STRATEGIC MANAGEMENT

The Concept of Strategy: The term "strategy" is acquired form the Greek word "Strategos" general sense. A plan or process or set of decision rules or makes an arrangement to create a common thread. Strategy means consciously choosing to be clear about company's direction in relation to what's happening in the dynamic environment. With this knowledge, a manager is in a much better position to respond proactively to the changing environment. The fine points of strategy are as follows:

- Establishes unique value proposition compared to your competitors
- Executed through operations that provide different and tailored value to customers.
- Identifies clear tradeoffs and clarifies what not to do.
- Focuses on activities that fit together and reinforce each other.
- Drives continual improvement within the organization and moves it toward its vision.

Mintzberg has identified the 5 P's of strategy. Strategy could be a plan, a pattern, a position, a ploy, or a perspective.

1. A plan, a "how do I get there"
2. A pattern, in consistent actions over time.
3. A position that is, it reflects the decision of the firm to offer particular products or services in particular markets.
4. A play, a maneuver intended to outwit a competitor by better mix and resource utilization.
5. A perspective that is, a vision and direction, a view of what the company or organization is to become.

- Strategy. 'A course of action, including the specification of resources required, to achieve a specific objective.'

- Strategic plan: 'A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of these goals.'

- Strategy is the direction and scope of an organization over the long term. This achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations...

- "The basic characteristic of the match an organization achieves with its environment is called its strategy.'

- 'Corporate strategy is the pattern of major objectives, purposes and goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be..

- 'Corporate strategy is concern with an organization's basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates.

Common themes in strategy:

From these different definitions strategy is concerned with:

- The purpose and long-term direction of the business;
- The scope of an organization's activities and actions required to meet its objectives (broad or narrow);

- Meeting the challenges from the firm's business external environment, such as competitors and the changing needs of customers;

- Using the firm's internal resources and competencies effectively and building on its strengths to meet environmental challenges;

- Delivering value to the people who depend on the firm, its stakeholders, such as customers and shareholders, to achieve competitive advantage.

Whatever interpretation is put on strategy, the strategic actions of an organization will have widespread and long-term consequences for the position of the organization in the marketplace, its relationship with different stakeholders, and overall performance.

Vision

A vision is what a company wishes to become or aspires to be. Vision has been defined in several different ways by several eminent personalities.

Kotler defines it as a **"description of something (an organization, corporate culture, a business, a technology, an activity) in the future".**

Miller and Ders view it simply **as the category of intentions that are broad, all inclusive and forward thinking.**

Vision comprises of two components:- (i) Audacious Goals and (ii) Vivid Description**.**

Audacious Goals are what the company would like to achieve, they are tough, need extraordinary commitment and effort, need a bit of luck and are ambitious. It is thinking far into the future of what to achieve and start today.

Vivid Description is putting the goals into words that evoke a picture of what it would be like to achieve your audacious goals.

Generic Electric- Corporate Vision is "we bring good things to life".

Ford Motors- "become the world's leading consumer company for automotive products and services".

Benefits of having a vision:

- It fosters the long term thinking.
- It helps in the creation of a common identity and shared sense of purpose.
- Visions are competitive, original and unique.
- They make sense in the market place as they are practical.

Basic elements of a vision statement:

- An organizations fundamental reason for existence beyond just making money.
- Its timeless, unchanging core values. The core values define the enduring character of an organization that remains unchanged as it experiences changes in technology, competition, management styles etc.
- Huge and audacious but achievable aspirations for its future.

So "Vision is a vividly descriptive image of what a Company wants to be or wants to be known for in future."

- Vision statement should clear to all
- It should be achievable
- It should be understandable

Ex -> NTPC:" To make available, reliable and quality power in increasingly large quantities."

-> BHEL: " A world class innovative, competitive and profitable engineering enterprise providing total business solutions."

Vision Statements

Many organizations today develop a "vision statement" which answers the question, what do we want to become? Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example the vision statement of Stokes Eye Clinic in Florence, South Carolina, is "Our vision is to take care of your vision." The vision of the Institute of Management Accountants is "Global leadership in education, certification, and practice of management accounting and financial management."

Mission

Mission is what the Company is and why it exists. The mission may be described as the scope of operation in terms of products or markets or of service and client. It tells what organization is, why it exists and the unique contribution it can make.

Definition:

The mission of a business may be defined as the fundamental, unique purpose that sets it apart from other firms of its type. It indicates the nature and scope of business in terms of product, market and technology.

Mission states its core ideology. Core ideology divided into two parts: (i) Core Purpose & (ii) Core Value

Core Purpose: - It is the reason that the firm exists.

Core Value: - It reflects the deeply hold values of the organization. It is independent of the current industry environment.

Characteristics:-

- The mission statement should be clear enough to lead to action.
- It should be broad.
- The statement of the firm wants to maintain its distinct image and characters in terms of excellent quality and service, latest technology and unique products offering.
- It should be realistic and achievable.
- It should be specific.
- It should be motivating.
- It should reflect why an organization exists and what it offers.

Example: Ranbaxy Laboratories: - "To become a research based international pharmaceutical Company."

Mission Statements

Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms. It addresses the basic question that faces all strategists: What is our business? A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. An example mission statement is provided below for Microsoft. An organization's mission is its purpose, or the reason for its existence. It states what it is providing to society .A well conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company's operation in terms of products offered and markets served.

Microsoft's mission is to create software for the personal computer that empowers and enriches people in the workplace, at school and at home. Microsoft's early vision of a computer on every desk and in every home is coupled today with a strong commitment to Internet-related technologies that expand the power and reach of the PC and its users. As the world's leading software provider, Microsoft strives to produce innovative products that meet our customers' evolving needs.

Goals:

Goal denotes what an organization hopes to accomplish in a future period of time. Goals are close-ended attributes, which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, several theorists on the subject do not make this distinction.

Characteristics:

- They are very specific and concrete.
- They are established wherever and whenever the top management wishes to guide activity, set standard for performance and measure performance.
- Generally goals are set forth in the budgeting process.
- Goals are time bound and having a short span of time.

Difference between goals and objectives:

1. Objectives are long-term but goals are short term, Goals are more specific than objectives
2. Objectives focus more on the external environment where as goals are expressed in terms of conditions existing within the enterprise, Goals are more measurable than objectives

Factors Influencing Goal Setting:

- External environment
- Top management relationship with others
- Management ability
- Values and preferences of the executives.

Objectives

An objective indicates the result that the organization expects to achieve in the long run. It is an end result, the end points, something that you aim for and try to reach. It is a desired result to wants for which behavior is directed in an organization. Objectives are the products of specific concrete thinking.

Characteristics: -

- Objectives are structured in a hierarchy and supported by goals.
- Objectives are interrelated and interdependent.
- Objectives can be broken down into a group of objectives.
- Organizational objectives are related to time, long range objectives extending over five or more years, are the ultimate or dream objectives of an organization.
- Objectives should define the organization's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame.
- Objectives should be measurable and controllable.
- Objectives should be challenging.
- Different objectives should correlate with each other.
- Objectives should be set within constraints.

Factors influencing objective formulation: Glueck identifies the following factors:-

- The forces in the environment.
- Internal resources and power relationship.
- Value system of the top executives.
- Awareness by management of the past objectives of the firm.

The objectives of a corporate business entity are determined through an interaction between it and its activities on the one hand, and the environmental needs and responses on the other. Objectives are organic, social, economic, human national and strategic.

Objectives may be defined as 'the decision rules which enable management to guide and measure the firms' performance towards its purpose. Objectives here are the statement of planning purpose developed within any kind of business plan. They are established within the framework of planning process and they normally envelop from tentative and vague ideas to more specific declaration of purpose objectives, furthermore, are always present in a planning process even though they are sometimes unconsciously established.

Ex:- Objectives Infosys:-

- To be a world class software house in the global market
- To be a recognized and respected name for software solutions

- To create a competent, focused prospenons and socially conscions team of professionals
- To create a wealth for the company shareholders and employees by legal and ethical means.

Strategic Management Process

Strategic management consists of four basic elements.

I. Environmental scanning
II. Strategy formulation
III. Strategy implementation
IV. Evaluation and control

Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identity strategic factors – those external and internal elements that will determine the future of the corporation. The external environment consists of variables (**O**pportunities and **T**hreats) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the corporation exists. The internal environment of a corporation consist of variables (**S**trengths and **W**eakness) that are within the organization itself and are not usually within the short run control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe those particular **S**trengths, **W**eakness, **O**pportunities, and **T**hreats that are strategic factors for a specific company

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

Strategy implementation is the process by which strategies and polices are put into action through the development of programs, budgets and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organization. Most of the times, strategy implementation is carried out by middle and lower level managers with top management's review. Some times refereed to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation. It includes programs, budgets and procedures.

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

CORPORATE PLANNING

Corporate planning is a comprehensive planning process which involves continued formulation of objectives and the guidance of affairs towards their attainment. It is undertaken by top management for the company as a whole on a continuous basis.

Druker defines corporate planning as "a continuous process of making entrepreneurial decisions systematically, and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions, and measuring the results against expectations through organized systematic feedback. This definition clearly emphasizes the relation of corporate planning to strategy.

According to Hussey “Corporate long range planning is not a technique, it is a complete way of running a business. Corporate planning is a way of keeping the company’s eyes open.

The **objective** of corporate planning is to identify new areas of investment and marketing. The **purpose** of corporate planning process is to formulate the organization’s purpose, missions, objectives, goals, policies, programme strategies and major action plans to achieve its objectives.

The **corporate planning process** involves the following steps:

(i) Formulation of strategic intent.
(ii) Establishing planning premises.
(iii) Determining planning period.
(iv) Environmental appraisal
(v) Generation of strategic alternatives.
(vi) Evaluation of alternatives and selection.
(vii) Developing plans, Decisions in terms of strategy, policies and programmes.
(viii) Implementation.
(ix) Feedback and control.

Prerequisites for success in corporate planning are as follows:

(i) The chief executive must be **totally committed and involved** in the corporate planning process.
(ii) **Participation** of those executives who would be responsible for implementation must be ensured.
(iii) The process of corporate planning should be introduced on **continuous basis** to cope with ever changing environmental factors.
(iv) The executives must understand that the real purpose of corporate planning is to **provide direction** to the organization.

Nature of corporate planning:

- Long-term planning of whole organization.
- It is about planning after strategies are made at corporate level.
- Systematic thinking, disciplined and rigid.
- Involves anticipation of future environment, decisions are made in present.
- Serves as a route map.
- Lays down objectives and provides strategies to achieve them.
- Firms become very prepared to face environmental imbalances.
- Wiser and best utilization of resources.
- Hedges against risk and uncertainty.
- Provides the organization, a best possible fit.
- Builds core competencies and competitive advantages.

STRATEGIC BUSINESS UNITS

Some organizations encounter difficulty in controlling their divisional operations as the diversity, size, and number of these units continues to increase. And corporate management may encounter difficulty in evaluating and controlling it's numerous, often multi industry divisions. Under these conditions, it may become necessary to add another layer of management to improve strategy implementation, promotion synergy, and gain greater control over the diverse business interests. It can be achieved by grouping various divisions' in terms of common strategic elements. These groups commonly called strategic business units (SBUs).

• Strategic business unit begin to identifying key businesses also termed as strategic business unit.

• SBU is a unit of the company. It has a separate mission and objectives.

• It can be planned independently of its mission, vision and objectives from other company businesses.

• The SBU can be a division of a company; it has a product line within a division or even a single product or brand.

• SBUs are common in organizations; these units are located in multiple countries with independent manufacturing and marketing setups.

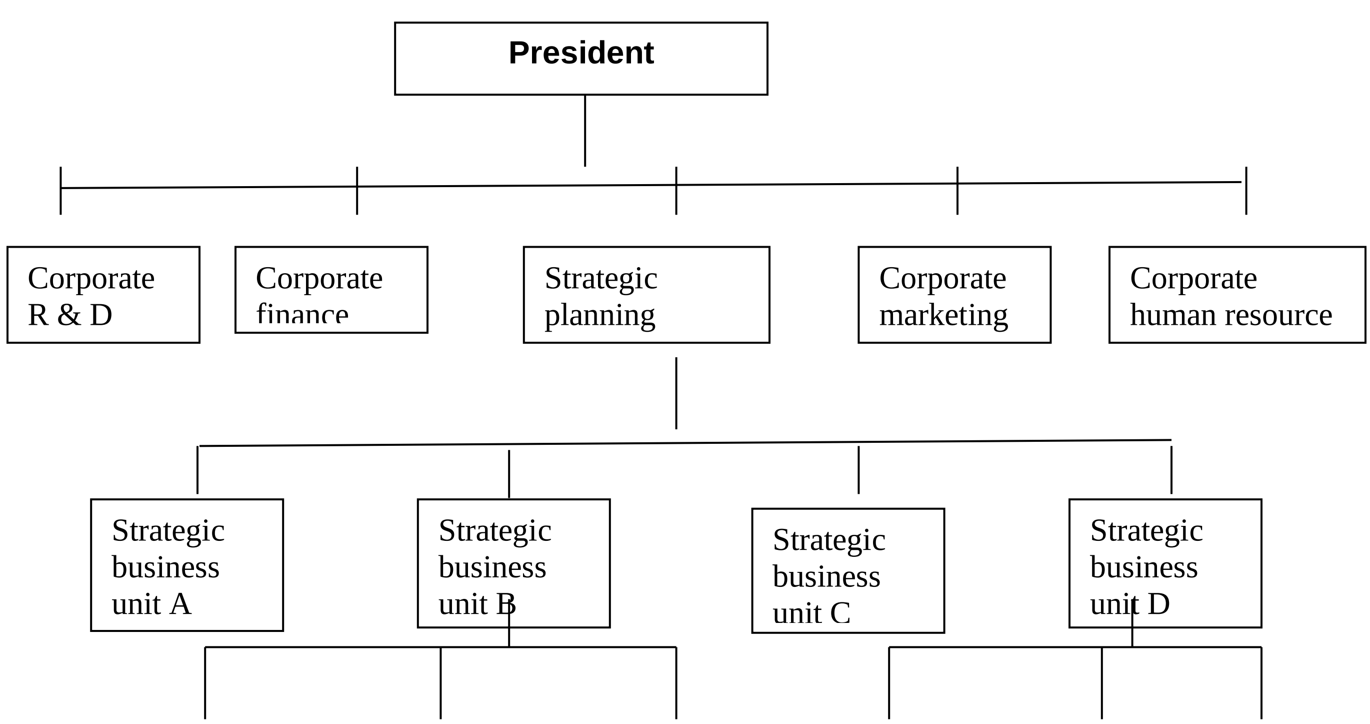
Characteristics of SBUs:

• Single business or collection of related businesses which can be planned for separately in different division in across global.

• It has consists of competitors in market.

• Division strategic manager is responsible person for strategic planning and profit of the company.

Strategic Business Unit (SBU) structure:



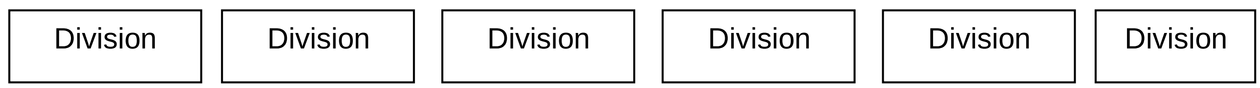


Figure: SBU Structure

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its mangers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.

This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems. It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness with each SBU at the third level.

This means that, within each SBU, divisions are related to each other, as also those SBU groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organized to achieve synergy. Individual SBUs are treated as profit centers and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organized into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g. Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability. By its strategy, Sony is one of the few companies that have the opportunity to integrate software and content across a broad range of consumer electronics products. It will implement this strategy through the SBU structure.

Advantages of SBUs Organizational Structure:

• It improves coordination between divisions with similar strategic concerns and product / market environment.

• It tightens the strategic management and control of large, diverse business enterprises.

