Chapter - III

Strategic Management-An Overview
Levels of Strategy

Typically strategies are formed at three levels in an organization. They are,

1. Corporate level
2. Business level
3. Functional level

1. Corporate strategy is made by those companies which have multi-business divisions or when it is required to establish business positions in different industries. These strategies may aim to boost the combined performance of the set of diverse businesses of the company. Also, these strategies are made to make use of the skill sets and synergies of the different divisions in the company. These strategies are also made by the group entity to covering different companies in its fold.

2. Business strategy concerns the actions and the approaches crafted to produce successful performance in one specific line of business. The key focus here is crafting responses to changing market circumstances and initiating actions to strengthen market position, build competitive advantage, and develop strong competitive capabilities. Orchestrating the development of business-level strategy is the responsibility of the manager in charge of the business. In diversified companies, business-unit heads may have the additional obligation of making sure business-level objectives and strategy conform to corporate-level objectives and strategy themes.

3. Functional level strategies refer to the strategies employed at the functional level of an organization, such as marketing, production, finance, and human resource management.

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management. These strategies shall support the business level strategies and consistent with the organizational goals. Each functional strategy shall also be not inconsistent with the other functional strategies. When it comes to a single-business company, the corporate and business levels of strategy merge into business strategy as the strategy for the whole company is only one distinct line of business as is illustrated below:

**Fig. 3.1**
Levels of Strategy
Single Business Companies

- Corporate Business Strategy
  - Production and Operations, R&D Strategies
  - Finance Accounting, R&D Strategies
  - Marketing Strategies
  - Human Resources Strategies

**Fig. 3.2**
Levels of Strategy
Multi-Business Companies

- Corporate Strategy
  - Business 1
  - Business 2
  - Business 3
  - Production and Operations R&D Strategies
  - Finance and Accounting Strategies
  - Marketing Strategies
  - Human Resources Strategies
While analytically appealing, these three levels are difficult to isolate in reality. Although it would be so much simpler if all strategy issues could be separated into these three tidy categories, in practice, there are no discrete borderlines between them. The levels are so strongly interdependent that the boundaries between them are fuzzy.

**External and Internal Analysis**

The ability of the firm to effectively compete in the domestic arena derives essentially from two sources. The first is the internal factor which refers to the specific knowledge of asset creation and utilization which the firm enjoys over its competitors. The second is the external factor which alludes to the market in which the firm operates. It is argued that since profits result from the application of resource efficiency effected within the firm to the exigencies of the market place, it is important to keep the internal factors well aligned with exogenous trends.

**External analysis**

The external environment impacts an organizations strategies in a major way. The external environmental factors can be macro economics factors of the country in which the firms operate as well the economic factors of the world. These external factors combined with the internal factors of the firm like the core competencies, resources available with the firm, leadership qualities, organizational structure etc determines the type of strategies that a firm can formulate and execute. Any firm has to be make an external analysis of relevance to the firm before formulating its strategies. The essential purpose of the external analysis is to identify strategic

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opportunities and threats in the organization's operating environment that will affect how it crafts its strategies to carry out its mission successfully. Three interrelated environments should be examined at this stage: the immediate or industry environment in which the organization operates, the country or national environment, and the wider socioeconomic or macro environment.

Analyzing the industry environment requires an assessment of the competitive structure of the organization's industry, including the competitive position of the specific or focal organization and its major rivals. It also requires analysis of the nature, stage, dynamics and history of the industry. Because many markets are now global markets, analyzing the industry environment also means assessing the impact of globalization on competition within an industry. Analyzing the macro environment consists of examining macroeconomic, social, legal, government, international, and technological factors that may affect the organization.\(^7\)

The following changes happen in an industry on a dynamic basis which affect the scale and type of investment a firm makes in that industry and the strategy it makes. These changes can happen in varying degrees and at different points of time across industries.

- Long-run changes in growth
- Changes in buyer segments served
- Buyer's learning
- Reduction of uncertainty
- Diffusion of proprietary knowledge
- Accumulation of experience
- Expansion (or contradiction) in scale

Changes in input and currency costs
- Production innovation
- Marketing innovation
- Process innovation
- Structural change in adjacent industries
- Government policy change
- Entries and exits

The important thing to note is not the various factors of the external environment, but the dynamism with which these change and the degree in which they affect individual firms.

