INTERNATIONAL EXPANSION

There are several reasons that explain the limits to the positive effects of the diversification associated with international strategies:

- Geographic dispersion
- Trade barriers
- Logistical costs
- Cultural diversity and barriers
- Complexity of competition
- Relationship between firm and host country
- Other country differences

International business-level strategies

- **Cost leadership**
- **Differentiation**
- **Focused cost leadership**
- **Focused differentiation**
- **Integrated cost leadership/differentiation**

International Corporate-level strategies

- **Multi domestic**
- **Global**
- **Transnational (the combination of the multi domestic and global strategies)**

UNIT 5
ORGANIZATIONAL STRUCTURE & CONTROLS

Definitions:
Organizational Structure – A firm's formal role configuration, procedures, governance, and control mechanisms, and authority and decision-making processes.

Simple Structure – An organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the staff serves as an extension of the manager's supervisory authority.

Functional Structure – Consists of a chief executi9ve officer and limited corporate staff, with functional line managers in dominant organizational areas such as production, accounting, marketing, R&D, engineering, and human resources.
Multidivisional (M-Form) – Structure – Composed of operating divisions where each division represents a separate business or profit center and the top corporate officer delegates responsibility for day-to-day operations and business-unit strategy to division managers.

Strategic Business Unit (SBU) Form – A form of the multidivisional structure consists of at least three levels, with the top level being the corporate headquarters; the next level, SBU groups; and the final level, divisions group by relatedness (either product or geographical market) within each SBU.

STRATEGIC CONTROL –
The use of long-term and strategically relevant criteria by corporate-level managers to evaluate the performance of division managers and their units.

Financial Control – Objective criteria (e.g., return on investment) that corporate-level managers use to evaluate the returns being earned by individual business units and the managers responsible for their performance.
Centralization – The degree to which decision-making authority is retained at higher managerial levels.

There are basic types of structures organizations can use: simple, functional and multi-divisional. Organizations sometimes find that that they have outgrown one structure and must adapt a new form in order to effective handle more complexity and growth.

EVOLUTIONARY PATTERNS OF STRUCTURE

1.Simple Structure:
May be the most widely used structure, since most organizations are small (less than 100 employees). This structure is utilized where an owner-manager makes most of the decisions. While this structure is relatively efficient from the standpoint of its flatness, it is difficult to maintain as the organization grows in both complexity and size.
Strengths:

- Decisions are made quickly
- Owner-manager is aware of what is going on in the organization
- Owner-manager makes decisions based on what is best for overall organization

Weaknesses:

- If owner-manager is unavailable decisions may not be able to be made, thus opportunities maybe lost.
- Not good for larger more complex organizations.

2.Functional Structure:

In a functional structure jobs become differentiated around areas of specialty. For example, accounting and human resource specialists are hired to handle these specialized tasks. These specialists (functional line managers) report to the CEO, but usually have autonomy for day-to-day decision-making, e.g., hiring and firing personnel.

Strengths:

- Organization has specialists who may be better equipped to make decisions in their area of specialty
- CEO can manager overall interest of the organization without having to worry about mundane problems
- If the CEO is unavailable problems can still be solved and opportunities can be exploited

Weaknesses:

- Functional-area managers tend to focus on local versus overall company strategic issues
- CEO may not be informed of potential problems or difficulties, thereby catching them by surprise when it may be too late to reverse course.
- Vertical communication may be difficult, thereby, causing duplication or rivalry between departments.

3.Multidivisional Structure:

The multidivisional structure centers on the use of separate businesses or profit centers. The M-Form is used by many organizations that compete in the global economy. General Electric is an example of a company that uses this structure. Each unit is operated as a separate business with its own corporate staff including President. Some parent companies do little more than provide capital and guide units to an organizational-wide strategy. The overall goal is to maximize the overall organization's performance. In order to accomplish this, managers at the "parent" use a combination of strategic and financial controls.