• It facilitates distinct and in depth business planning at the corporate and business levels.

• It channels accountability to distinct business unit.

• Strategic businesses units enable the organization in terms of accurately monitor the performance of individual businesses and simplifying control problems.

• It also compares between divisions in this way improving the allocation of resource and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

Disadvantages of Strategic Business Unit Organizational Structure:

• It places another layer of management between the divisions and corporate management.

• Its dysfunctional competition for corporate resource may increase.

• The role of the group vice president can be difficult to define.

• It is difficult in defining the degree of autonomy for the group vice presidents and division managers.

Modes of strategic decision-making

Henry Mintzberg has given three most typical approaches of strategic decision making which include:

- . Entrepreneurial mode
- . Adaptive mode
- . Planning mode

We will now examine the three modes of strategic decision making:

Entrepreneurial Mode: Strategy is made by one powerful individual who has entrepreneurial competencies like innovation and risk taking. The focus is on opportunities. Problems are secondary. Generally the founder is the entrepreneur and the strategy is guided by his or her own vision of direction and is exemplified by bold decisions. The success of Biocon India founded by Kiran Mazumdur shaw is an example of this mode of strategic decision making.

Adaptive mode: Sometimes referred to as "muddling through," this decision-making mode is characterized by reactive solutions to existing problems, rather than a proactive search for new opportunities. Much bargaining goes on concerning priorities of objectives. Strategy is fragmented and is developed to move the corporation forward incrementally. This mode is typical of most universities, many large hospitals and a large number of governmental agencies.

Planning mode: This decision making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy. It includes both the proactive search for new opportunities and the reactive solution of existing problems. Hewlett-Packard (HP) is an example of the planning mode. After a careful study of trends in the computer and communications industries, management noted that the company needed to stop thinking of itself as a collection of stand-alone products with a primary focus on instrumentation and computer hardware. Led by its new CEO, Carly Florina, top management felt that the company needed to become a customer-focused and integrated provider of information appliances, highly reliable information technology infrastructure and electronic commerce service.

A fourth mode of 'logical incrementalism' was later added by Quinn. Logical Incrementalism: In this mode, top management first develops reasonably clear idea of the corporation's mission and objectives. Then in its development of strategies, it chooses to use "an interactive process in which the organization probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies". Thus the strategy is allowed to emerge out of debate, discussion, and experimentation. This approach appears to be useful when

- The environment is changing rapidly,
- It is important to build consensus, and
- Needed resources are to be developed before committing the entire corporation to a specific strategy.

Dr. Reddy's Laboratories follows this mode.

Strategic Intent

CK Prahald and Hamel coined the term 'strategic intent' to indicate an obsession of an organization, some times having ambitions that may even be out of proportion to their resources and capabilities. They explain the term 'strategic intent' like this.

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress…. At the same time, strategic intent is more than simply unfettered ambition. The concept also encompasses an active management process that includes:

- ⇨ focusing the organization's attention on the essence of winning,
- ⇨ motivating people by communicating the value of the target,
- ⇨ leaving room for individual and team contributions,
- ⇨ sustaining enthusiasm by providing new operational definitions as circumstances change and
- ⇨ Using intent consistently to guide resource allocations".

Hamel and Prahlad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent –as evident from their path breaking article, published in 1989 in the Harvard Business Review- seems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts.

Indian examples of companies with strategic intent are late Dhirubai Ambani's Reliance group with the strategic intent of being a global leader of being the lowest cost producer of polyster products a status achieved with vertical integration and operational effectiveness. The Indian hardware grind, HCL's aspiration to become global software and Service Company is working with the strategic intent of putting hardware, software and networking together and making it work At Procter & Gamble (P&G) employees participate in a program the CEO calls "combat training, "The program's intent is to focus on ways P&G can beat the competition.

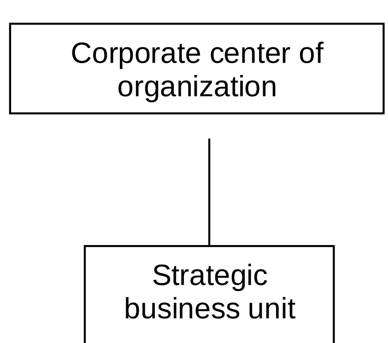
Hierarchy of strategy / Hierarchical Levels of Strategy:

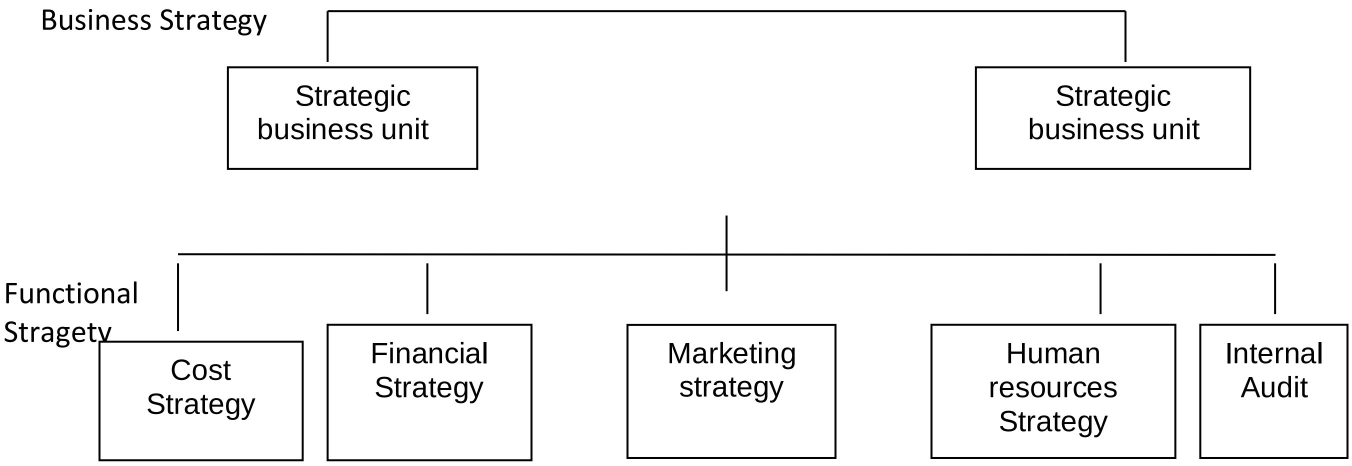
Strategy can be formulated under different levels:

- Corporate level
- Business unit level
- Functional or departmental level.
- Operating strategy
- Global Strategy

Levels of strategy: **Organization chart showing corporate, strategic business unit & functional strategies.**

Corporate Strategy





While strategy may be about competing and surviving as a firm, one can argue that products, not corporations compete, and products are developed by business units. The role of the corporation then is to manage its business units and products so that each is competitive and so that each contributes to corporate purposes. While the corporation must manage its portfolio of businesses to grow and survive, the success of a diversified firm depends upon its ability to manage each of its product lines. While there is no single competitor to Textron, we can talk about the competitors and strategy of each of its business units. In the finance business segment, for example, the chief rivals are major banks providing commercial financing. Many managers consider the business level to be the proper focus for strategic planning.

Corporate Level Strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporate level strategy is concerned with:

- Reach - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.
- Competitive Contact - defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)
- Managing Activities and Business Interrelationships - Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.
- Management Practices - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm. At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- Influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively. Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Operating strategy - These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

Global Strategy-It is addressing how to expand business operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.
The organization performance in the market place is significantly influenced by the three dominant factors are listed below:
• The organization correct market position
• The nature of environment opportunities and threats
• The organizations resource capability to capitalize the opportunities and its ability to protect against the threat.

<u>Environmental Scanning:</u>
Environmental scanning also known as environmental monitoring is the process of gathering information regarding company's environment, analyzing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronize its marketing programmes with its environmental changes.
The environment of business can be categorized into two broad categories micro-environment and macro-environment.

Macro Environment: consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.

Demographic

MACRO Environment

- → **Economic**
- → **Government**
- → **Legal**
- → **Political**
- → **Cultural**
- → **Technological**
- → **Global**

Micro Environment: Consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis.

MICRO Environment →

- → **Consumer/Customer**
- → **Competitors**
- → **Organization**
- → **Market**
- → **Suppliers**
- → **Intermediaries**

This is also known as the task environment and affects business and marketing in the daily operating level. When the changes in the macro environment affect business in the long run, the effect micro environmental changes are noticed immediately. Organizations have to closely analyze and monitor all the elements of micro environment in order to stay competitive.

<u>SWOT Analysis:</u>

The next component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis.

Strength: Strength is an inherent capability of the organization, which it can use to gain strategic advantage over its competitors.

Weakness: A weakness is an inherent limitation or constraint of the organization, which creates strategic disadvantage to it.

Opportunity: An opportunity is a favorable condition in the organization's environment which enables it to strengthen its position.

Threat: A threat is an unfavorable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

Its central purpose is to identify the strategies that will create a firm-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates. Strategic mangers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability. Thinking strategically requires mangers to identify the set of strategies that will create and sustain a competitive advantage:

- Functional-level strategy, directed at improving the effectiveness of operation within a company, such as manufacturing, marketing, materials, management, product development, and customer service.

- Business-level strategy, which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.

- Global strategy, addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.

- Corporate-level strategy, which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?

The organization's performance in the marketplace is significantly influenced by the three factors

- The organization's correct market position
- The nature of environmental opportunities and threat
- The organization's resource capability to capitalize the opportunities and its ability to protect against the threat.

The significance of SWOT analysis lies in the following points:

- It provides a logical framework SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy. Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to differences in approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.

- It presents a Comparative Account: SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. The helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths. In case a different strategy is needed, a situation varies.

- It guides the strategist in strategy identification: it is natural that a strategist faces a problem when his organization cannot be matched in the four patterns. It is possible that the organization may have several opportunist and same serious threats. It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors. In such situation, SWOT analysis guides the straight to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

SWOT analysis helps mangers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today. Faced with constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e. an organization's SWOT analysis.

Potential resource strengths and competitive capabilities	Potential weaknesses and competitive deficiencies
A	B
Potential company opportunities	Potential external threats to company's well being
C	D

Figure: SWOT analysis: What to look for in sizing up a company's strengths, weaknesses, Opportunities and threats.

A. Potential Resources Strengths and competitive capabilities:

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business.
- Strong brand name, image/company reputation.
- A widely recognized market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Proprietary technology/superior technological skills/important patents.
- Superior intellectual capital relative to key rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving product processes.
- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- A reputation for good customer service.
- Better product quality relative to rivals.

- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

B. Potential Resource Weaknesses and competitive deficiencies:

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- Sub par profitability; no cost control measures or cost accounting practices.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- Too narrow a product line relative to rivals.
- Weak brand image or reputation.
- Weaker dealer network than they rivals and/or lack of adequate global distribution capability.
- Sub par e-commerce systems and capabilities relative to rivals.
- Short on financial resources to find promising strategic initiatives.
- Lots of underutilized plant capacity.
- Behind on product quality and/or R & D and/ or technological know-how.
- Not attracting new customers as rapidly as rivals.

C. Potential company opportunities:

- Serving additional customer groups or expanding into new geographic markets or product segments.
- Expanding the company's product line to meet a broader range of customer needs.
- Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
- Using the internet and e-commerce technologies to dramatically cut costs/ or to pursue new sales growth opportunities.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Openings to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company's brand name or reputation to new geographic areas.

D. Potential External Threats To Company's Well-being:

- Likely entry of potent new competitors.
- Loss of sales to substitute products.
- Mounting competition from new internet start-up companies pursuing e-commerce strategies.

- Increasing intensity of competition among industry rivals-may cause squeeze on profit margins.
- Technological changes or product innovations that undermine demand for the firm's product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulatory requirements.
- Growth bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry's product.
- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.

<u>Internal and External environmental analysis</u>

<u>Internal environmental analysis / EVALUATION OF INTERNAL FACTORS</u>

The major objective of internal analysis is a careful determination of an organization's strengths and weakness. An internal analysis generates a long list of resources and capabilities have provided little to help in strategy formulation. Instead, internal analysis must identify and evaluate a limited number of strengths and weaknesses relative to the opportunities targeted in the organization's present and future competitive environment.

Strategist evaluates the key internal strengths and weaknesses. He has considered four important basic perspectives. They are as follows:

- Comparison with organization's past performance
- Stages of product/market evolution
- Comparison with the competitors
- Comparison with key success factors in the organization's industry

Comparison with Past Capabilities and Performance

Strategist has taken more care about the comparison with past capabilities and performance. However, the historical experience of the organisation as a basis for evaluating internal factors. Strategic managers are most familiar with the organisation internal capabilities and constraints. Therefore, they have been immersed over time in managing the organization's financial, marketing, production facilities, sales organization, financial capacity, control systems, and key personnel. Organisation has developed own strategy on the basis comparison with past capabilities and performance.

Stages in Product/Market Evolution or Product Life Cycle

Product life cycle is the second factor to ascertainment of strengths and weakness of organization. Stages in product life cycle are essential from the point of view of successful of the organisation. As a result, strategist can use changing patterns associated with different stages in product lifecycle/market evolution as a framework for identifying and evaluating the organization's strengths and weakness. There are four major stages of product life cycle/market evolution. They are as below:

- Introduction
- Growth
- Maturity
- Decline/Saturation

And typical changes in functional capabilities often associated with business success at each stage of the development of product/market cycle. Strengths are needed in the growth stage because of rapid growth brings competitor into the market. This stage involves with brand recognition, product or market differentiation and the financial resources to support both heavy marketing expenses and affect the price competition and effective cash flow can be key strengths at this stage.

As the product/market moves through a "shakeout" phases and into the maturity stage, this stage market growth continues but at a decreasing rate the number of market segments begins to expand, while technological change in product. While the products markets move toward a saturation decline stage, this stage strengths and weakness center on cost advantages, superior supplier or customer relationships and financial control.

Comparison with Competitors

A major focus in determining organisation strengths weaknesses is the comparison with potential competitors. Organisation in the similar industry often have different marketing potential skills, financial resources, operating facilities and locations, technical know how, brand image, levels of integration, managerial talent. And so on. These different internal capabilities can become relative strengths or weaknesses depending on the strategy of the organisation to select. In selection strategy, strategist should compare the organization's key internal capabilities with those of its rivals, thereby isolating key strengths or weaknesses.

Success Factors in the Industry

The key determinant success factor in the industry may be used to identify the internal strengths and weaknesses of the organisation. By scrutinizing industry competitors, as well as customer needs, vertical industry structures, channels of distribution costs barriers to entry, availability of substitutes, and supplier. A strategist seeks to determine whether organization's current internal capabilities represent strengths or weakness in the new competitive factors.

Quantitative Versus Qualitative Approaches in Evaluating Internal Factors of the Organisation

Numerous quantitative tools are available for evaluating selected internal capabilities of a term. Ratio analysis is useful for evaluating selected financial, marketing and operating factors. The organization's balance sheet and income statement are important sources from which to derive meaningful ratios. Quantitative tools cannot be applied to all internal factors and the normative judgments of key planning participants may be used in evaluation.

<u>External environmental analysis/ EVALUATION OF EXTERNAL FACTORS</u>

The concept of external environment is important for every kind of business operation. External environment is an attempt to understand the outside forces of the organizational boundaries that are helping to shape of the organisation. External environment clearly considerable bearing on that which transpires will in. The external environment can provide both facilitating and inhibiting influences on organizational performance. Key dimension of the external environment principally consists of a micro environment and a macro environment.

External Environment

External environment of the business can be categorized into two broad categories as outlined

• Micro Environment
• Macro Environment

Micro environment of business enterprise refers to study on small area or immediate periphery of the business organisation. Micro environment directly or regularly influence to business organisation. It analyses the following important factors:

• Human resource (Employees) of the firm, their characteristics and how they are organized in the firm.
• It analyses the customer base of firm who are major and minor clients of business.
• It analyses the way of rising of finance of the firm.
• It analyses who are the suppliers of raw materials and how are the supply chain network between the supplier and firm being developed?
• It analyses the local communities of firm where its operating.
• It analyses the direct competition from the competitors and how they performing business.