Some research studies have been carried out in India, on which sectors of the Environment do Indian companies focus upon. Given below are the relative rankings of eight environmental sectors that Indian companies focus upon. The rankings are based on three research studies reported over nearly a decade (1987 - 1996).\(^2\)

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n.c.: not considered in research study


\(^3\) MR.Dixit, “Environmental Factors Relevant for Strategy Formulation” Indian Management, Jan 1987, pp.31-37.


Competitive and environmental analysis

A competitive and environmental analysis should include all the key influencing factors that affect the way in which you can compete. A competitive review is important for two reasons.

Firstly, even if a firm knows what the customers want and have the resources to meet the customers' demands, it may not be worth pursuing particular parts of the market for a whole range of strategic reasons, such as the threat of price war, channel conflict, or legal or ethical considerations.

Secondly, if the competitors are doing things better than the firm, or more dangerously, whether they are looking to change the basis of competition in the market, for instance by moving to a direct sales model, or by introducing some revolutionary new product or technology.

There are two main types of competitive analysis, namely, The Five Forces model and benchmarking. These two types of competitive analysis are briefly discussed here.

The Five Forces model

The five forces mentioned by Porter's famous framework are:

- Power of Buyers
- Power of Suppliers
- Threat of substitutes
- Barriers to entry
- Competitors
The interaction of these five forces can be represented better by the following diagram:

By considering how these "forces" act on the firm, it gets a picture of issues such as channel conflict, threats from vertical integration, the impact of regulatory change or the advent of new technology. Consequently it becomes possible to play around with different future competitive scenarios and to use these to test different propositions to try and guess how the market will change. The strategy can then include contingencies and responses to changes that might affect the firm.

The main criticism of Porter’s framework concern its neglect of the role of the government and its assumption of rationality-no attention is paid to industry cultures and politics, or to irrational behaviour of industry participants.

National competitive advantage

Michael Porter did a pioneering work in analyzing the factors for making a nation competitive in the global market. The competitive environment of a country in
turn affects the competitiveness of the firms operating inside the country vis-à-vis the other firms operating in other countries. Michael Porter identified four attributes of a national or country-specific environment that have an important impact on the global competitiveness of companies located within that nation:76

- **Factors endowments**: a nation's position in factors of production such as skilled labor or the infrastructure necessary to compete in a given industry.

- **Demand conditions**: the nature of home demand for the industry’s product or service.

- **Relating and supporting industries**: the presences or absence in a nation of supplies industries and related industries that are internationally competitive.

- **Firm strategy, structure, and rivalry**: the conditions in the nation governing how companies are created, organized, and managed and the nature of domestic rivalry.

Porter speaks of these four attributes as constituting the diamond, arguing that companies are most likely to succeed in industries or strategic groups where the four attributes are favorable. He also argues that the diamond’s attributes form a mutually reinforcing system in which the effect of one attribute is dependent on the state of others. The following diagram illustrates the factors and their inter-relationships:77

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Internal analysis

Internal analysis, serves to pinpoint the strengths and weaknesses of the organization. Such issues as identifying the quantity and quality of a company’s resources and capabilities and ways of building unique skills and company – specific or distinctive competencies are considered under internal analysis when the sources of competitive advantage are probed. Building and sustaining a competitive advantage requires a company to achieve superior efficiency, quality, innovation and responsiveness to its customers. Company strengths lead to superior performance in these areas, whereas company weaknesses translate into inferior performance. One of the important tools of analyzing the firm’s strengths and weaknesses is value chain analysis, propagated by Porter.
Value-chain analysis

There are many different frameworks for analyzing the competencies of a firm. For instance looking at tangible resources (finance, physical), intangible resources (technology, reputation) and human resources (skills, flexibility) or the functioning of the McKinsey’s 7S's (skills, staff, style, shared values, systems, structure, strategy).

Porter's value-chain analysis identifies what is most valued by customers and who is providing this value. This means looking at the product and service the customer receives in terms of what and who provides:

- Development/technical skills,
- Procurement/production skills,
- Sales/communication skills
- Distribution/logistics skills
- Service/support skills,

These skills and resources are often closely aligned to the customers’ view of what they want and so a firm can identify the key value points for your customers.

A key feature of the value chain approach is that a firm need not be (and perhaps shouldn't be) good at all of these areas. Indeed, as there is a cost and return associated with each skill for each of the firm’s products/services, this analysis can start to identify which areas produce the greatest returns to the firm’s business. The various value adding activities inside a firm are broadly grouped by Porter as primary activities and support activities. There are various activities in the primary activity such as operations, inbound logistics, outbound logistics, marketing, after sales services etc. Similarly, there are various activities in support activities such as
procurement, technology development, human resource management, firm infrastructure etc.