Example:

To handle the problems that General Motors was experience in the early part of the 1900s, CEO Alfred Sloan, Jr., reorganized GM round separate divisions. Each division represented a distinct business that would be self-contained and have its own functional hierarchy. Sloan's new structure delegated day-to-day operating responsibilities to division managers. The small corporate level was responsible for determining the firm's long-term strategic direction and for exercising overall financial control of semiautonomous divisions. Each division was to make its own business-level strategic decisions that would feed into the overall corporate strategy. Sloan's structural innovation had three important outcomes:

1. It Enabled corporate officers to more accurately monitor the performance of each business (simplified the problem of control)
2. It facilitate comparisons between divisions, which improved the resource allocation process
3. It stimulated managers of poor performing divisions to look for ways of improving performance.

Strengths:

- Allows organizations to greatly expand their operations
- Units can work together thus benefiting for synergies
- Has the potential to positively influence the firm's diversification strategy by encouraging managers to pursue additional market-place opportunities

Weaknesses:

- Units may have to compete for scarce resources, e.g. financing
- Separate units may not coordinate, therefore duplicating the wasting resources

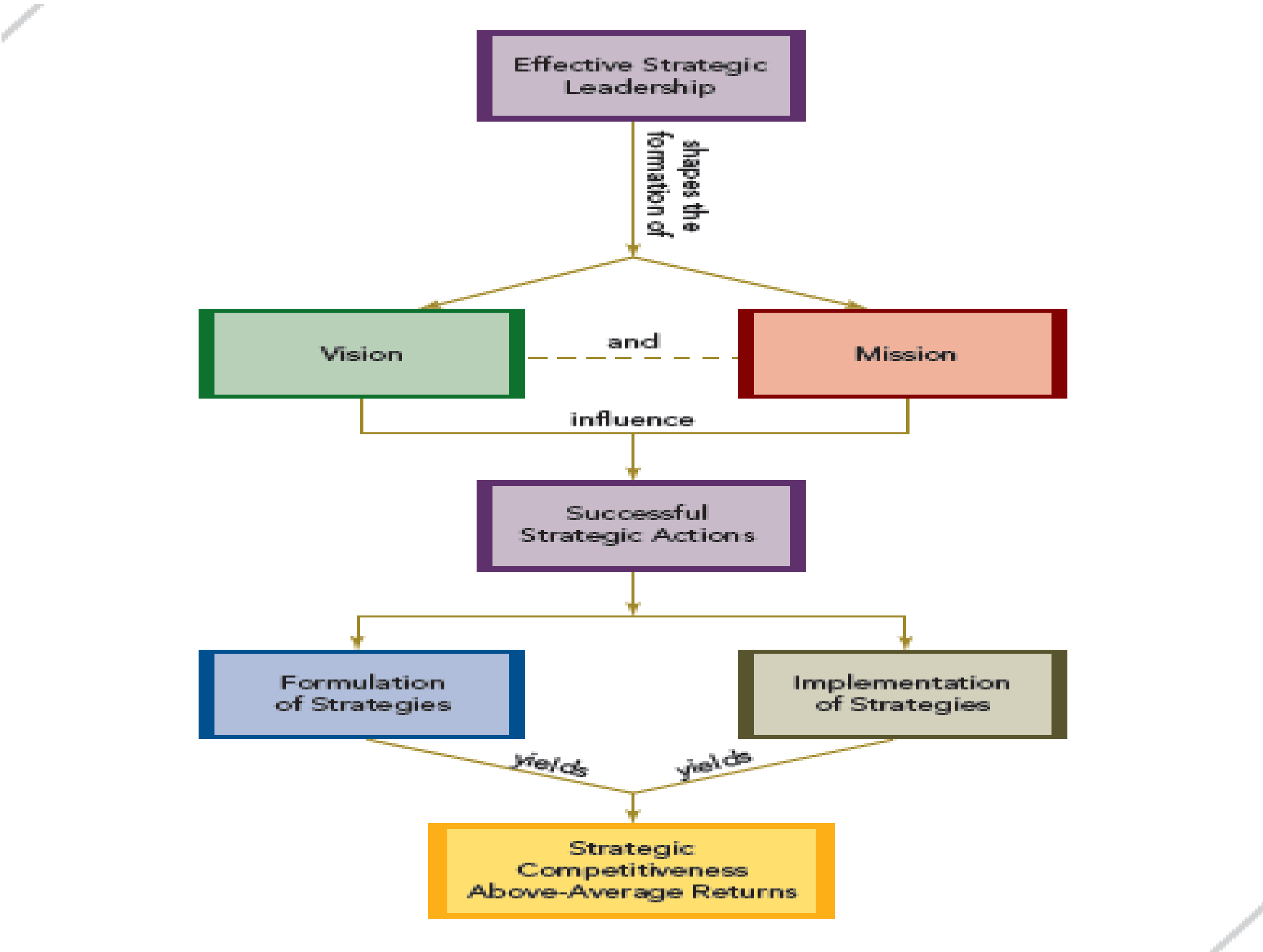
Strategic Controls:

Strategic controls entail the use of long-term and strategically relevant criteria. They are behavioral in nature, meaning that they require high levels of cognitive diversity among top-level managers. Cognitive diversity captures the differences in beliefs about cause-effect relationships and desired outcomes among top-level managers' preferences. Corporate-level managers rely on strategic control to gain an operational understanding of the organization's different operating units. The use of strategic controls requires access to in depth information. Information is often gathered by formal (reading reports, meeting etc.) and informal (brief phone calls and discussions over lunch or unplanned face-to-face meetings) means.

Financial Control:

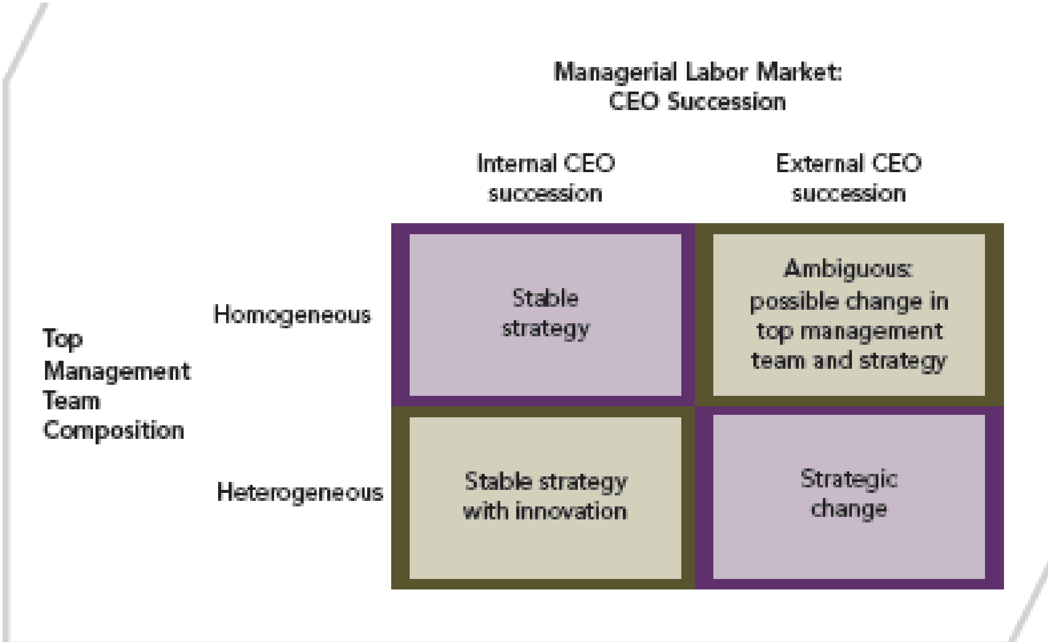
Entails corporate-level managers using objective criteria (ROI) to evaluate the returns being earned by the individual business units. Since these performance measures are largely independent, divisions often do not collaborate with other divisions unless there is a mutual benefit where each division will realize cost savings. However, when the corporate-level managers implement strategies that require interdependence the ability to access is reduced thereby reducing the ability of financial control process to add value.