Macro environment study the overall issues of firms and broader dimensions. It principally consists of economic, technological, and political legal and socio-cultural. Macro environment issues are as outlined:

• It analyses the who are their competitors in the competitive world in which how they are operate and know what are threats from the competitors.
• It analyses which areas of technology become pose a threat to current product and services and find the reasons for threat.
• To analyses the bargaining power of suppliers and customers.
• It analyses nature of competition and how to face the threat and weakness of the firm.

Environmental Scanning

Environmental scanning is also known as environmental monitoring. It is the process of gathering information regarding firms/ organization's or company, analyzing it and forecasting the impact of all predictable trends in environmental changes. Successful marketing always depends on its environmental scanning and its marketing programmes which depend on its environmental changes.

Micro/Operating Environment

The micro / operating environment consist in the organisation or company's immediate environment that affects the performance of the organisation/company. These include as listed below:

It is quite important that micro/operating environment factors are more intimately linked with organisation or company than macro/remote environment factors. The micro/operating forces need not necessarily affect all organisations in a particular industry.

Some of the micro factors particularly affect an organisation. For instance, an organization that depends on a supplier may have a supplier environment that is quite entirely different from that of an organisation whose supply source is also different. When competing organizations in an industry have the same microelements, the relative success of the organization depends on their relative effectiveness in dealing with these elements.

Suppliers

Supplier is the important force of the micro/operating environment of an organization or company i.e., the supplier is those who supply the inputs like raw materials and components to the organisation. The major and important of reliable source / sources of supply to the smooth function of a business is very important. Uncertainties are generated due to the several supply problems like maintenance of inventory, delay of supply of inventory to organisation.

Many organisations give high importance to vendor development, vertical integration for solve the supply problem. Organisation has depended on a single supplier is a risk factor due to a strike, lockout or any other production problem of the supplier. Always an organisation has depended on several supplier of the same raw material. Similarly, a change in attitude or behavior of the suppler may also affect the organisation. Hence, multiple sources of supply often help reduce such risks. The supply management assumes more importance in a scarcity environment.

Customers

The major task of business is to create and development of customers. A business can exist only because of its customers. Customers are the people who pay money to acquire or buy an organisation product in the form of goods and services. Monitoring the customer's behavior is a prerequisite for the business success. Consumer is the one who will ultimate use of company's products and services. Organization may have different kinds of customers. They are listed below:

- Individual
- Households
- Industries
- Other commercial establishments
- Governments
- Other institutions

According to Peter Drucker the aim of business is to create and retain customer. For instance, the customers of an auto-mobile sphere parts manufacturing organisation may include individual automobile, owners, automobile manufactures, public, private sector transport undertakings and other transport operators.

Organisation depends on a single customers is often much difficulty and risky task. Organisation cannot survival without survival. Therefore, it may place the organization in a poor bargaining position, apart from the risks of losing business result to winding up of business by the customer or due to the customers switching over to the competitors of the organisation. Strategic choice of the customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition. Firms should know about who are their customers, expectations and buying patterns.

Competitors

An organisations competitor includes not only the other organisation which market the same or similar products but also those who compete for the discretionary income of the customers. For instance, the competition for a organization's televisions may not come from other televisions manufactures but also from two –wheeler, refrigerators, cooking ranges, stereo sets and so on and from organisations offering saving and investment scheme like banks, unit trust of India, companies accepting deposits or issuing shares or debenture etc.

This competition among those products maybe described as desire competition as the primary task here is to influence to the basic decision of the consumer. Such desires competition is generally very high in countries characterized by limited disposable incomes and many unsatisfied desires because of human wants are unlimited. If the consumer decides to spread his discretionary income and recreation he will still be confronted with a number of alternatives to select from such computer, stereo, two in one, three in one. The competition among such alternatives that satisfy a particular category of desire is called generic competition. An implication of these demands a marketer should strive to create primary and selective demand for his products and services.

The immediate environment of an organisation may principally consist of a number of marketing intermediaries which are "organisations that aid the organisation in promoting, selling and distributing its goods to final buyers". In many cases, the customers are not aware of the manufacturer of the products and services they want buy. They want to buy products and services from the local intermediaries. The marketing intermediaries are as outlined:

• Middlemen
• Agents
• Merchants
• Marketing agenesis
• Advertising agencies
• Marketing research firms
• Media
• Consulting firms

Publics

Public is the one important marketing intermediaries for promoting, advertising, channeling, selling the organization's product into different segmentation. If public accept the product of the organisation, definitely it will successful in the market, suppose product is rejected by the public definitely it will close the company.

Organisation

• Organisation involves the group of employees who are working different positions and different nature of jobs. These employees come from the outside. And individual employee interest is different and varied.
• An organisation has consisted of several non specific factors in the organization's environment which is affecting its activities. Owners, Board of Directors and employees are likely to influence to organisation.
• Owners are individuals, shareholders, groups, or organisations who have a major stake in the organisation. Owners are vested interest in the well being of the company.
• Board of directors are originate in companies formed under the companies Act 1956. The board of directors is elected by the shareholders. Board of directors are responsible and in charge of the organisation, also overseeing the general management of the organisation. In this way, board of directors has to ensure that run business in best serves to the shareholders' interest.
• Employees are the asset of the organisation who are intended to work in an organization. Employees are the major force of the organisation. Work culture, values and goals of the organisation are important to employees. Therefore, they differ in terms of beliefs, education, attitudes, and capabilities. When there is difference with employee goals and manager's goals that time entire organization will be suffered due to different attitude and reactions about in organization.

Market

Market is to essential and important to organisation. The market structure is to be studied in the form of its actual and potential size, its growth and also attractiveness of product and services of the organisation. Strategist should be studied the trends and development and key success factors of the market. The major marketing issues are outlined:

- What is the cost structure of the market?
- What is the price sensitivity of the market?
- What is the existing distribution system of the market?
- Is the market growing/mature/decline?

Macro/Remote Environment

Macro environment is largely external to the business enterprise. Macro environment factors are uncontrollable factors and beyond the direct influence and control of the organisation. Its factors are powerfully influence to its functions. External environment consists of individuals, groups, agencies, organisations, events, conditions and forces. These are frequently contacted by the organisation for its functions. It establishes good interaction and interdependent relations in form of conducts business transitions. Proper designing and administration of macro environment enable appropriate strategies and policies to cope with and make changes. Other wise negotiates and buildup its future by using of the macro environment factors.

The macro/remote environment principally consists:

- Economic environment
- Political environment
- Legal environment
- Socio-cultural environment
- Demographic environment
- Natural environment
- Physical and technological environment
- Technological Environment
- Global or International environment

Macro environment force is uncontrollable i.e. uncontrollable factors of business organisations.

ECONOMIC ENVIRONMENT

The economic environment constitutes to economic conditions, economic polices, and the economic system that is important to external factors of business.

The economic conditions of the country include:

- Nature of the economy of the country.
- The general economic situation in the region, conditions in resource markets like money, material, market raw material components, services, supply markets and so on which influence the supply of inputs to the organisation, their costs, quality, availability and reliability of supply of products and services.
- It determines the economic strength and weakness in the market.
- Purchasing power of the individual depends upon the economic factors like current income, price, savings, circulation of money, debt and credit availability.
- People income distribution pattern analyses the market possibilities and impacts on enterprise.
- Development process of the country.
- Availability of economic resources of the country.
- The level of the economic income of the country.
- The distribution of income and assets of the country.
- Public finance of the country.

These are the very important determinants of business strategy in the organisation for formulating, implement and controlling of economic policies.

Economic environment refers to the nature and direction of the economy within which business organisation are to operate. For instance, in developing country, the low income may be reason for the very high demand for the product and services of the business.

In countries where the investments and income are steadily and rapidly rising, business prospects are generally bright and further investments are encouraged. In developed economics, replacement demand accounts for a considerable part of

the total demand for many consumers durables where as the replacement demand is negligible in the developing countries.
Money is the lifeblood of any business organisation and the economic system. The economy consists of micro-economics and macroeconomics. Micro and macro elements are important from the point view of strategic decisions. Strategist must scan, monitor, forecast, and assess the following critical elements of the macro and micro economic environment:
• Economic system
• Nature of the country economy
• The monetary and fiscal policies
• Autonomy of the economy
• Functions of economics
• Factors of productions
• Economic trends and structures
• Economic policy statements and structure
• Economic legislation
• Economic problems
• Import and export policy
• Tax rates
• Interest rates
• Government budget deficit
• Consumption pattern
• Price fluctuations
• Global movement of labour and capital
• Stock market trends
• Coalitions of countries and regional states
• Availability of credits
• Inflation trends in country
• Unemployment trends
• Foreign country economic conditions
• Company of Petroleum Exporting Countries (OPEC)) policies.
Economic environment encourages liberalization, privatization and globalization of the economic policies in the business environment. Every country's development is based on the economic environment activities that focus to the development process of the country.

POLITICAL-LEGAL ENVIRONMENT
Political environment refers political and government and legal environment. It has close relationship with the economic system and economic policy. For instance; the communist countries had a centrally planned economic system. Communist government countries laws are control investment and related matters. There are number of law that regulates the conduct of the business. These laws cover such matter as standards of business and its production and service.
• The democratic governments countries law's / act are passed in the parliament. Then they are regulating rules and regulation of business according to the act.
• Political stability, responsibility, political ideology and level of political morality, the law and order situation, and practice of the ruling party and major purposefulness and efficiency of the government agencies.
• Political agency's nature, its influence to economic and industrial act ivies in the country.
• Government policies like fiscal, monetary, industrial, labour, and export and import policies which are influenced to specific legal enactments and framework towards the business organisation political legal function and degree of the effectiveness which are influenced to formulate and implement policy in the legislature.
The political environment is based on the uncertainty; therefore, demographic countries consist of number of political parties. Political parties aren't got clear majority to form a government. In this situation, industry and

commerce collapsed their business activities due to hung government. The political parties are unable to formulate stable government, it affect and fluctuate the government policies. Therefore, business organisation and public are needed to the stable government.

Elements of Political and legal Environment

There are three important elements are associated with the political and legal environment as listed below:

- Government
- Legal
- Political

Government

- Government policies, rules and regulation are controlling and monitoring the business enterprises and its activities in the state.
- Secondly, the type of government administration of the state and what is the business policy of state? These things should be evaluated by the strategist from point of view of business.
- Strategist should study about the changes in the regulatory framework of the government and impact on the business.
- Government tax policies are critical and affect to the business organisation in the state.

Legal

- Sound legal system is the basic requirement for running of the business operating with in the state.
- Strategist should aware of various business laws which are protecting consumers, competitors, and organisation.
- Business organisation should aware of the laws which relevant to companies, competitors, intellectual property, foreign exchange, labor and so on.

Political

- Political system is also influenced to business and its activities.
- Political pressure groups influence to government and in this way some extent to control and regulate business activities with in the country.
- Recently, special interest groups and political action committee put pressure to business organisation and to pay more attention towards consumer's rights, minority rights and women rights.
- Apart from the sporadic movements against certain products and services and some business organisation in the state.

SOCIO–CULTURAL ENVIRONMENT

Socio-cultural environment is an important factor that should be analyzed while formulating company business strategies. If the company is ignoring the customs, traditions, tastes and preferences and education. There factors affect to business. It consist of factors which are related to human relationships and the impact of social attitudes and cultural values. These are bearing on the business of the organisation.

Business organisation is a successful due to appropriate strategies effective utilization of socio-cultural environmental factors. Social cultural environment is an important for MNC. Therefore, MNC should study of the social cultural activities of the region, where there are introducing their own business. Even when the people so different cultures use the same basic product, the mode consumption, conditions of use or perceptions of the product attributes may very so much so that the product attributes method of presentation, promoting product may have to varied to suit the characteristic of different market segmentation. Socio-cultural factors are beliefs, values, norms and traditions of the society determine how individuals and organisations should be interrelated.

The difference in language sometimes poses a serious problem, even necessitating a change in the brand name. The value and beliefs associated with colour vary significantly between different cultures. For instance, white indication death and

mourning in china and Korea; but some country it expresses happiness and is the colour of the wedding dress of the bride.

Some of the socio-cultural factories are influenced to operating environment of organisation as outlined:

• Social issues like the role of the business in the society, environment pollution, corruption, use of mass media and consumption of products and services which are offered by the company.
• Social attitudes and values issues like social customs, beliefs, rituals and practices, changing life style patterns and materialism are expectations of society from the business.
• Family structure, values and attitudes towards the family and these changes also influence to business and its operation.
• Role of the women, position, and nature of responsibilities in society is also influenced to business and its operation in market.
• Educational levels, awareness and consciousness of rights and work ethics of the society can be influenced to business and its operation.
Social practice, beliefs and associated factors are helpful for promotion of the certain products, services or ideas, the success of marketing depends to a vary large extent, on the success in terms of changing social attitudes or value systems.

DEMOGRAPHIC ENVIRONMENT

Demography refers to study of the population. Demographic factors are as below:
• The population size
• Growth rate of population
• Age composition of the population
• Family size
• Economic stratification of the population
• Education levels
• Language
• Caste
• Religion
• Race
• Age
• Income
• Educational attainment
• Asset ownership
• Home ownership
• Employment status and location
These factors are the relevant to the business for formulating and implementing of strategy for controlling and accomplishment of the objectives of the organisation. Demographic factors like size of the population, population growth, rate, age, composition, life expectancy, family size, spatial dispersal, occupational status, employment pattern etc., affect the demand for goods and service. The growth of population and income result increases demand for goods and services. A rapidly increasing population indicates that a growing demand for many products. For instance, developing countries like India, Pakistan, etc; high population growth rate indicates an enormous increase in labor supply. The occupational and spatial nobilities of population have implications for business. Labor is easily mobility between different occupations and regions. Its supply will be relatively smooth and this will be relatively and this will affect the wage rate. If a labor is highly heterogeneous in respect of language, caste and religion, ethnicity, etc., personal management is likely to become a more complex task. The heterogeneous population with its varied tastes, preferences, beliefs, temperaments, etc, gives rise to different demand patterns and calls for different marketing strategies.
Business organisation needs to study different demographic issues which are particularly address the following issues as listed below:
• What democratic trends which will affect the market size of the different types of industry?
• What democratic trends will represent opportunities or threats?

Interested Domestic Environment Factors to Business

We shall briefly discuss a few demographic factors which are interest of business:

• Population Size
• Geographic Distribution
• Ethnic Mix
• Income Distribution

Population Size

Size of population is important either small or large to business organisation. Companies use population size for critical assessment for customer behavior and changes of the customer behavior and its impact on business. Important issues are outlined which are relating with population:

• It study the changes in a nation's birth rate and family size.
• It study the increase and decrease in the total population.
• It also study the changes effects in terms of rapid population growth on natural resources or food supplies.
• It also study the life expectancy of infants, youth and old age people.

These issues are very important to company for analysis of demand and supply of products and services. Healthcare companies role is needful for assessment of the product requirement for infants, youth, middle age and old age people. It refers to geographic region and population that shifts from one region of a nation to another or from village/rural areas to urban areas. This is may be an impact on a company's strategic competitiveness in market. Geographic Distribution issues are outlined:

• Location advantage and government support is also very important to company.
• In the case, population is shifted from one region to another region. This is the significant impact on company's qualified workforce and company consider relocation of its skilled human resources.
• Today, working at home concept and electronically on the information highway have also begun in India in an very small level.

Ethnic Mix

Ethnic mix is also important to company and know eager know changes in ethnic mix in population. Assessment and implications of ethnic mix is useful for company and its works force. Ethnic issues are outlined:

• Company should know the changes in the ethnic mix and its impact to company's product and services.
• Company should know the new products demand or existing products and services from the different ethnic groups.
• Company ready to face challenges, treats from ethnic and try to make solutions for these ethnic challenges and treats.