The inter-relationships among these activities is best illustrated by the value chain diagram introduced by Porter.

**Fig. 3.5**

M. Porter’s Value Chain

The value chain displays total value, and consists of value activities and margin. Value activities are the physically and technologically distinct activities a firm performs. These are the building blocks by which a firm creates a product valuable to its buyers. Margin is the difference between total value and the collective cost of performing the value activities. Margin can be measured in a variety of ways. Supplier and channel value chains also include a margin that is important to isolate in understanding the sources of a firm’s cost position, since supplier and channel margin are part of the total cost borne by the buyer.

Every value activity employs purchased inputs, human resources (labor and management), and some form of technology to perform its function. Each value
activity also uses and creates information, such as buyer data (order entry), performance parameters (testing), and product failure statistics. Value activities may also create financial assets such as inventory and accounts receivable, or liabilities such as accounts payable.

Value activities can be divided into two broad types, primary activities and support activities. Primary activities are the activities involved in the physical creation of the product and its sale and transfer to the buyer, as well as after-sale assistance. In any firm, primary activities can be divided into the five generic categories shown in this figure. Support activities support the primary activities and each other by providing purchased inputs, technology, human resources, and various firm wide functions. The dotted lines reflect the fact that procurement, technology development, and human resource management can be associated with specific primary activities as well as support the entire chain. Firm infrastructure is not associated with particular primary activities but supports the entire chain. Firms should focus on their strengths and the areas where they can gain greatest returns, and may outsource areas where they are weaker and where it would be more cost effective to use outside help. Consequently, understanding existing infrastructures, networks and identifying the key relationship assets that have a strong influence over the value the customers perceive they are getting.

These relationships may or may not themselves be with customers, for instance, consultants who provide service/support skills, distributors providing

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logistics, journals or magazines that provide communication with the market. Where these relationships are adding value to the customers, a firm can think of partnering with these people and they are as valuable to the market strategy as the customers themselves.

The combined costs of all the various activities in a company's value chain define the company's internal cost structure. Further, the cost of each activity contributes to whether the company's overall cost position relative to rivals is favorable or unfavorable. The tasks of value chain analysis and benchmarking are to develop the data for comparing a company's costs activity against the costs of key rivals and to learn which internal activities are a source of cost advantage or disadvantage. A company's relative cost position is a function of how the overall costs of the activities it performs in conducting business compared to the overall costs of the activities performed by rivals.

A company's value chain and the manner in which it performs each activity reflect the evolution of its own particular business and internal operations, its strategy, the approaches it is using to execute its strategy, and the underlying economies of the activities themselves. Because these factors differ from company to company, the value chains of rival companies sometimes differ substantially—a condition that complicates the task of assessing rivals' relative cost positions. For instance, competing companies may differ from the vertical integration. Comparing the value chains of a fully integrated rival and partially integrated rival requires adjusting for a manufacturer that makes all of its own parts and components will be greater than the

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80 Ibid., p.99.
costs of internally performed activities of a producer that buys the needed parts and components from outside suppliers and only performs assembly operations.

As the tire industry example makes clear, a company's value chain is embedded in a large system of activities that includes the value chains of suppliers and its distribution channel allies engaged in getting its product or service to end users.\footnote{Ibid.}

Suppliers' value chains are relevant because suppliers perform activities and incur cost in creating and delivering the purchased inputs used in a company's own value chain. The costs, performance features, and quality of these inputs influence a company's own costs and product differentiation capabilities. Anything a company can do to help its suppliers take costs out of their value chain activities or improve the quality working collaboratively with suppliers in managing supply chain activities.

Forward channel and customer value chains are relevant because (1) the costs and margins of a company's distribution allies are part of the prices the end user pays, and (2) the activities that distribution allies perform affect the end user's satisfaction. For these reasons, companies normally work closely with their forward channel allies (who are their direct customers) to perform value chain activities in mutually beneficial ways.

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 internal opportunities and threats. The comparison of Strengths, Weaknesses, Opportunities, and Threats is normally referred to as a \textit{SWOT} analysis.\footnote{Andrews, Concept of corporate strategy; Ansoff, Corporate strategy; Hofer and Schendel, Strategy Formulation.} 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 managers compare and contrast the various alternative possible strategies against one another with respect to their ability to achieve major goals and superior profitability. Thinking strategically requires managers to identify the set of strategies that will create and sustain a competitive advantage:

**SWOT Analysis**

Another important internal analysis tool is SWOT analysis. It is a methodology of examining potential strategies derived from the combining of organizational strengths, weaknesses, opportunities and threats (SWOT). The partnering of the different elements and the extensive data collected as a result of the analysis can be used for refinement of current strategies or generation of new strategies.