STRATEGIC LEADERSHIP AND STYLE



EFFECTIVE STRATEGIC LEADERS

- Build strong ties with external stakeholders to gain access to information and advice
- Understand how their decisions impact their firm
- Sustain above-average performance
- Attract and manage human capital
- Do not delegate decision-making responsibilities
- Inspire and enable others to do excellent work and realize their potential
- Promote and nurture innovation through transformational leadership



Heterogeneous team: individuals with varied functional backgrounds, experiences, and education

Team members: bring a variety of strengths, capabilities, and knowledge and provide effective strategic leadership when faced with complex environments and multiple stakeholder relationships to manage.

- **Internal managerial labor market:** opportunities for managerial positions to be filled from within the firm
- **External managerial labor market:** opportunities for managerial positions to be filled by candidates from outside of the firm

Benefits of Internal Managerial Labor Market

- **Continuity**
- **Continued commitment**
- **Familiarity**
- **Reduced turnover**
- **Retention of "private knowledge"**
- **Favored when the firm is performing well**

Benefits of External Managerial Labor Market

- **Long tenure with the same firm is thought to reduce innovation**
- **Outsiders bring diverse knowledge bases and social networks, which offer the potential for synergy and new competitive advantages**
- **Fresh paradigms**

KEY STRATEGIC LEADERSHIP ACTIONS

Establishing Balanced Organizational Controls

Controls: Formal, information-based procedures used by managers to maintain or alter patterns in organizational activities

Controls help strategic leaders:

- Build credibility
- Demonstrate the value of strategies to the firm's stakeholders
- Promote and support strategic change

1. FINANCIAL CONTROLS

Focus on short-term financial outcomes

Produce risk-averse managerial decisions because financial outcomes may be caused by events beyond managers' direct control

2. STRATEGIC CONTROLS

Focus on the content of strategic actions rather than their outcomes

Encourage decisions that incorporate moderate and acceptable levels of risk

3. THE BALANCED SCORECARD

Framework to evaluate if firms have achieved the appropriate balance among the strategic and financial controls to attain the desired level of firm performance. Most appropriate for evaluating business-level strategies; it can also be used with the other strategies firms implement (e.g., corporate-level, international, and cooperative). Prevents overemphasis of financial controls at the expense of strategic controls

Perspectives	Criteria
Financial	• Cash flow • Return on equity • Return on assets
Customer	• Assessment of ability to anticipate customers' needs • Effectiveness of customer service practices • Percentage of repeat business • Quality of communications with customers
Internal Business Processes	• Asset utilization improvements • Improvements in employee morale • Changes in turnover rates
Learning and Growth	• Improvements in innovation ability • Number of new products compared to competitors • Increases in employees' skills

ENTREPRENEURIAL MIND-SET: FIVE DIMENSIONS

- **AUTONOMY:** Employees are allowed to take actions that are free of organizational constraints; permits individuals and groups to be self-directed.
- **INNOVATIVENESS:** Reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes. Cultures with a tendency toward innovativeness encourage employees to think beyond existing knowledge, technologies, and parameters to find creative ways to add value
- **RISK TAKING :** Reflects a willingness by employees and their firm to accept risks when pursuing entrepreneurial opportunities

  Examples of RISKS

  - Assuming significant levels of debt
  - Allocating large amounts of resources to projects that may not be completed
- **PROACTIVENESS :** Ability to be a market leader rather than a follower .Proactive organizational cultures constantly use processes to anticipate future market needs and to satisfy them before competitors learn how to do so .
- **COMPETITIVE AGGRESSIVENESS:** Propensity to take actions that allow the firm to consistently and substantially outperform its rivals.