Income Distribution

Income distribution is also one of the important factors of demographic environment. Company is planning to measure changes in incoming distribution, savings patterns for different level of individual. This purpose, company can forecast and assess the changes in income patterns and ready to identify new opportunities for companies.

NATURAL ENVIRONMENT

Natural environment is the study of an important component of the nature i.e., natural environment. Natural environment includes geographical and ecological factors areas as below:

• Natural resource endowments,
• Weather
• Climate conditions
• Topographical factors
• Location aspects in the global context
• Port facilities are relevant to business.

Difference in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence industries which help material index tend to be located near the raw material sources. Climate and weather conditions affect the location of certain industries like the often textile industry.

Ecological factors have recently assumed great importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern. Government policies aimed at presentation of environmental purity and ecological balance, conservation of non renewable resources etc., have resulted in additional responsibilities and problems for business, and some of these have to affect of increasing the cost of production and marketing, externalities also become an important problem of the business has to confront with.

TECHNOLOGICAL ENVIRONMENT

Technological factors some times pose serious problems. A firm that unable to cope with technological changes may not be survived. Further, the differing technological environment of different markets or countries may be called for product modifications. Technology is the most important elements of the macro environment. Technology is the human being innovation and it literally wonder. Technology helps to human being go to moon, traveling the spaceships, other side of the globe with few hours. Advances in the technologies have facilitated product improvements and introduction of new products and have considerably improved the marketability of the products.

The fast changes in technologies also create problems for enterprises as they render plants and product obsolete. Today adopt changes in technology to achieve successful in business and industry. Internet and telecom system is the part of technological development in the world. These things today changed whole world. It changes people and business operation. It leads to many new business opportunities apart from the many existing systems.

Technological environment characteristics are outlined:

• The find of technological change
• Opportunities are arising out of technological developments.
• Risk and uncertain is the major feature of the technological developments.
• Research and development role to country

Technology and business activities are to be highly considerable, interrelated and interdependent. Technology output/fruit’s available to society through business activities in this way improve the quality of life in the society. Therefore, technology nurtured by business.

Technologies issues relating with companies are listed below:

• Access to the internet communication facilities which is enable to connect large numbers of employees to work from one place/ home to another place in the globe. Information Highway provides opportunity to strategist to access to richer source of information.
• It helps to business for sales and exchange of goods and services.
• It provides opportunity to customers with accessing to online shopping through the internet technology.

Key Issues Of Technology

• Strategist should know what of type technology used by company?
• Strategist should know which types of technologies are used in the companies business, products and its services?
• To know the critical issues in technology and know the operating skills in technology related products and services.
• To know the availability of technology to organisation. And its procedure to get external technology to company for its operations.
• To know the cost of technology, alternative technology, competitors, design structure T of the technology and production implementation services of the company.
• To know the companies business applications which are relating to technology?
• To know the additional technologies which required to companies business? And how to get these additional technologies in the world market.
• Technology is help to business for formulation of strategy, implementation of strategy and control of the company performance.

GLOBAL ENVIRONMENT

Global environment is one of the important elements to macro environment of the business. Today competitive scenario changes rapidly and its impact on business of company. For this, reasons, strategist should understand the global environment, its characteristics, functions and merit and demerit to company. Global environment treated as whole world just as village and has changed how individuals and organisations relate to each other. Now-a-days, increased offshore operations and changes business operation. These are influenced to organisation to get project from global clients.

Assessment Of The Global Environment Factors

• To know the potential positive and negative impact of significant international events like a sport meet or a terrorist attack.

• To identify both emerging global markets and global market which are ensuring changing? It includes newly industrialized countries like in Asia. In developing countries that imply the opening of new markets for new products, that's result is to be increased competition from emerging globally competitive companies in India and South Korea and China.

• To know the difference between in cultural and institutional attributes of individual global markets.

Globalization of markets refers to the process of integrating and merging of the distinct world markets into a single market. This process involves the identification of some common norm, value, taste, preference and convenience and slowly enables the cultural shift towards the use of a common product or service. A number of consumer products have global acceptance. For example, Coca–Cola, Pepsi, McDonald's Music of Madonna, MTV, Sony Walkmans, Levis jeans, Indian masala dosa, Indian Hyderabadi biryani, Citicorp credit cards etc.

Nature of Globalization

• It indicates the several things for several people in the world.

• It is new concept that based on the set of fresh beliefs, working methods, economic, political and socio-cultural relatives in business.

• It integration with the world economy and open for new and potential huge market for developing and developed countries in the global.

• It intend to remove all trade barriers among countries in the world.

Characteristics of a Global Company

Global company refers to operating in more than one country in the world and gains its R&D, production, marketing and financial advantages in terms of costs and reputations that are not available to domestic competitors. Global company is one that has the world market. Minimizes the importance of national boundaries, sources, raises capital and market in this way it will be done the best job.

Global company major characteristics are outlined

• Global company is a firm which having multiple units that are located in different parts of the world but all linked by common ownership umbrella.

• Global multiple units draw on a common pool of resources like money, credit information, patents, trade names and control systems.

• Global company can be following common strategy for sell its products in most countries and manufactures in many. Another important fact is that its shareholders and human resources are also based on different nations.

Reasons for Globalization

• Large-scale industrialization enabled mass production. Consequently, the companies found that the size of the domestic market is very small to suffice the production output and thus opted for foreign markets.

• Companies in order to reduce the risk diversity of portfolio of countries.

• Companies globalize markets in order to increase their profits and achieve goals.

• The adverse business environment in the home country pushed the companies to globalize their markets.

• To cater to the demand for their products in the foreign markets.

• The failure of the domestic companies in catering the needs of their customers pulled the foreign countries to market their products. International environment is the very important from the point of view of certain categories of business. It is particularly important to industries which are directly depending on imports or exports and import competing industries.

Advantages of Globalization

• Free flow of capital and increase in the total capital employed
• Free flow of technology from developed countries to developing countries
• Increase in industrialization
• Spread production facilities throughout the global
• Balanced development of world economies
• Increased in production and consumption of outputs
• Commodities available at lower price with high quality
• Cultural exchange and demand for a variety of products in foreign market
• Increased in jobs opportunities and income
• Balanced in welfare and prosperity of the country's economic

Disadvantages of Globalization

• Globalization kills domestic small business firms
• Exploits human resources in global firms
• Leads to unemployed and underemployment in developing countries
• The customer demand decline in domestic products
• Decline the income because of unemployment
• Widening gap between rich and poor
• National sovereignty at stake
• Leads to commercial and potential colonialism to poor countries

Why do companies go global?

There are important reasons for companies go to global as outlined:

To Gain Access to New Customers

This is the first reason to companies expand into foreign market. It offers potential for increased revenues, profits and long-term growth and becomes an especially attractive option when a company's home markets is mature. Mature industries plan to enter new market, therefore, to access to new customer for their products and service.

To Achieve Lower Cost Enhance the Firms Competitiveness

This is the second reason to domestic companies opt to be expanding their market in outside countries. Many companies are driven to sell their products and service in more than country because the sales volume achieved in their own domestic markets is not large enough to fully capture manufacturing economies of scale and experience curve effects and thereby substantially improve a firm's cost competitiveness.

To Capitalise on it's Core Competencies

This is the third factor to companies expand their domestic market into international market. A company with competitively valuable competencies and capabilities may be able to leverage them into a position of competitive advantage in foreign market as well as just domestic markets.

To spread its Business Risk across a Wider Market base

This is the last reason opt companies to expand their domestic market into international market. A company spreads its business risk by operating in a number of different foreign countries rather than depending entirely on operations in its own domestic market. Except in a few cases, companies in natural resource – based industries such as oil and gas, minerals, rubber and lumber often to find it necessary to operate in the international arena because of attractive raw material suppliers are located in foreign countries.

Speed And Faster Communication Network

Globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes due to advanced communication network development.

Reduce transportation costs

Companies often set up overseas plants and machinery to reduce transportation costs. The following development are also responsible for transportation operation of companies:

• It happens when increasing emphasis on market forces and growing role for the private sector in all developing countries.

• Globalization of firms and industries
• The rise of the services sector. It constitutes the one of the largest single sector in the world economy.
• Rapidly changing technologies which are transforming in the originate nature, organisation, an location of international production.

Configuring Any Where In The World

A global organisation can be located in different place in the world and its different types of operations in different countries for supply of raw material look for consumer markets and low cost labor and manufacturing of products and services in the world.

Interlinked and Independent Economies

Globalization refers to economic welfare of the state and its people for uniquely economically interdependent international environment. Each country's prosperity is dependent on the interlink with the rest of the world. No nation can be survival any longer time without existence of the international market and domestic market.

Lowering Of Trade and Tariff Barriers

Global environment brings lowering of trade and tariff barriers to global enterprises in the world. It proposes a new global co-operative arrangement and redefined the role of the state and its industry status. It help towards privatization of manufacturing, services sectors, and less government interference in business decisions and help to private sector to buildup the value added sector in this way to gain market place and competitiveness in the global market. When the lowering of trade and tariff barriers in state which results in available products and services at lower cost with abundant supply of goods and services to ultimate customers.

Infrastructural Resources and Inputs at International Prices

When global firms are entering into global market, it ensure that infrastructural inputs must be available at competitive prices due to availability of cheap labor and other valuable resources like physical facilities, raw material etc, a global firms take high level risk particularly continuous inflation and high infrastructural costs in the country.

Increasing Trend towards Privatization

In competitive scenario, governments are everywhere divesting its investment and running of the business enterprises. Government gives special importance to private entrepreneurs for greater access and freedom to run and start business units in the state. Now a days, the government role is reduced to the provider of the infrastructure for private business units and help to prosper of these business units.

Entrepreneur and His Units Have A Central Economic Role

Emerging world markets, the entrepreneur and his business units' role become central figures in the process of economic growth and development of country. Entrepreneurs are responsible persons and able to innovate new products, new markets, new customers and new raw materials in this way they contribute to nation's income and wealth. He takes risk and efforts put in the businesses which are rewarded in the form of profits. This is to ensure viability of the business unit. Quality and cost effective oriented firms are survived and prosper. Improper and weak firms die i.e. closedown the business units due to loss.

Mobility of Skilled Resource

Skilled resources are also one of the important manifests of the globalization. It refers to experience, trained and educated labor in the company. Skilled labors are highly mobile from one place to another location in the world with freely mobile.

In the case, labors are unskilled that time management will be spent some money for training and education of their employees in this way enhances the skills of the unskilled labor. Factors of production like land and capital also mobile. In the case of developing country, it has long on land and short on capital it can invite by foreign investment and make good deficiency. Similarly, a developed country which have long on capital and short on land it can be used by developing country as a base for its business operations. Factors of production like land, labor and capital can be mobile anywhere in the world.

Make-side efficiency

Integration of global market implies in terms of costs, quality processing time, these terms of business become dominant competition drivers in the global market. Customers will get a maximum choice of products and services on the basis of maximum value of money. State monopolies are unable to provide quality and value products to customers. Apart from this, consumers are searching the quality products and services from the global market.

Formation of Regional Block

A final result of globalization is to formation of trade blocks. Formation of regional block is obvious. Major reasons for formation of regional block are outlined:

• To form strategic alliance to reduce economic and technological threats and leverage their respective comparative and competitive advantages.

• Important regional blocks are NAFTA (North American Free Trade Area), European Union, ASEAN, SAARC

South Asian Association for Regional Co-operation (SAARC) SAARC consists of seven South Asian Countries with Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Srilanka and India. SAARC encourages and promotion of economic growth in the region. It also promote and develop social progress and cultural development in the region, it helps to active collaboration and mutual assistance in the form of economic, social, cultural, technical and scientific fields and strengthen of co-operation among the member states in the international forums on matters of common interest.

STRATEGIC RESPONSE TO THE ENVIRONMENT

It is very difficult to define, when business environment is commenced and when it will be ended in business. It is very difficult to determine the exactly environment response in the business. Strategic manager, very efforts to exploit the opportunity and reduce to weakness. Different strategic responses approaches to the environment are listed below:

• Least resistance
• Proceed with caution
• Dynamic response

Least Resistance

Few business just involves to manage and survival by the way of coping and adjusted with their dynamic external environment. These are simple and goals maintained. These are very passive behavior and are solely guided and supervise by the signals of the external environment.

Proceed With Caution

It is next level of strategic response to the environment, strategist are responsible to take an intelligent interest to adapt with the changing environment. Strategic managers in the company promptly seek and monitor changes in the environment, its analysis, impact on their own goals and activities will translated for assessment in terms of specific strategies survival, stability and strength. These are regarded as the pervasive complexity and turbulence of the external environmental elements as prescribed with the framework of which they have to function like adaptive organic sub systems. It is an admittedly to suitable and modern strategy and wait for changes in business. And take corrective adaptive in nature.

Dynamic Response

This level is highly sophisticated level. In this level, external forces in business are efficiently and partially manageable and controllable by their actions in company. Feed system is highly dynamic and powerful system adopted in organisation. These things not only recognize threats and weakness and ready to convert into their threats into opportunities in business environment. These are highly conscious and confident of their strengths and weaknesses of the external environment constraints. Dynamic responses have to generate a contingent set of alternatives course of action which are picked up in tune with the changing shape of business environment.

Shaping External Environment

• Shaping environment is one of the major problems of the business enterprise.
• It generate the powerful dominating behavior of command organisations may generate powerful countervailing pressure and forces in the real environment.
• It is more inclusive apart from the individual action in business enterprise.
• Its values and interests are much broader than internal environment of the business.
• Adopt a innovative and autonomous in organisation.
• It happens with certain limitation of the company.

Competition Analysis: Michael Porter's FIVE FORCE MODEL

Organisation offering products and services which are close substitute for each other. Close substitute are products and service. They are satisfied the essential consumer needs and desire. The task facing strategic managers is to analyze competitive force in an industry environment in order to identify the strengths, weakness, opportunities and threats confronting an organisation. Michael E.Porter, professor of the Harvard School of Business Administration has developed a framework, which is known as Five Forces Model. It appears in figure 1.8 helps to managers in their analysis of competitive force of the organisation. This model focuses on five forces which shape to create competition within an industry. Five forces are as below:

- The risk of new entry by potential competitors
- Risk of entry by potential customers
- The degree of rivalry among established companies within an industry
- The bargaining power of supplier
- The closeness of substitute to the industry's product

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

Diagram of Porter's 5 Forces

SUPPLIER POWER
Supplier concentration
Importance of volume to supplier
Differentiation of inputs
Impact of inputs on cost or differentiation
Switching costs of firms in the industry
Presence of substitute inputs
Threat of forward integration
Cost relative to total purchases in industry

THREAT OF NEW ENTRANTS
Barriers to Entry
Absolute cost advantages
Proprietary learning curve
Access to inputs
Government policy
Economies of scale
Capital requirements
Brand identity
Switching costs
Access to distribution
Expected retaliation
Proprietary products

DEGREE OF RIVALRY
-Exit barriers
-Industry concentration
-Fixed costs/Value added
-Industry growth
-Intermittent overcapacity
-Product differences
-Switching costs
-Brand identity
-Diversity of rivals
-Corporate stakes

THREAT OF SUBSTITUTES
-Switching costs
-Buyer inclination to substitute
-Price-performance trade-off of substitutes

BUYER POWER
Bargaining leverage
Buyer volume
Buyer information
Brand identity
Price sensitivity
Threat of backward integration
Product differentiation
Buyer concentration vs. industry
Substitutes available
Buyers' incentives

I. Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Economists measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure. The Bureau of Census periodically reports the CR for major Standard Industrial Classifications (SIC's). The CR indicates the percent of market share held by the four largest firms (CR's for the largest 8, 25, and 50 firms in an industry also are available). A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share. These *fragmented* markets are said to be competitive. The concentration ratio is not the only available measure; the trend is to define industries in terms that convey more information than distribution of market share.