Appraising a company’s resource strengths and weaknesses and its external opportunities and threats, commonly known SWOT analysis, provides a good overview of whether its overall situation is fundamentally healthy or unhealthy. Just as important, a first-rate SWOT analysis provides the basis for crafting a strategy that capitalizes on the company’s resources, aims squarely at capturing the company’s best opportunities, and defends against the threats to its well-being.

The following examples can be given for the potential strengths of a firm:

- A powerful strategy
- Core competencies
- A product that is strongly differentiated from those of rivals

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• Competencies and capabilities that are well matched to industry key success factors
• A strong financial condition; ample financial resources to grow the business
• Strong brand-name image/company reputation
• An attracting customer base
• Economy of scale and/or learning and experience curve advantages over rivals
• Propriety technology/superior technological skills/important patents
• Superior intellectual capital relative to key rivals
• Cost advantages over rivals
• Strong advertising and promotion
• Product innovation capabilities
• Proven capabilities in improving production processes
• Good supply chain management capabilities
• Good customer service 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

Weaknesses of a firm could be the following:

• No clear strategic direction
• Resources that are not well matched to industry key success factors
• No well-developed or proven core competencies
• A weak balance sheet; too much debt

85 Ibid., p.95.
• Higher overall unit costs relative to key competitors
• Weak or unproven product innovation capabilities
• A product/service with attributes or features inferior to those of rivals
• Too narrow a product line relative to rivals
• Weak brand image or reputation
• Weaker dealer network than key rivals and/or lack of adequate global distribution capability.
• Behind on product quality, R&D, and/or technological know-how
• In the wrong strategic group
• Losing market share
• Lack of management depth
• Inferior intellectual capital relative to leading rivals
• Below average profitability
• Plagued with internal operating problems or obsolete facilities
• Behind rivals in e-commerce capabilities
• Short on financial resources to grow the business and pursue promising initiatives
• Too much underutilized plant capacity

Potential market opportunities could be the following:

• Openings to win market share form rivals
• Sharply rising buyer demand for the industry’s product
• Serving additional customer groups or market segments
• Expanding the new geographic markets

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86 Ibid.
- 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
- Online sales
- Integrating forward or backward
- Falling trade barriers in attractive foreign markets
- Acquiring rival firms or companies with attractive technological expertise or capabilities
- Entering into alliances or joint ventures that can expand the firm's market coverage or boost its competitive capability
- Openings to exploit emerging new technologies

Examples for potential external threats to a firm's well-being could be as below:\textsuperscript{87}:

- Increasing intensity of competing among industry rivals—may squeeze profit margins
- Slowdowns in market growth
- Likely entry to potent new competitors
- Loss of sales to substitute products
- Growing 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 industry's product

\textsuperscript{87} Ibid.
• Vulnerability to industry driving forces
• Restrictive trade policies on the part of foreign governments
• Costly new regulatory requirements

The survey conducted by Rey A.L. Taganas and Vijay Kumar Kaul showed the relative importance of the challenges faced by the IT firms in India as mentioned below88:

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<th>Variable</th>
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<th>More than 4</th>
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<td>Rate of change of technology</td>
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<td>Frequency of new product in the industry</td>
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<td>Difficulty in obtaining supplies</td>
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<td>Difficulty in obtaining finances from</td>
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<td>Venture funds</td>
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<td>Difficulties in hiring skilled personnel</td>
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<td>Increasing cost of skilled personnel</td>
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<td>Changes in consumer demand and preference</td>
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<td>Government policies</td>
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Note: The competitive scores were rated on a scale of 0 to 7

SWOT analysis helps managers 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

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company’s chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.\textsuperscript{89}

**Business level strategies**

C.C. Markides and P.J. William state that only firms who are able to continually build new strategic assets faster and cheaper than their competitors will earn superior returns over the long run.

Business level strategies relate to the fight at the market by a firm with its rivals. This part of the strategy is better known as competitive strategy. The task of identifying a company’s strategy is mainly one of researching information about the company’s actions in the market place and business approaches.\textsuperscript{90}

In developing a business-level strategy and business model, usually strategic managers emphasize one of five generic competitive strategies: cost leadership, differentiation, cost leadership and differentiation, focus differentiation, and focus cost leadership.\textsuperscript{91} These strategies are called generic because all companies or businesses can pursue them regardless of whether they are manufacturing, service, or nonprofit enterprises. These strategies are also generic because they can be pursued in different kinds of industry environments. Each of the generic strategies results from a company’s consistent choices on product, market, and distinctive competencies—choices that reinforce each other and result in a competitive business model.

According to Michael Porter, competitive strategy is about being different. It means

\textsuperscript{89} Charles W.L.Hill and Gareth R.Jones, Strategic Management-An Integrated Approach, 6\textsuperscript{th} ed., New Delhi, Biztantra, 2004, p.17.


deliberately choosing to perform activities differently or perform different activities than rivals to deliver a unique mix of value.

As discussed above, business level strategies are,

1. Cost leadership
2. Differentiation
3. Focus based on lowest cost
4. Focus based on differentiation
5. Best cost provider

The above distinctive five distinct competitive strategy approaches can be briefly summarized as under:92

1. A low cost provider strategy—appealing to a broad spectrum of customers by being the overall low-cost provider of a product or a service.
2. A broad differentiation strategy—seeking to differentiate the company’s product/service offering from rivals in ways that will appeal to a broad spectrum of buyers.
3. A best-cost provider strategy—giving customer more value for the money by incorporating good-to excellent product attributes at a lower cost than rivals; the target is to have the lowest costs and process compared to rivals offering products with comparable attributes.
4. A focused (or market niche) strategy based on lower cost—concentrating on a narrow buyer segment and out competing rivals by serving niche members at a lower cost than rivals.

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92 The classification scheme is an adaptation of one presented in Michael E. Poter, Competitive Strategy: Techniques for analyzing Industries and Competitors (New York: Free Press, 1980)
5. A focused (or market niche) strategy based on differentiation-concentrating on a narrow buying segment and out competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals’ products.

Differentiation can arise out of higher quality, wider product selection, added performance, better service, more attractive styling, technological superiority, or unusually good value for the money.

Focus means concentrating on a particular market segment and winning a competitive edge by doing a better job than rivals or serving the special needs and tastes of niche buyers. Prominent companies that enjoy competitive success in a specialized market niche include eBay in online auctions, Jiffy Lube International in quick oil changes, McAfee in virus protection software, Starbucks in premium coffees and coffee drinks, Whole Foods Market in natural and organic foods, and Krispy Kreme in doughnuts.

Focus strategy can be either focus-low cost or focus differentiation strategy. The focus low – cost and focus differentiation strategies are directed toward serving the needs of a particular or specific market segment or niche. In general, focus strategies position a company to compete for customers in a particular market segment, which can be defined geographically, by type of customers, or by segment of product line.93

Once it has chosen its market segment, a focused company positions itself using either a differentiation or a low – cost approach.

In essence, a focused company is a specialized differentiator or a cost leader. If a company uses a focused low – cost approach, it competes against the cost leader

in the market segments in which it has no cost disadvantage. The focuser may also have a cost advantage because it is producing complex or custom – built products that do not lend themselves easily to economies of scale in production and therefore offer few experience curve advantages. With a focus strategy, a company concentrates on small – volume custom products, for which it has a cost advantage, and leaves the large – volume standardized market to the cost leader.

If a company uses a focused differentiation approach, then all the means of differentiation that are open to the differentiator are available to the focused company. The point is that the focused company positions itself to compete with the differentiator in just one or few segments. For example, Porsche, a focused company, competes against GM only in the sports car segment of the car market. Focused companies are likely to develop differentiated product qualities successfully because of their knowledge of a small customer set (such as sports car buyers), knowledge of a region, or expertise in a particular field (such as corporate law, management consulting, or website management for retail customers or restaurants). The following diagram makes a comparison of the four competitive strategies namely, cost leadership strategy, differentiation strategy, focused cost strategy and focused differentiation strategy and at the same time brings the differences between these four strategies.

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### Why Focus Strategies Are Different

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<th>Offers low priced Products to customers</th>
<th>Offers products to only one group of customers</th>
<th>Offers products to many kinds of</th>
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<td><strong>Cost – Leadership Strategy</strong></td>
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<td><strong>Focused Differentiation Strategy</strong></td>
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Concentration on a small range of products sometimes allows focuser to develop innovations faster than a large differentiator can. However, the focuser does not attempt to serve all market segments because that would bring it into direct competition with the differentiators. Instead, it concentrates on building market share in one market segment; if it is successful, it may begin to serve more and more market segments and chip away at the differentiator’s competitive advantage.