If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. Explicit *collusion* generally is illegal and not an option; in low-rivalry industries competitive moves must be constrained informally. However, a maverick firm seeking a competitive advantage can displace the otherwise disciplined market.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.
- Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry. For example, with high-end jewelry stores reluctant to carry its watches, Timex moved into drugstores and other non-traditional outlets and cornered the low to mid-price watch market.

- Exploiting relationships with suppliers - for example, from the 1950's to the 1970's Sears, Roebuck and Co. dominated the retail household appliance market. Sears set high quality standards and required suppliers to meet its demands for product specifications and price.

The intensity of rivalry is influenced by the following industry characteristics:

1. **A larger number of firms** increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
2. **Slow market growth** causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
3. **High fixed costs** result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
4. **High storage costs or highly perishable products** cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
5. **Low switching costs** increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.
6. **A low level of product differentiation is** associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
7. **Strategic stakes are high** when a firm is losing market position or has potential for great gains. This intensifies rivalry.
8. **High exit barriers** place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry. Litton Industries' acquisition of Ingalls Shipbuilding facilities illustrates this concept. Litton was successful in the 1960's with its contracts to build Navy ships. But when the Vietnam war ended, defense spending declined and Litton saw a sudden decline in its earnings. As the firm restructured, divesting from the shipbuilding plant was not feasible since such a large and highly specialized investment could not be sold easily, and Litton was forced to stay in a declining shipbuilding market.
9. **A diversity of rivals** with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense. The hospital industry, for example, is populated by hospitals that historically are community or charitable institutions, by hospitals that are associated with religious organizations or universities, and by hospitals that are for-profit enterprises. This mix of philosophies about mission has lead occasionally to fierce local struggles by hospitals over who will get expensive diagnostic and therapeutic services. At other times, local hospitals are highly cooperative with one another on issues such as community disaster planning.
10. **Industry Shakeout.** A growing market and the potential for high profits induces new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout ensues, with intense competition, price wars, and company failures.

    BCG founder Bruce Henderson generalized this observation as the Rule of Three and Four: a stable market will not have more than three significant competitors, and the largest competitor will have no more than four times the market share of the smallest. If this rule is true, it implies that:

    - If there is a larger number of competitors, a shakeout is inevitable

- Surviving rivals will have to grow faster than the market
- Eventual losers will have a negative cash flow if they attempt to grow
- All except the two largest rivals will be losers
- The definition of what constitutes the "market" is strategically important.

Whatever the merits of this rule for stable markets, it is clear that market stability and changes in supply and demand affect rivalry. Cyclical demand tends to create cutthroat competition. This is true in the disposable diaper industry in which demand fluctuates with birth rates, and in the greeting card industry in which there are more predictable business cycles.

II. Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. To the manufacturer of automobile tires, tire retreads are a substitute. Today, new tires are not so expensive that car owners give much consideration to retreading old tires. But in the trucking industry new tires are expensive and tires must be replaced often. In the truck tire market, retreading remains a viable substitute industry. In the disposable diaper industry, cloth diapers are a substitute and their prices constrain the price of disposables.

While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. Consider the substitutability of different types of TV transmission: local station transmission to home TV antennas via the airways versus transmission via cable, satellite, and telephone lines. The new technologies available and the changing structure of the entertainment media are contributing to competition among these substitute means of connecting the home to entertainment. Except in remote areas it is unlikely that cable TV could compete with free TV from an aerial without the greater diversity of entertainment that it affords the customer.

III. Buyer Power

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a **monopsony** - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

Buyers are Powerful if:	**Example**
Buyers are concentrated - there are a few buyers with significant market share	DOD purchases from defense contractors
Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized	Circuit City and Sears' large retail market provides power over appliance manufacturers

Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival	Large auto manufacturers' purchases of tires
Buyers are Weak if:	**Example**
Producers threaten forward integration - producer can take over own distribution/retailing	Movie-producing companies have integrated forward to acquire theaters
Significant buyer switching costs - products not standardized and buyer cannot easily switch to another product	IBM's 360 system strategy in the 1960's
Buyers are fragmented (many, different) - no buyer has any particular influence on product or price	Most consumer products
Producers supply critical portions of buyers' input - distribution of purchases	Intel's relationship with PC manufacturers

IV. Supplier Power

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

Suppliers are Powerful if:	**Example**
Credible forward integration threat by suppliers	Baxter International, manufacturer of hospital supplies, acquired American Hospital Supply, a distributor
Suppliers concentrated	Drug industry's relationship to hospitals
Significant cost to switch suppliers	Microsoft's relationship with PC manufacturers
Customers Powerful	Boycott of grocery stores selling non-union picked grapes
Suppliers are Weak if:	**Example**
Many competitive suppliers - product is standardized	Tire industry relationship to automobile manufacturers
Purchase commodity products	Grocery store brand label products
Credible backward integration threat by purchasers	Timber producers relationship to paper companies
Concentrated purchasers	Garment industry relationship to major department stores
Customers Weak	Travel agents' relationship to airlines

V. Threat of New Entrants and Entry Barriers

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are ***barriers to entry***.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring a market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such **entry-deterring pricing** establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. Barriers to entry arise from several sources:

1. **Government creates barriers.** Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market. To restrain utilities from exploiting this advantage, government permits a monopoly, but regulates the industry. Illustrative of this kind of barrier to entry is the local cable company. The franchise to a cable provider may be granted by competitive bidding, but once the franchise is awarded by a community a monopoly is created. Local governments were not effective in monitoring price gouging by cable operators, so the federal government has enacted legislation to review and restrict prices.

   The regulatory authority of the government in restricting competition is historically evident in the banking industry. Until the 1970's, the markets that banks could enter were limited by state governments. As a result, most banks were local commercial and retail banking facilities. Banks competed through strategies that emphasized simple marketing devices such as awarding toasters to new customers for opening a checking account. When banks were deregulated, banks were permitted to cross state boundaries and expand their markets. Deregulation of banks intensified rivalry and created uncertainty for banks as they attempted to maintain market share. In the late 1970's, the strategy of banks shifted from simple marketing tactics to mergers and geographic expansion as rivals attempted to expand markets.
2. **Patents and proprietary knowledge serve to restrict entry into an industry.** Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry. Edwin Land introduced the Polaroid camera in 1947 and held a monopoly in the instant photography industry. In 1975, Kodak attempted to enter the instant camera market and sold a comparable camera. Polaroid sued for patent infringement and won, keeping Kodak out of the instant camera industry.
3. **Asset specificity inhibits entry into an industry.** Asset specificity is the extent to which the firm's assets can be utilized to produce a different product. When an industry requires highly specialized technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialized assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to

entry for two reasons: First, when firms already hold specialized assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry. For example, Kodak had much capital invested in its photographic equipment business and aggressively resisted efforts by Fuji to intrude in its market. These assets are both large and industry specific. The second reason is that potential entrants are reluctant to make investments in highly specialized assets.

4. **Organizational (Internal) Economies of Scale.** The most cost efficient level of production is termed **Minimum Efficient Scale** (MES). This is the point at which unit costs for production are at minimum - i.e., the most cost efficient level of production. If MES for firms in an industry is known, then we can determine the amount of market share necessary for low cost entry or cost parity with rivals. For example, in long distance communications roughly 10% of the market is necessary for MES. If sales for a long distance operator fail to reach 10% of the market, the firm is not competitive.

   The existence of such an economy of scale creates a barrier to entry. The greater the difference between industry MES and entry unit costs, the greater the barrier to entry. So industries with high MES deter entry of small, start-up businesses. To operate at less than MES there must be a consideration that permits the firm to sell at a premium price - such as product differentiation or local monopoly.

Barriers to exit work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of an industry's entry and exit barriers can be summarized as follows:

Easy to Enter if there is: • Common technology • Little brand franchise • Access to distribution channels • Low scale threshold	**Difficult to Enter if there is:** • Patented or proprietary know-how • Difficulty in brand switching • Restricted distribution channels • High scale threshold
Easy to Exit if there are: • Salable assets • Low exit costs • Independent businesses	**Difficult to Exit if there are:** • Specialized assets • High exit costs • Interrelated businesses

DYNAMIC NATURE OF INDUSTRY RIVALRY

Our descriptive and analytic models of industry tend to examine the industry at a given state. The nature and fascination of business is that it is not static. While we are prone to generalize, for example, list GM, Ford, and Chrysler as the "Big 3" and assume their dominance, we also have seen the automobile industry change. Currently, the entertainment and communications industries are in flux. Phone companies, computer firms, and entertainment are merging and forming strategic alliances that re-map the information terrain. Schumpeter and, more recently, Porter have attempted to move the understanding of industry competition from a static economic or industry organization model to an emphasis on the interdependence of forces as dynamic, or *punctuated equilibrium*, as Porter terms it.

GENERIC STRATEGIES:

Organizations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors and in ways the competitors find difficult to imitate. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities by which a firm seeks to achieve them, lead to three internally consistent generic competitive strategies that can be used by the organization to outperform competition and defend its position in the industry. Strategy can be formulated on three levels:

- corporate level
- business unit level
- Functional or departmental level.

The business unit level is the primary context of industry rivalry. Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage. The proper generic strategy will position the firm to leverage its strengths and defend against the adverse effects of the five forces.

Porter's Generic Strategies

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: *cost leadership*, *differentiation*, and *focus*. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. Overall cost leadership emphasizes producing standardized products at a very low per-unit for consumers who are price – sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of small groups of consumers. The following table illustrates Porter's generic strategies:

Target Competitive Scope	***Competitive Advantage***	
	Low Cost	**Product Uniqueness**
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**

Narrow (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.

- Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

A Combination of Generic Strategies - Stuck in the Middle?

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.

Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."

However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

Generic Strategies and Industry Forces

These generic strategies each have attributes that can serve to defend against competitive forces. The following table compares some characteristics of the generic strategies in the context of the Porter's five forces.

Generic Strategies and Industry Forces

Industry Force	*Generic Strategies*		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Competitive Advantage

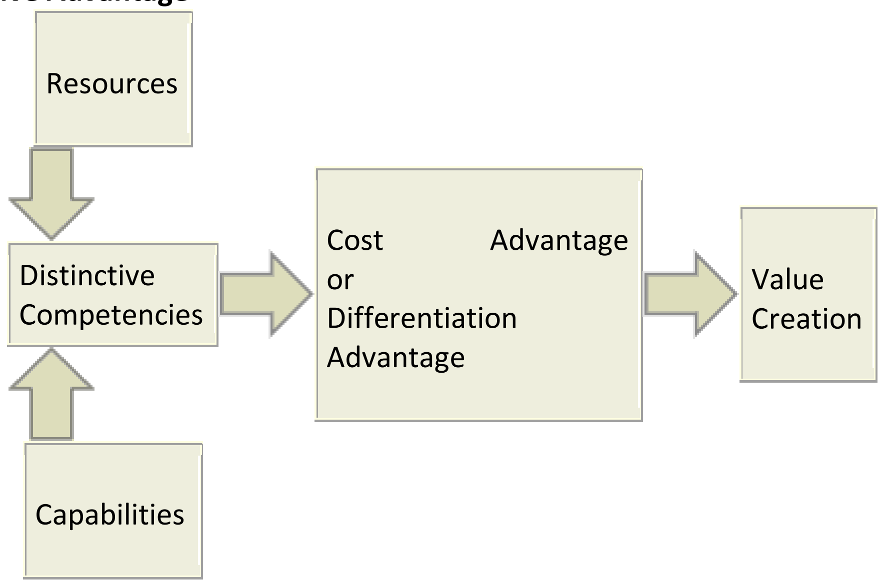
When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. Michael Porter identified two basic types of competitive advantage:

- **Cost advantage**
- **Differentiation advantage**

Cost and differentiation advantages are known as *positional advantages* since they describe the firm's position in the industry as a leader in either cost or differentiation.

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

A Model of Competitive Advantage



A *resource-based view* emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:

<u>Resources and Capabilities</u>

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear. **Resources** are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

The firm's resources and capabilities together form its **distinctive competencies**. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Cost Advantage and Differentiation Advantage

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy. Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage.

Value Creation

The firm creates value by performing a series of activities that Porter identified as the value chain. In addition to the firm's own value-creating activities, the firm operates in a *value system* of vertical activities including those of upstream suppliers and downstream channel members. To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

The Value Chain Analysis:

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added form each were linked to an analysis of an organization's competitive advantage by Michael Porter.

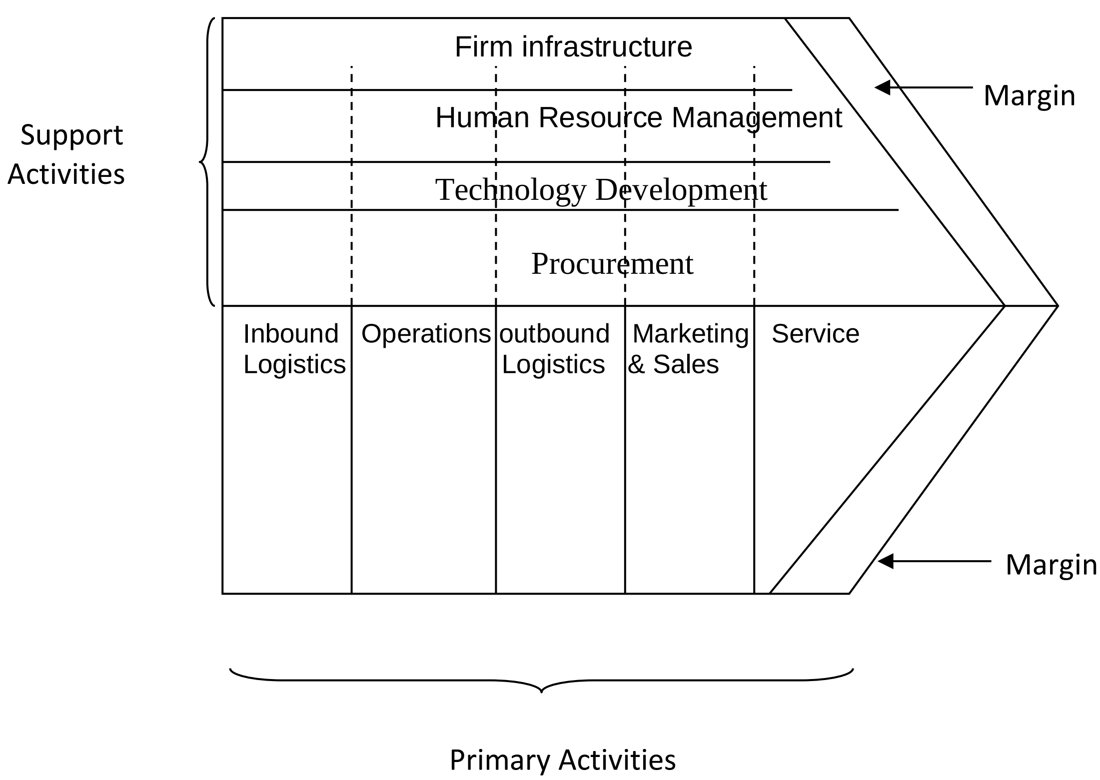


Figure: Value Chain (Michael Porter)

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user. In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.

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

- Outbound logistics collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. in the case of services, it may be more concerned with arrangements for brining customers to the services if it is a fixed location (e.g. sports events).

- Marketing and sales provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

- Service are all those activities, which enhance or maintain the value of a product/service, such as installation, repair training and spares.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas

- Procurement: This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.