A company’s business model in pursuing a cost – leadership strategy is based on the intent to out perform competitors by doing every thing it can to establish a cost structure that allows it to produce or provide goods or services at a lower unit cost than they can. It is also about finding ways to lower the cost structure given its choice of differentiation because differentiation typically raises costs. In essence, a company pursuing a cost – leadership strategy seeks to achieve a competitive advantage and
above – average profitability by developing a business model primarily aimed at lowering its cost structure\textsuperscript{95}.

The ability to increase revenues by charging premium prices (rather than by reducing costs, as the cost leader does) allows the differentiator to outperform its competitors and achieve superior profitability. As noted earlier, customers pay a premium price when they believe the product’s differentiated qualities are worth the extra money. Consequently, differentiated qualities are often priced on the basis of what the market will bear.\textsuperscript{96}

**When a low-cost provider strategy works best**\textsuperscript{97}

A competitive strategy predicated on low-cost leadership is particularly powerful when:

1. Price competition among rival sellers is especially vigorous—Low-cost providers are in the best position to compete offensively on the basis of price, to use the appeal of lower price to grab sales (and market share) from rivals, to remain profitable in the face of strong price competition, and to survive price wars.

2. The products of rival sellers are essentially identical and supplies are readily available from any of several eager sellers—commodities like products and /or ample supplies set the stage for lively price competition; in such markets, it is less efficient, higher-cost companies whose profits get squeezed the most.

\textsuperscript{95} Charles W.L.Hill and Gareth R.Jones, Strategic Management-An Integrated Approach, 6\textsuperscript{th} ed., New Delhi, Biztantra, 2004, p.156.


3. There are few ways to achieve product differentiation that have value to buyers. When the differences between brands do not matter much to buyers, buyers are nearly always very sensitive to price differences and shop the market for the best price.

4. Most buyers use the product in the same ways. With common user requirements, a standardized product can satisfy the needs of buyers, in which case low selling price, not features or quality, becomes the dominant factor in causing buyers to choose one seller's product over another's.

5. Buyers incur low costs in switching their purchases from one seller to another. Low switching costs give buyers the flexibility to shift purchases to lower-priced sellers having equally good products or to attractively priced substitute products. A low-cost leader is well positioned to use low price to induce its customers not to switch to rival brands or substitutes.

6. Buyers are large and have significant power to bargain down prices. Low-cost providers have partial profit-margin protection in bargaining with high volume buyers, since powerful buyers are rarely able to bargain price down past the survival level of the next most cost-efficient seller.

7. Industry newcomers use introductory low prices to attract buyers and build a customer base. The low-cost leader can use price cuts of its own to make it harder for a new rival to win customers; the pricing power of the low-cost provider acts as a barrier for new entrants.

**When differentiation strategies are attractive**

Differentiation strategies are attractive whenever buyers’ needs and preferences are too diverse to be fully satisfied by a standardized product or by sellers

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98 Ibid., p.195.
with identical capabilities. A company attempting to succeed through differentiation must study buyers’ needs and behavior carefully to learn what buyers consider important, what they think has value, and what they are willing to pay for.

Successful differentiation allows a firm to:

- Command a premium price for its product and /or
- Increase unit sales (because additional buyers are won over by the differentiating features), and /or
- Gain buyer loyalty to its brand (become some buyers are strongly attracted to the differentiating features and bond with the company and its products).

Differentiation enhances profitability whenever the extra price the product commands outweighs the added costs of achieving the differentiation. Company differentiation strategies fail when buyers don’t value the brand’s uniqueness and/or when a company’s approach to differentiation is easily copied or matched by its rivals.

Differentiation strategies tend to work best in market circumstances where:

- There are many ways to differentiate the product or service and many buyers perceive these differences and having value- Unless buyers have strong preferences about certain features, profitable differentiation opportunities are very restricted.
- Buyer needs and uses are diverse- The more the buyer preferences are, the more room firms have to pursue different approaches to differentiation.
- Few rival firms are following a similar differentiation approach-There is less head-to-head rivalry when differentiating rivals go separate ways in pursuing uniqueness and try to appeal to buyers on different combinations of attributes.
• Technological change is fast-paced and competition revolves around rapidly evolving product features. Rapid product innovation and frequent introductions of next-version products help maintain buyer interest and provide space for companies to pursue separate differentiating paths.