- Technology development: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R & D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

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- Human resource management: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

- Infrastructure: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

The McKinsey 7S Framework

Ensuring that all parts of your organization work in harmony

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

While some models of organizational effectiveness go in and out of fashion, one that has persisted is the McKinsey 7S framework. Developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company consulting firm, the basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

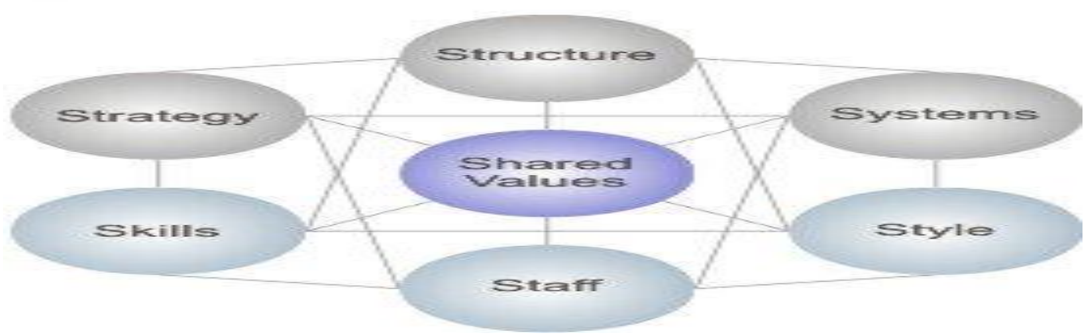
The 7S model can be used in a wide variety of situations where an alignment perspective is useful, for example to help you:

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

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

Hard Elements	Soft Elements
Strategy Structure Systems	Shared Values Skills Style Staff

Figure 1: The McKinsey 7S Model



The Seven Elements

The McKinsey 7S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements:

1. "Hard" elements are easier to define or identify and management can directly influence them: These are strategy statements; organization charts and reporting lines; and formal processes and IT systems.
2. "Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

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

Let's look at each of the elements specifically:

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition.
- **Structure:** the way the organization is structured and who reports to whom.
- **Systems:** the daily activities and procedures that staff members engage in to get the job done.
- **Shared Values/ super ordinate goals :** called "super ordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.
- **Skills:** the actual skills and competencies of the employees working for the company.

Placing Shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created, and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

<u>How to Use the Model</u>

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

You can use the 7S model to help analyze the current situation (Point A), a proposed future situation (Point B) and to identify gaps and inconsistencies between them. It's then a question of adjusting and tuning the elements of the 7S model to ensure that your organization works effectively and well once you reach the desired endpoint.

Sounds simple? Well, of course not: Changing your organization probably will not be simple at all! Whole books and methodologies are dedicated to analyzing organizational strategy, improving performance and managing change. The 7S model is a good framework to help you ask the right questions – but it won't give you all the answers. For that you'll need to bring together the right knowledge, skills and experience.
When it comes to asking the right questions, we've developed a Mind Tools checklist and a matrix to keep track of how the seven elements align with each other. Supplement these with your own questions, based on your organization's specific circumstances and accumulated wisdom.

7S Checklist Questions

Here are some of the questions that you'll need to explore to help you understand your situation in terms of the 7S framework. Use them to analyze your current (Point A) situation first, and then repeat the exercise for your proposed situation (Point B).

Strategy:

- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Structure:

- How is the company/team divided?
- What is the hierarchy?
- How do the various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
- Where are the lines of communication? Explicit and implicit?

Systems:

- What are the main systems that run the organization? Consider financial and HR systems as well as communications and document storage.
- Where are the controls and how are they monitored and evaluated?
- What internal rules and processes does the team use to keep on track?

Shared Values:

- What are the core values?
- What is the corporate/team culture?
- How strong are the values?
- What are the fundamental values that the company/team was built on?

Style:

- How participative is the management/leadership style?
- How effective is that leadership?
- Do employees/team members tend to be competitive or cooperative?
- Are there real teams functioning within the organization or are they just nominal groups?

Staff:

- What positions or specializations are represented within the team?
- What positions need to be filled?

- Are there gaps in required competencies?

Skills:

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

7S Matrix Questions

Using the information you have gathered, now examine where there are gaps and inconsistencies between elements. Remember you can use this to look at either your current or your desired organization. McKinsey 7S Worksheet, which contains a matrix that you can use to check off alignment between each of the elements as you go through the following steps:

- Start with your Shared Values: Are they consistent with your structure, strategy, and systems? If not, what needs to change?
- Then look at the hard elements. How well does each one support the others? Identify where changes need to be made.
- Next look at the other soft elements. Do they support the desired hard elements? Do they support one another? If not, what needs to change?
- As you adjust and align the elements, you'll need to use an iterative (and often time consuming) process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. The end result of better performance will be worth it.

Key Points:

The McKinsey 7s model is one that can be applied to almost any organizational or team effectiveness issue. If something within your organization or team isn't working, chances are there is inconsistency between some of the elements identified by this classic model. Once these inconsistencies are revealed, you can work to align the internal elements to make sure they are all contributing to the shared goals and values.

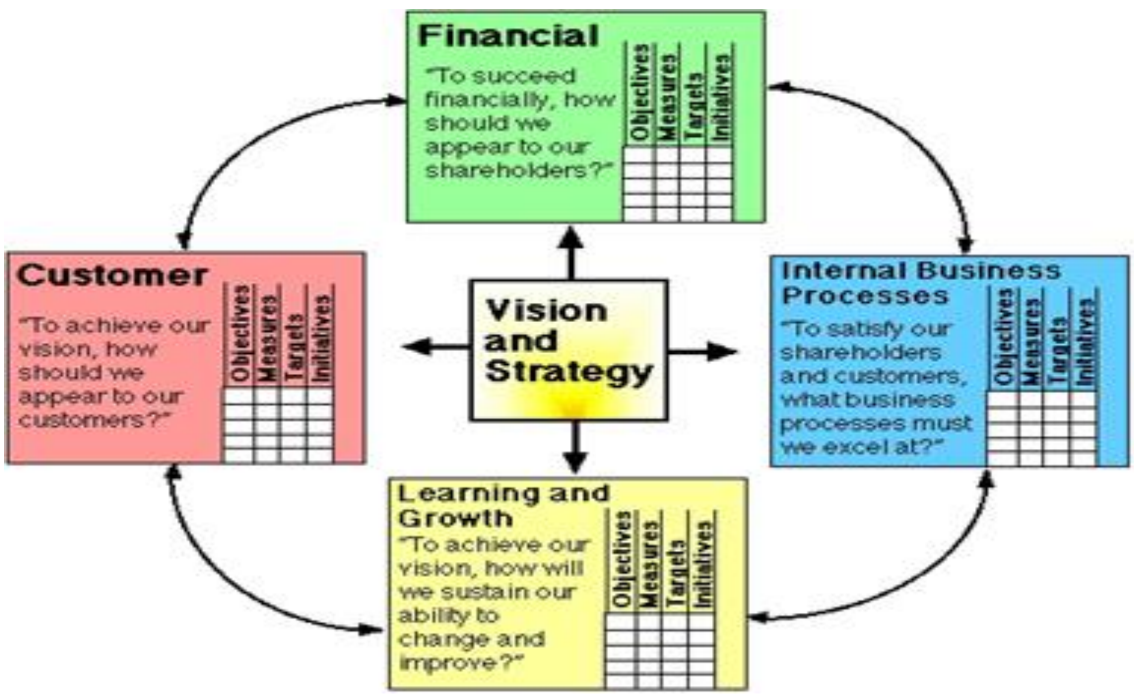
The process of analyzing where you are right now in terms of these elements is worthwhile in and of itself. But by taking this analysis to the next level and determining the ultimate state for each of the factors, you can really move your organization or team forward.

Balance Score Card

The balance scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.



Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Perspectives

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

The Learning & Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

Strategy Mapping

Strategy maps are communication tools used to tell a story of how value is created for the organization. They show a logical, step-by-step connection between strategic objectives (shown as ovals on the map) in the form of a cause-and-effect chain. Generally speaking, improving performance in the objectives found in the Learning & Growth perspective (the bottom row) enables the organization to improve its Internal Process perspective Objectives (the next row up), which in turn enables the organization to create desirable results in the Customer and Financial perspectives (the top two rows).

Stability Strategy

Stability strategy refers to the maintaining status quo of the existing business operation. Stability strategy aims at slow growth rate. It is usually followed by small and medium sized organisations. It is followed as a matter of principle when an organisation attempts incremental growth of its functional performance in terms of its customer groups, customer functions, and alternative technologies, whether in combination or individually. Thus when organisation decides to serve the same target customer groups with same products service and follows the same objective to maintain the stable business status, it can be termed as stability strategy.

Stability strategy is pursued by a corporate when

- It continues to serve in the same or similar markets and deals in same products and services.
- The organisation operating reasonably in a certain and predictable environment.
- The strategic decisions focus on incremental improvement of functional performance of business firm.

It involves keeping track of the new developments to ensure that the strategy continues to make real sense. In small business organisations, it will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

This could be of three types, each of which are as follows:

No change strategy
Profit strategy
Pause / proceed with caution strategy

Growth strategies:

By far the most widely pursued corporate strategies of business firms are those designed to achieve growth in sales, assets, profit, or some combination of these. There are two basic corporate growth strategies: concentration within one product line or industry and diversification into other product and industries. These can be achieved either internally by investing in new product development or externally through mergers acquisitions or strategic alliances.

A merger is a transaction involving to or more corporations in which stock is exchanged, but from which only one corporation survives. Mergers usually occur between firms of somewhat similar size and are usually “friendly”. The resulting firm is likely to have a name derived from its composite firms.

An acquisition is the purchase of company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. Acquisitions usually occur between firms of different sizes and can be either friendly or hostile. Hostile acquisitions are often called as takeovers.

A strategic alliance is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial.

Turnaround Strategies:

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy. There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

- Persistent negative cash flow;
- Negative profits;
- Declining market share;
- Over manning, high turnover of employees, and low morale;
- Uncompetitive products or services;
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround should include:

- ⇨ Analysis of product, market, production processes, competition, and market segment positioning.
- ⇨ Clear thinking about the market place and production logic.
- ⇨ Implementation of plans by target-setting, feedback, and remedial action.

Sets of ten elements that contribute to turnaround are:

- Changes in the top management;
- Initial credibility-building actions;
- Neutralizing external pressures;
- Initial control;
- Identifying quick payoff activities;
- Quick cost reductions;
- Revenue generation;
- Asset liquidation for generating cash;
- Mobilization of the organizations;
- Better internal coordination.

Retrenchment Strategies:

When an organization's survival is threatened and it is not competing effectively, retrenchment strategies are often needed. Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. The three basic types of retrenchment are

- ➢ Turnaround,
- ➢ Divestment, and
- ➢ Liquidation.

- Turnaround strategy is used when an organization is performing poorly but has not yet reached a critical stage. It usually involves getting rid of unprofitable products, pruning the work force, trimming distribution outlets, and seeking other methods of making the organization more efficient. If the turnaround is successful, the organization may then focus on growth strategies.

- Divestment strategy involves selling the business or setting it up as a separate corporation. Divestment is used when a particular business doesn't fit well in the organization or consistently fails to reach the objectives set for it. Divestment can also be used to improve the financial position of the divesting organization.

- Liquidation strategy involves closure of the business, which is no longer profitable. It may be technologically obsolete or out of times with market trends.

<u>Diversification Strategy:</u>
Diversification endeavors can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing business, diversification endeavor have been classified into four broad categories:

1. Vertically integrated diversification
2. Horizontally integrated diversification
3. Concentric diversification
4. Conglomerate diversification

Vertically integrated diversification: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence it moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. The example of Reliance Industries provided at the close of this chapter illustrates this dimension of vertically integrated diversification.

Horizontal integrated diversification: Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

Concentric diversification: Concentric diversification is similar to related diversification as there are benefits of synergy when the new business is related to existing business through process, technology and marketing.

Conglomerate diversification: In conglomerate diversification, no such linkage exists; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/ technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

Related Diversification	Unrelated Diversification
• Exchange or share assets or competencies, thereby exploiting • Brand name • Marketing skills • Sales & distribution capacity • Manufacturing skills • R & D and new product capability	• Manage and allocate cash flow. • Obtain high ROI • Obtain a bargain price • Refocus a firm • Reduce risk by operating in multiple product markets • Tax benefits.

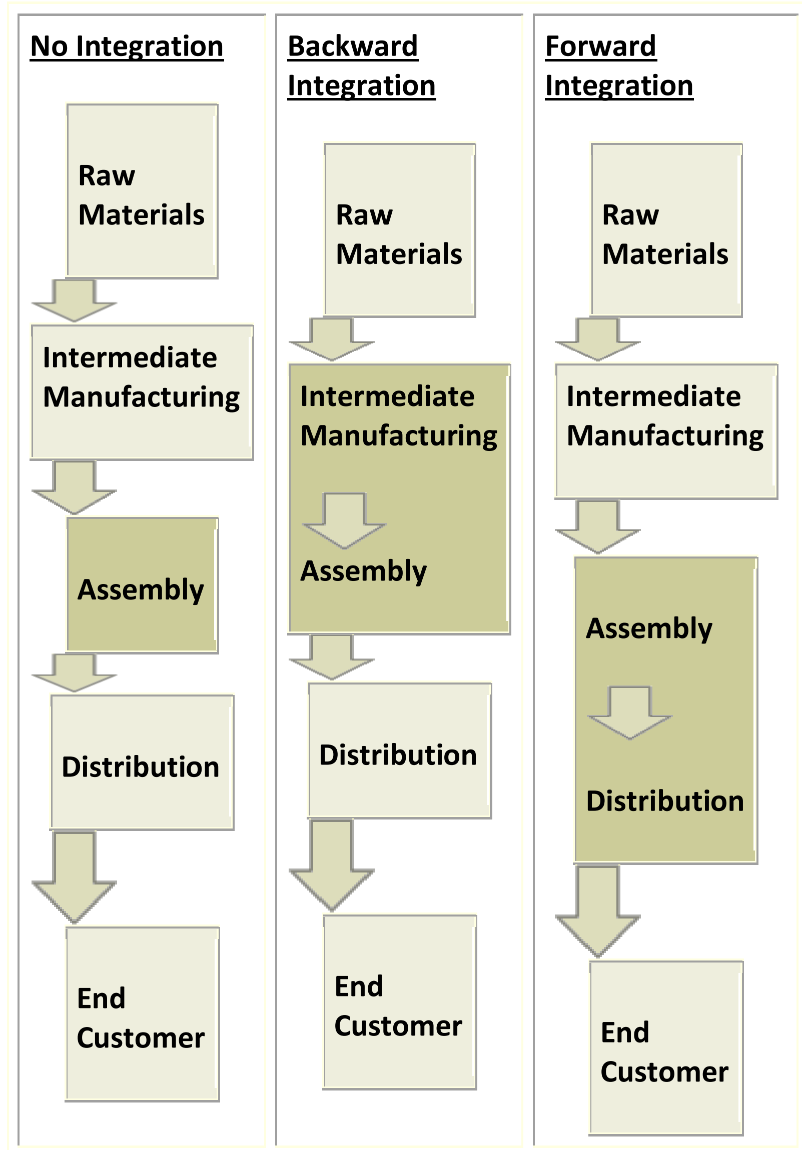
• Economies of scale	• Obtain liquid assets. • Vertical integration • Defend against a takeover.

Vertical Integration

The degree to which a firm owns its upstream suppliers and its downstream buyers is referred to as **vertical integration**. Because it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation, and other strategic issues, the vertical scope of the firm is an important consideration in corporate strategy. Expansion of activities downstream is referred to as *forward integration*, and expansion upstream is referred to as *backward integration.*

The concept of vertical integration can be visualized using the value chain. Consider a firm whose products are made via an assembly process. Such a firm may consider backward integrating into intermediate manufacturing or forward integrating into distribution, as illustrated below:

Example of Backward and Forward Integration



Two issues that should be considered when deciding whether to vertically integrate is cost and control. The cost aspect depends on the cost of market transactions between firms versus the cost of administering the same activities internally within a single firm. The second issue is the impact of asset control, which can impact barriers to entry and which can assure cooperation of key value-adding players. The following benefits and drawbacks consider these issues.

Benefits of Vertical Integration

Vertical integration potentially offers the following advantages:

- Reduce transportation costs if common ownership results in closer geographic proximity.
- Improve supply chain coordination.
- Provide more opportunities to differentiate by means of increased control over inputs.
- Capture upstream or downstream profit margins.
- Increase entry barriers to potential competitors, for example, if the firm can gain sole access to a scarce resource.

- Gain access to downstream distribution channels that otherwise would be inaccessible.
- Facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.
- Lead to expansion of core competencies.

Drawbacks of Vertical Integration

While some of the benefits of vertical integration can be quite attractive to the firm, the drawbacks may negate any potential gains. Vertical integration potentially has the following disadvantages:

- Capacity balancing issues. For example, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions.
- Potentially higher costs due to low efficiencies resulting from lack of supplier competition.
- Decreased flexibility due to previous upstream or downstream investments. (Note however, that flexibility to coordinate vertically-related activities may increase.)
- Decreased ability to increase product variety if significant in-house development is required.
- Developing new core competencies may compromise existing competencies.
- Increased bureaucratic costs.

Factors Favoring Vertical Integration

The following situational factors tend to favor vertical integration:

- Taxes and regulations on market transactions
- Obstacles to the formulation and monitoring of contracts.
- Strategic similarity between the vertically-related activities.
- Sufficiently large production quantities so that the firm can benefit from economies of scale.
- Reluctance of other firms to make investments specific to the transaction.

Factors against Vertical Integration

The following situational factors tend to make vertical integration less attractive:

- The quantity required from a supplier is much less than the minimum efficient scale for producing the product.
- The product is a widely available commodity and its production cost decreases significantly as cumulative quantity increases.
- The core competencies between the activities are very different.
- The vertically adjacent activities are in very different types of industries. For example, manufacturing is very different from retailing.
- The addition of the new activity places the firm in competition with another player with which it needs to cooperate. The firm then may be viewed as a competitor rather than a partner

Alternatives to Vertical Integration

There are alternatives to vertical integration that may provide some of the same benefits with fewer drawbacks. The following are a few of these alternatives for relationships between vertically-related organizations:

- long-term explicit contracts
- franchise agreements

- joint ventures
- co-location of facilities
- implicit contracts (relying on firms' reputation)

Horizontal Integration

The acquisition of additional business activities at the same level of the value chain is referred to as **horizontal integration**. This form of expansion contrasts with vertical integration by which the firm expands into upstream or downstream activities. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated businesses.

Some examples of horizontal integration include:

- The Standard Oil Company's acquisition of 40 refineries.
- An automobile manufacturer's acquisition of a sport utility vehicle manufacturer.
- A media company's ownership of radio, television, newspapers, books, and magazines.

Advantages of Horizontal Integration

The following are some benefits sought by firms that horizontally integrate:

- Economies of scale - achieved by selling more of the same product, for example, by geographic expansion.
- Economies of scope - achieved by sharing resources common to different products. Commonly referred to as "synergies."
- Increased market power (over suppliers and downstream channel members)
- Reduction in the cost of international trade by operating factories in foreign markets.

Sometimes benefits can be gained through customer perceptions of linkages between products. For example, in some cases synergy can be achieved by using the same brand name to promote multiple products. However, such extensions can have drawbacks, as pointed out by Al Ries and Jack Trout in their marketing classic, Positioning.

Pitfalls of Horizontal Integration

Horizontal integration by acquisition of a competitor will increase a firm's market share. However, if the industry concentration increases significantly then anti-trust issues may arise.

Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blunders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturers who entered the software business on the premise that there were synergies between hardware and software. However, a connection between two products does not necessarily imply realizable economies of scope.

Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such strategies generally do not arise from the bottom-up, but rather, must be formulated by corporate management.

Strategic Alliances

Strategic alliances are cooperation arrangements between two or more companies for achieving a common objective. Yoshino and Rangan define strategic alliances in terms of three necessary and sufficient characteristics

 Two or more firms unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance,

 The partner firms share the benefits of the alliance and control over the performance of assigned tasks – perhaps the most distinctive characteristic of alliances and the one that makes them so difficult to manage,

 The partner firms contribute on a continuing basis on one or more key strategic areas, for example, technology, product, and so forth.

In similar words , Lando Zeppi, Managing partner of Booz, Allen and Hamilton, defines strategic alliance as :
a cooperative arrangement between two or more companies where:

 A common strategy is developed in unison and a win-win attitude is adopted by all parties

 The relationship is reciprocal, with each partner prepared to share specific strengths with each other, thus lending power to the enterprise.

 A pooling of resources, investments, and risks occurs for mutual (rather than individual gain)

Strategic alliances can be defined simply as:
“a cooperation between two or more independent firms involving shared control and contributing contributions by all partners for mutual benefit”. Some alliances are short term and some are long term leading to full mergers of companies.

Reasons for forming strategic alliances
The basic reason for entering into strategic alliance is to enhance their organizational capabilities and there by gain competitive advantage. Towards this they strive to gain access to new markets and new supply resources sufficiently they enter into strategic alliances. Specifically speaking the following are the principal reasons.
1. **To obtain technology and / or manufacturing capabilities**
For example, Intel formed a partnership with Hewlett-Packard to use HP’s capabilities in RISC technology in order to develop the successor to Intel’s Pentium microprocessor.
2. **To obtain access to specific markets**
Rather than buy a foreign company or build breweries of its own in other countries, Anheuser-Busch chose to license the right to brew and market Budweiser to other brewers, such as Labatt in Canada, Modelo in Mexico, and Kirin in Japan. The alliance of coco cola Inc. with local bottling mergers in the global market and even in India.
3. **To reduce financial risk**
To reduce the risk of financial investment a company may join hands with another company or companies. Because the costs of developing a new large jet airplane is becoming too high for any manufacturer, Boeing, Aerospatiale of France, British Aerospace, Constu ciones Aeronautics of Spain, and Deutsche Aerospace of Germany planned a joint venture to design such a plane.
4 To reduce political risk
Political risk is another important factor**.** Besides cultural factors, political factors are complex and difficult to mange. It is better to tie up with a local firm to find way s of overcoming such risks. To gain access to China while

ensuring a positive relationship with the often restrictive Chinese government, Maytag Corporation formed a joint venture with the Chinese appliance maker, RSD.

5 To achieve or ensure competitive advantage

Alliances may be formed for mutual advantage to use of the specialized nature of resources or skills. General Motors and Toyota formed Nummi Corporation as a joint venture to provide Toyota a manufacturing facility in the United States and GM access to Toyota's low-cost, high-quality manufacturing expertise.

Advantages of Strategic alliance:

- Allowing each partner to concentrate on activities that best match their capabilities
- Learning from partners developing competences that may be more widely exploited elsewhere.
- Adequacy and suitability of the resources, competencies of an organization for it to survive

Disadvantages of strategic Alliance:

- Alliances are costly
- Alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options.
- Joint ventures also expose the company to its partners and the unique technologies that it has are sometimes revealed to its partner company.

IBM's strategy

IBM's current alliance strategy in large measure is due to several key driving factors: (1) to enter new markets, (2) to fill gaps in its product line with other firm's offerings, (3) to shorten product development time, (4) to learn new technologies, (5) to restructure some existing operations, and (6) to block other key rivals from encroaching on the U.S. and European markets too quickly.

IBM has formed more than 500 strategic alliances (of varying degrees of complexity) with partners around the world. These strategic alliances involved not only shared marketing and software development efforts, but also major commitments of investment funds to build ultra-modern facilities that are beyond the financial means of any one company.

Typology of strategic alliances

Several typologies of strategic alliances are available in business literature. One such classification is by Yoshino and Rangan. This is a two-dimensional model with the two dimensions being, the extent of organizational interaction and conflict potential between alliance patterns.

Pro-competitive Alliances

These are generally alliances within the industry exemplified by vertical value-chain relationships between manufactures and their suppliers and distributors. Such relationships are advantageous to both parties. Supplier and buyer organizations entering upon long-term contracts constitute pro-competitive alliances.

Noncompetitive Alliances

These are partnerships within the industry. Such alliances are entered upon by organizations that operate in the same industry yet do not perceive each other's as rivals. This can be because their areas of activity do not coincide and/or their products and services are sufficiently dissimilar to prevent competition. Organizations that have carved out distinct areas in the industry geographically or otherwise, adopt the noncompetitive alliances. For example, a number of automotive manufacturers in Europe have entered into a strategic alliance for engine development.

Competitive Alliances

These are relationships that bring rival organizations in a cooperative arrangement. These alliances may be intra –industry or inter-industry. For example Coca-Cola entered into an agreement with Parle Products, the manufacturers of Thumps Up their main competitors in western India.

Pre-competitive Alliances
These partnerships bring two organizations from different, often unrelated industries to work on well-defined activities. This is often seen in activities such as, mass awareness campaigns or environmental and social issues. Sometimes inter industry and inter disciplinary cooperation is necessary for development. For example, Intel has pre-competitive alliances with software, hardware and other manufacturers.

Continuum of alliances
The types of alliances range from mutual consortia to value chain partnerships as described below.

- **Mutual service consortia**- A mutual service consortium is a partnership of similar companies in similar industries who pool their resources to gain a benefit that is too expensive to develop alone, such as access to advanced technology. For example, IBM of the United States, Toshiba of Japan, and Siemens of Germany formed a consortium to develop new generations of computer chips.
- **Joint venture** – A joint venture is a "cooperative business activity formed by 2 or more separate organizations for strategic purposes, which creates an independent business entity and allocates ownership, operational responsibilities, and financial risks and rewards to each member, while preserving their separate identity autonomy.
- **Licensing arrangement** – A licensing arrangement is an agreement in which the licensing firm grants rights to another firm in another country or market to produce and / or sell a product. The licensee pays compensation to the licensing firm in return for technical expertise.
- **Value-chain partnership** – The Value-chain partnership is a strong and close alliance in which one company or unit forms a long-term arrangement with a key supplier or distributor for mutual advantage.

Managing Strategic Alliances
The following guidelines will be of help in successfully managing alliances.

- Have a clear strategic purpose. Integrate the alliance with each partner's strategy. Ensure that mutual value is created for all partners.
- Find a fitting partner with compatible goals and complementary capabilities
- Identify likely partnering risks and deal with them when the alliance is formed.
- Allocate tasks and responsibilities so that each partner can specialize in what it does best.
- Create incentives for cooperation to minimize differences in corporate culture or organization fit.
- Minimize conflicts among the partners by clarifying objectives and avoiding direct competition in the market place.
- If an international alliance, ensure that those managing it should have comprehensive cross-cultural knowledge.
- Exchange human resources to maintain communication and trust. Don't allow individual egos to dominate
- Operate with long-term time horizons. The expectations of future gains can minimize short-term conflicts.
- Develop multiple joint projects so that any failures are counterbalanced by successes
- Agree upon a monitoring process. Share information to build trust and keep projects on target. Monitor customer responses and service complaints.
- Be flexible in terms of willingness to renegotiate the relationship in terms of environmental changes and new opportunities.
- Agree upon an exist strategy for when the partners' objectives are achieved or the alliance is judged a failure

<u>Mergers and Acquisitions</u>

Mergers and acquisitions as external growth strategies have been the regular feature of corporate enterprises in all developed countries. The largest number of mergers took place at the turn of the century, which transformed many industries. The Indian business environment has altered radically since 1991 with the changes in economic policies. The Indian corporate though benefited due to decontrol and deregulation has been threatened by hostile takeovers. Pharmaceuticals and ad agencies are the primary targets of merger and acquisitions in India. Family businesses are finding it hard to survive with low profiles and credit availability.

Corporate growth strategies

Growth can be achieved by different means. One approach is form within and another is from outside –that is combinations. Different forms of combinations are:

1. *Amalgamation/Merger*: Merger takes place when there is a combination of two or more organizations. Merger does create a new corporation.
2. *Acquisition/takeovers:* One Company acquires another company's controlling interest. The acquired company operates as a separate division or subsidiary by offering cash or securities in exchange for majority of shares of another company.
3. *Sales of Assets*: A company can sell its assets to another and cease to exist.
4. *Holding company acquisition:* This is a quasi merger. Either the total or majority of a firm's stock will be acquired. The purpose is only management and control of other.

Concept and types of mergers

A merger is a combination (other terms used: amalgamation, consolidation, or integration) of two or more organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organizations are dissolved, and the assets and liabilities are combined and new stock is issued. In mergers, all the combining firms relinquish their independence and cooperate, resulting in common cooperation. For the organization, which acquires another, it is an acquisition. For the organization, which is acquired, it is a merger. If both organizations dissolve their identity to create a new organization, it is consolidation More time is taken for merger than acquisition. Mergers are three types: horizontal mergers, vertical mergers and concentric mergers.

1. *Horizontal mergers* take place when there is a combination of two or more organizations in the same business, or of organizations engaged in certain aspects of the production or marketing process. For instance a company making footwear combines with another retailer in the same business.
2. *Vertical mergers* take place when there is a combination of two or more organizations not necessarily in the same business, which complement either in terms of supply of materials (inputs) or marketing of goods and services (outputs).

For instance a footwear company combines with a leather tannery or with a chain of she retail stores.

3. *Concentric mergers* take place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups, or the alternative technologies used. A footwear company combining with hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, and so on.
4. *Conglomerate mergers* take place when there is a combination of two more organizations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used. A foot wears company combining with a pharmaceuticals firm. Mergers carried out in reverse are known as demergers or spin-offs. Demerger involves spinning off an unrelated business/division in a diversified company into a stand-alone company along with a free distribution of its shares to the existing shareholders of the original company.

<u>Divestment Strategies:</u>

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

- A business that had been acquired proves to be a mismatch and cannot be integrated within the company;

- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

- Severity of competition and the inability of a firm to cope with it may cause it to divest.

- Technological up gradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.

- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

<u>Business Portfolio analysis / Portfolio restructuring</u>

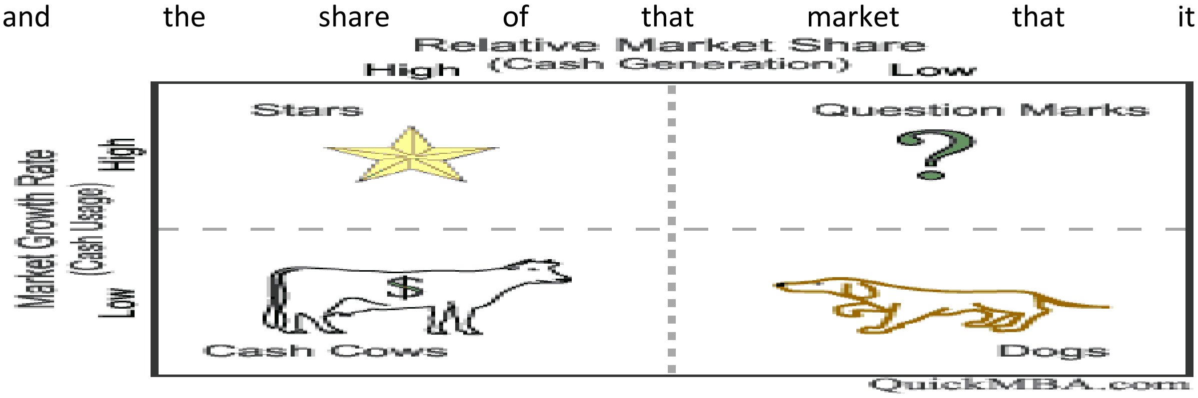
Large, diversified organizations commonly use a number of these strategies in combination. For example, an organization may simultaneously seek growth through the acquisition of new businesses, employ a stability strategy for some of its existing businesses, and divest itself of other businesses. Clearly, formulating a consistent organizational strategy in large, diversified companies is very complicated, because a number of different business – level strategies need to be coordinated to achieve overall organizational objectives. Business portfolio models are designed to help managers deal with this problem.

Business portfolio models are tools for analyzing (1) the relative position of each of an organization's businesses in its industry and (2) the relationships among all the of the organization's businesses. Two well-known approaches to developing business portfolios include:

- Boston Consulting Group (BCG) growth – share matrix
- General Electric's (GE's) multi-factor portfolio matrix.