The pitfalls of a differentiation strategy

Attempts at differentiation are doomed to fail if competitors can quickly copy most or all of the appealing product attributes a company comes up with. Rapid imitation means that no rival achieves differentiation, since whenever one firm introduces some aspect of uniqueness that strikes the fancy of buyers; fast-following copycats quickly reestablish similarity. Thus to build competitive advantage through differentiation, a firm must search out sources of uniqueness that are time-consuming or burdensome for rivals to match. Other common pitfalls and mistakes in pursuing differentiation include:

• Trying to differentiate on the basis of something that does not lower a buyer’s cost or enhances a buyer’s well-being, as perceived by the buyer.

• Overdifferentiating so that the product quality or service level exceeds buyers’ needs

• Trying to charge too high a price premium. (The biggest the price differential, the harder it is to keep buyers from switching to lower-priced competitors.)

• Being timid and not striving to open up meaningful gaps in quality or service or performance features vis-à-vis the products of rivals-tiny differences between rivals’ product offerings may not be visible or important to buyers.

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99 Ibid., p.196.

**Best-cost provider strategies**

Best-cost provider strategies aim at giving customers more value for the money. The objective is to deliver superior value to buyers by satisfying their expectations on key quality/service/features/performance attributes and beating their expectations on price (given what rivals are charging for much the same attributes).\(^{101}\)

Best-cost provider strategies follow the middle ground between pursuing a low-cost advantage and a differentiation advantage and between appealing to the broad market as a whole and a narrow market niche. From a competitive positioning standpoint, best-cost strategies are a hybrid, balancing a strategic emphasis on low cost against a strategic emphasis on differentiation (superior value). The competitive advantage of a best-cost provider is lower costs than rivals in incorporating good-to-excellent attributes putting the company in a position to under price rivals whose products have similar appealing attributes.

A best-cost provider can position itself near the middle of market with either a medium-quality product at below average price or high quality product at an average price. Often, substantial numbers of buyers prefer midrange products rather than the cheap, basic products of low-cost producers or the expensive products of top of the line differentiators. But unless a company has the resources, know how and capabilities to incorporate upscale product or service attributes at a lower cost than rivals, this strategy is ill-advised.\(^{102}\)

**The risks of best cost provider strategy**

The danger of a best-cost provider strategy is that a company using it will get squeezed between the strategies of firms using low-cost and differentiation strategies.

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\(^{102}\) Ibid.
Low-cost leaders may be able to see customers always with the appeal of a lower price. High end differentiators may be able to steal customer away with the appeal of better product attributes. Thus, to be successful a best-cost provider must offer buyers significantly better product attributes in order to justify a price above what low cost leaders are charging. Likewise, it has to achieve significantly lower costs in providing upscale features so that it can out-compete high end differentiators on the basis of an attractively lower price.

A focused low-cost strategy

This strategy aims at competing on the basis of cost in the niche market. This strategy has considerable attraction when a firm can lower costs significantly by limiting its consumer base to a well defined buyer segment.

A focused differentiation strategy

This strategy tries to achieve competitive advantage by offering niche members a product meeting their tastes and preferences. Successful use of a focused differentiation strategy depends on the existence of a buyer segment that is looking for special product attributes or seller capabilities on a firm’s ability to stand apart from rivals competing in the same target market.

The focus strategy, either based on low cost or differentiation, can succeed under the following conditions:

- The target market niche is big enough to be profitable and offers good growth potential
- Industry leaders do not see that having a presence in the niche is crucial to their own success in which case focusers can often escape battling head-to-head against some of the industry’s biggest and strongest competitors.

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103 Ibid., p.132.
104 Ibid., p.134.
• It is costly or difficult for multi segment competitors to put capabilities in place to meet the specialized needs of the target market niche and at the same time satisfy the expectations of their mainstream customers.

• The industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource strengths and capabilities. Also with more niches, there is more room for focusers to avoid each other in competing for the same customers.

• Few, if any other rivals are attempting to specialize in the same target segment- a condition that reduces the risk of segment overcrowding.

• The focuser can compete effectively against challengers based on the capabilities and resources it has to serve the targeted niche and the customer goodwill it may have built up.

However the focus strategy has its own limitations. The competitors can copy the strategies of the firm and pull away the firm’s customers or that the tastes of the customers themselves change and they shift to the other competitors.