<u>BCG Growth-Share Matrix</u>

The Boston Consulting Group, a leading management consulting firm, developed and popularized a strategy formulation approach called the growth – share matrix, which is shown in Figure below. The basic idea underlying this approach is that a firm should have a balanced portfolio of businesses such that some generate more cash than they use and can thus support other businesses that need cash to develop and become profitable. The role of each business is determined on the basis of two factors: the growth rate of its market and the share of that market that it enjoys.



The vertical axis indicates the market growth rate, what is the annual growth percentage of the market (current or forecasted) in which the business operates. The horizontal axis indicates market share dominance or relative marker share. It is computed by dividing the firm's market share (in units) by the market share of the largest competitor).
The growth – share matrix has four cells, which reflect the four possible combinations of high and low growth wit high and low market share. These cells represent particular types of businesses, each of which has a particular role to play in the overall business portfolio. The cells are labeled:

1. Question marks (sometimes called problem children): Company business that operate in a high-growth market but have low relative market share. Most businesses start off as question marks, in that they enter a high – growth market in which there is already a market leader. A question mark generally requires the infusion of a lot of funds. It has to keep adding plant, equipment, and personnel to keep up with the fast – growing market, and it wants to overtake the leader. The term question mark is well chosen, because the organization has to think hard about whether to keep investing funds in the business or to get out.

2. Stars: They are question – mark businesses that have become successful. A star is the market leader in a high – growth market, but it does not necessarily provide much cash. The organization has to spend a great deal of money keeping up with the market's rate of growth and fighting off competitors' attacks. Stars are often cash – using rather than cash–generating Even so, they are usually profitable in time.

3. Cash cows: Businesses in markets whose annual growth rate is less than 10 percent but that still have the largest relative market share. A cash cow is so called because it produces a lot of cash for the organizations. The organization does not have to finance a great deal of expansion because the market's growth rate is low. And the business is a market leader, so it enjoys economies of scale and higher profit margins. The organization uses its cash-cow businesses to pay its bills and support its other struggling businesses.

4. Dogs: Businesses that have weak market shares in low-growth markets. They typically generate low profits or losses, although they may bring in some cash. Such businesses frequently consume more management time than they are worth and need to be phased out. However, an organization may have good reasons to hold onto a dog, such as an expected turnaround in the market growth rate or a new chance at market leadership.

After each of an organization's businesses is plotted on the growth – share matrix, the next step is to evaluate whether the portfolio is healthy and well balanced. A balanced portfolio has a number of stars and cash cows and no too many questions marks or dogs. This balance is important because the organization needs cash not only to maintain existing businesses but also to develop new businesses. Depending on the position of each business, four basic strategies can be formulated:
1. **Build market share**: This strategy is appropriate for question marks that must increase their share in order to become stars. For some businesses, short-term profits may have to be forgone to gain market share and future long-term profits.
2. **Hold market share**: This strategy is appropriate for cash cows with strong share positions. The cash generated by mature cash cows is critical for supporting other businesses and financing innovations. However, the cost of building share for cash cows is likely to be too high to be a profitable strategy.
3. **Harvest**: Harvesting involves milking as much short-term cash from a business as possible, even allowing market share to decline if necessary. Weak cash cows that do not appear to have a promising future are candidates for harvesting, as are question marks and dogs.
4. **Divest:** Divesting involves selling or liquidating a business because the resources devoted to it can be invested more profitably in other businesses. This strategy is appropriate for those dogs and question marks that are not worth investing in to improve their positions.
However the growth share matrix is not fool proof. It has the following loopholes.
- Focuses on balancing cash flows only but organizations are mostly interested in return on investments.

- Is not always clear what share of what market is relevant in the analysis.
- Believes that there is a strong relationship between market share and return on investment. But research proves that only a 10% change in market share is associated with only ‘percent change in return on investment.
- The other factors like size and growth profile of the market and distinctive competences of the firm, competition etc is not considered.
- It does not provide direct assistance in comparing different businesses in terms of investment opportunities. For example it is difficult to decide between two question marks and decide which should be developed into a star.
- Offers only general strategy recommendations without specifying how to implement them.

The General Electric Model:

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed. This also uses two factors in a matrix/grid situation as shown below:

Business position

Market Attractiveness

	High	**Medium**	**Low**
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

Figure: The GE Matrix

Depending on where businesses are plotted on the matrix, three basic strategies are formulated:
- Invest/grow,
- Selective investment, and
- Harvest/divest.

Businesses falling in the cells that form a diagonal from lower left to upper right are medium strength businesses that should be invested in only selectively. Businesses in the cells above and to the left of this diagonal are the strongest; they are the ones for which the company should employ an invest/grow strategy. Businesses in the cells below and to the right of the diagonal are low in overall strength and are serious candidates for a harvest/divest strategy.

Each of the above two factors are rated according to criteria such as the following:

Evaluating the ability to compete: Business position	**Evaluating the market attractiveness**
Size **Growth** **Share by segment** **Customer loyalty** **Margins** **Distribution** **Technology skills** **Patents** **Marketing** **Flexibility** **Organization**	**Size** **Growth** **Customer satisfaction levels** **Competition: quality, types,** **Effectiveness, commitment** **Price levels** **Profitability** **Technology** **Government regulations** **Sensitively to economic trends**

Figure: Criteria for rating Business position and Market Attractiveness

The criteria used to rate market attractiveness and business position assigned different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors is calculated for each SBU. Based on these ratings, each SBU is labeled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Every organization has to make decisions about how to use its limited resources most effectively. That's where these planning models can help determine which SBU should be stimulated for growth, which one maintained in their present market position and which one eliminated.

This approach has several advantages over the growth-share matrix.

- First, it provides a mechanism for including a host of relevant variables in the process of formulating strategy.
- second, as we have noted the two dimensions of industry attractiveness and business strength is excellent criteria for rating potential business success.
- Third, the approach forces managers to be specific about their evaluations of the impact of particular variables on overall business success.

However, the multifactor portfolio matrix also suffers some of the same limitations as the growth –share matrix.

- o It does not solve the problem of determining the appropriate market, and it does not offer anything more than general strategy recommendations.
- o The measures are subjective and can be very ambiguous, particularly when one is considering different businesses.

Portfolio models provide graphical frameworks for analyzing relationships among the businesses of large, diversified organizations, and they can yield useful strategy recommendations. However, no such model yet devised provides a universally accepted approach to dealing with these issues. Portfolio models should never be applied in a mechanical fashion, any conclusion they suggest must be carefully considered in the light of sound managerial judgment and experience.

Strategic choice

Meaning of strategic choice: Choice of a strategy involves an understanding of choice mechanism and issues involved in it. Strategic choice is the process of choosing the alternative strategic options generated by the SWOT analysis. Management need to seek to identify and evaluate alternative courses of action to ensure that the business reaches the objectives they have set. This will be largely a creative process of generating alternatives, building on the strengths of the business and allowing it to tackle new products or markets to improve its competitive position.

The strategic choice process involves making decisions on:

- What basis should the organization compete and on what basis can it achieve competitive advantage?
- What are the alternative directions available and which products/markets should the organization enter or leave?
- What alternative methods are available to achieve the chosen direction?

Definition: Gleuk has defined strategic choice as the process of selecting the best strategy out of all available strategies.

Steps in strategic choice:

- ➪ Focusing on strategic alternatives
- ➪ Evaluating strategic alternatives
- ➪ Considering Decision factors
- ➪ Choice of strategy

Objective factors are grouped into two categories:
Environmental factors: It includes volatility of environment, input supply from environment and powerful stakeholders. Organizational factors: It includes organization's mission, the strategic intent, its business definition and its strengths and weaknesses.

Subjective factors: Various subjective factors may be classified as:
 Organization's past strategies
 Personal factors
 Attitude to risks
 internal political consideration
 Pressure from stakeholders

Process of Strategic choice: Strategic choice involves evaluation of the pros and cons of each strategic alternative and selection of the best alternative. Three techniques are used in the process of selection of a strategy.
Devil's Advocate
Dialectical Enquiry
Strategic shadow Committee
1. Devil's Advocate in strategic decision making is responsible for identifying potential pitfalls and problems in a proposed strategic alternative by making a formal presentation.
2. Dialectical inquiry involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be argued by advocates before the key decision makers. Finally one alternative will emerge viable for implementation.
3. A strategic shadow committee consists of members drawn below executive level. They serve the committee for two years. They inspect all materials and attend all meetings of executive strategy. The members generate views regarding constraints faced by management. Their report is submitted to Board of Directors.

Strategic evaluation and control
The process of evaluation basically deals with four steps:
1. Setting standards of performance-Standards refer to performance expectations.
2. Measurement of performance-Measurement of actual performance or results requires appraisal based on standards.
3. Analyzing variances- The comparison between standards and results gives variances.
4. Taking corrective action-The identifications of undesirable variances prompt managers to think about ways of corrective them.

Importance
Strategic evaluation is important due to several factors.
Need for feedback: Within an organization, there is a need to receive feedback on current performance, so that good performance is rewarded and poor performance is corrected.
Validates strategic choice: Strategic evaluation helps to keep a check on the validity of a strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase. ;

Congruence between decisions and intended strategy: During the course of strategy implementation managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.
New Strategy planning: Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning.

Participants in Strategic Evaluation
The various participants in strategic evaluation and control and their respective roles are *Shareholders, lenders and the public.* They have ownership claim on the assets of the enterprise and are therefore responsible to the strategic performance and evaluation.
Board of Directors enacts the formal role of reviewing and screening executive decisions in the light of the environment and business organizational implications.
Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control.
SBU or profit-centre heads may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.
Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on financial analysis, budgeting, and reporting. Audit and executive committees, set up by the Board or the chief executive, may be charged with the responsibility of continuous screening of performance.
Corporate planning staff or department may also be involved in strategic evaluation.
Middle-level managers may participate in strategic evaluation and control as providers of information and feedback, and as the recipients of directions from above, to take corrective actions.

Types of strategic controls
Controls can be broadly classified into two categories. : *Strategic and operational control*. Strategic control is aimed at monitoring the course of progress in the predetermined direction, and operational control with the allocation of organizational resources and evaluation of the performance of organizational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organizational objectives.

Strategic controls
The different types of strategic controls are discussed in brief here.
Premise control A company may base its strategy on important assumptions related to environmental factors (e.g., government policies), industrial factors (e.g. nature of competition), and organizational factors (e.g. breakthrough in R&D). Premise control continually verifies whether such assumptions are right or wrong. If they are not valid corrective action is initiated and strategy is made right. The responsibility for premise control can be assigned to the corporate planning staff who can identify for assumptions and keep a regular check on their validity.

Implementation control Implementation control can be done using milestone review. This is similar to the identification-albeit on a smaller scale-of events and activities in PERT/CPM networks. After the identification of milestones, a comprehensive review of implementation is made to reassess its continued relevance to the achievement of objectives.

Strategic Surveillance *This is aimed at a more generalized and overarching control. Strategic surveillance can be done through a broad based, general monitoring on the basis of selected information sources to uncover events that are likely to affect the strategy of an organization.*

Special Alert Control *This is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis* *management teams. Examples of such events can be the sudden fall of a government at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, or a natural catastrophe.*

Strategic momentum control These types of evaluation techniques are aimed at finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum. There are three techniques, which could be used to achieve these aims:

- Responsibility control centers,
- Critical success factors, and
- Generic strategies.

  - Responsibility controls form the core of management control systems and are of four types: revenue, expense, profit, and investment centers.
  - CSFs form the bases for strategists to continually evaluate the strategies to assess whether or not these are helping the organization to achieve the objectives.
  - The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable.

Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant, A strategic group is a group of firms that adopts similar strategies with similar resources. Firms within a strategic group, often within the same industry and sometimes in other industries too, tend to adopt similar strategies.

Strategic leap control Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four techniques of evaluation used to exercise strategic leap control: *strategic issue management, strategic field analysis, systems modeling, and scenarios.*

(i) Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organization. A strategic issue is "a forthcoming development, either inside or outside of the organization, which is likely to have an important impact. On the basis of strategic issues, the strategists can avoid surprises and shocks, and design contingency plans to shift strategies whenever required.

(ii) Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organization. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can evaluate the firm's ability to generate synergies where they do not exist.

(iii)Systems modeling is based on computer-based models that simulate the essential features of the organization and its environment. Through systems modeling, organizations may exercise pre-action control by assessing the impact of the environment on organization because of the adoption of a particular strategy.

(iv) Scenarios are perceptions about the likely environment a firm would face in the future. They enable organizations to focus strategies on the basis of forth-coming developments in the environment.

Several of the above techniques for strategic control-with the possible exception of responsibility centers-are of a relatively recent origin. The development of these techniques is an evidence of the expanding body of knowledge in business policy and strategic management.

Operational control

Operational control is aimed at the allocation and use of organizational resources. Evaluation techniques for operational control, therefore, are based on organizational appraisal rater than environmental monitoring, as is the case with strategic control. Evaluation techniques can be classified into three parts.

- Internal analysis,
- Comparative analysis, and
- Comprehensive analysis.

Internal analysis Internal analysis deals with the identification of the strengths and weakness of a firm in absolute terms.

Value chain analysis focuses on a set of inter-related activities performed in a sequence for producing and marketing a product or service. The utility of value-chain analysis for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities, which can then be evaluated for effectiveness.

An operational standard takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess Performance. The obvious benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most-used methods for evaluation for operational control. Among the scores of financial techniques are traditional techniques, such as, ratio analysis, or newer techniques, such as, economic value-aided (EVA) and its variations, and activity-based costing (ABC). These are proven methods so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial control, such as; computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period.

Qualitative analysis supplements the quantitative analysis by including those aspects which it is not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgment, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

Comparative analysis It compares the performance of a firm with its own past standards, or standards of other firms.

1. **Historical analysis** compares the present performance of a firm with performance over a given period of time. This method help analyze the trend or pattern.
2. **Industry norms** Performance of a company I is compared with the performance of its peers in the same industry. Evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempt to surpass it.
3. **Bench marking** is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.

Comprehensive analysis This analysis adopts a total approach rather than focusing on one area of activity, or a function or department.

1. **Balanced scorecard** method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters is taken into account for evaluation.
2. **Key factor rating** is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organization.
3. **Management by Objectives** (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives, which are decided upon, mutually by the superior and the subordinate. By the process of consultation, objective setting leads to the establishment of a control system that operates on the basis of commitment and self-control.
4. **4. Memorandum of understanding** (MoU) is "an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities". Having done that, the enterprises are evaluated on the basis of the MoU.

The following aspects **differentiate strategic control with operational control:**

(i) Strategic control is related to external environment while operational control is related to internal organization.
(ii) Strategic control has longest time horizon.
(iii) Control is exercised exclusively by top management in strategic control.
(iv) Budget schedules and MBO are used in operational control.

Control Tools and Techniques

The controlling function includes activities undertaken by managers to ensure that actual results conform to planned results. Control tools and techniques help managers pinpoint the organizational strengths and weaknesses on which useful control strategy must focus.

In order to simplify the discussion of the tools and control techniques, many authors divide them into two categories: non-financial and financial. **Non-financial control techniques** do not require financial data to be used, while **financial control techniques** require some form of financial data such as profits, costs, or revenues. Each of the control techniques is intended for a different purpose. Therefore, in order to make rational choices about which control techniques to implement, managers must understand what a given control techniques can and cannot do.

Non-financial control techniques**:** Non-financial control techniques include rewards and punishments, selection procedures, socialization and training, the management hierarchy, management by exception, inventory and quality control, and PERT.

Financial Control Techniques: Financial controls help managers to keep costs in line, maintain a viable relationship between assets and liabilities, sustain adequate liquidity, and achieve general operating efficiency. Some of the best-known and most commonly used financial control techniques are: budgets, ratio analysis, break-even analysis, and accounting audits.