Stuck in the middle

A low–cost company cannot strive for a high level of market segmentation, as a differentiator does, and provide a wide range of products because those choices would raise its cost structure too much and the company would lose its low – cost advantage. Similarly, a differentiator with a competency in innovation that tries to reduce its expenditures on research and development or one with a competency in responsiveness to customers through after – sales service that seeks to economize on its sales force to decrease costs is asking for trouble because it will lose its competitive advantage as its distinctive competency disappears.
Pursuing a business – level strategy successfully means giving serious attention to all elements of the business model on an ongoing basis. Many companies, through ignorance or error, do not do the planning necessary for success in their chosen strategy. Such companies are said to be “stuck in the middle” because they have made product and market choices that they have been unable to obtain or sustain a competitive advantage. As a result, they have no consistent business – level strategy, experience below – average profitability, and suffer when industry competition intensifies.

Recently, other business level strategies are mentioned for success which include 1. Time or quick response and 2. Innovation. Strategies based on the cycle of flexible manufacturing, rapid response, expanding variety, and increasing innovation are time-based. By reducing the consumption of time in every aspect of the business, these companies also reduce costs, improve quality, and stay closer to their customers.

**Functional level strategies**

A firm operates on day to day basis on functions carried out by various departments. Various departments chalk out strategies at their functional level consistent with the business level strategies. These are short term strategies, say, from 1 to 2 years, followed at the level of various functions/departments which are in conformity with business level strategies.

The common functions in any business are

1) Production and operations

2) Marketing

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3) Technology

4) Quality

5) Finance

6) Human Resource Development

It is worth in knowing some examples for each of these functions.

I. Examples for strategies in marketing are,

1. Converting non-users to use the firm’s products through
   a) Advertising new uses
   b) Sharper brand differentiation from competitors’ products
   c) Increased sales promotion
   d) Price cuts
   e) New distribution channels

2. Encouraging the existing customers to buy more through
   a) Increasing the size of the purchases
   b) Increasing the rate of product obsolescence
   c) Advertising new uses
   d) Price incentives for larger purchases
   e) Improved after sales service

3. Selling the existing products in new markets through
   a) Regional expansion
   b) National expansion
   c) Exports
   d) New channels of distribution
   e) Identification of new segmentation
4. Developing new products for the present market through
   a) New packing methods
   b) Quality differences
   c) Additional models and sizes
   d) Offering improved after sales service
   e) New channels of distribution

5. Diversifying into related products for the existing market

6. Diversifying into related products for the new markets

II. Some examples for strategies in Production and Operations are,

1. Stepped up R&D efforts
2. New/expansion/ modernisation of operation Capacities
3. Additional shifts
4. Reduced workforce
5. Reduced inventory levels
6. New rawmaterial sources
7. Usage of substitute rawmaterials
8. Use of imported rawmaterials
9. Consolidation and reduction in Capacity levels
10. Lease of production capacities and outsourcing from others and
    outsourcing to others
11. Addition of balancing equipments and removal of bottlenecks in capacity
    utilisation
12. Installation of infrastructure facilities and utilities like gensets,
    conveyance Systems etc
13. Supply Chain Management
14. Rationalisation of product mix
III. Examples of some strategies in Technology Up-gradation are,

1. Increased budget for R&D efforts
2. Foreign Technology collaboration
3. Usage of the R&D services of external research Institutions and laboratories
4. Import of foreign plant and machinery on Turnkey basis

IV. Examples of some strategies in Quality Improvement are,

1. Quality circle
2. Total Quality Management
3. ISO Standards
4. Use of computers and robots
5. Japanese Management techniques

V. Some examples for strategies in Finance are,

1. Borrowing of working capital from new sources
2. Borrowing of term loans from new source To repay the existing term loans
3. Pre-closure of existing term loans from Internal generation of funds
4. Raising of equity funds through IPOs
5. Foreign equity funds through Joint Ventures,GDRs, ADRs
6. Raising foreign debts from customers, Foreign financial institutions, foreign private placements etc
7. Raising Venture Capital funds from India\ Abroad
8. Change in dividend payment policy
9. Introduction of budgets and budgetary Control systems
10. Introduction of cost control and cost Management systems
VI. Some examples for strategies in Human Resource Development are,

1. Use of external recruitment agencies
2. Management Development Programs
3. Job specific skills training
4. Link career growth \ compensation with performance
5. Introduction of transparent appraisal systems
6. Job rotation
7. Providing improved working conditions and amenities
8. Flexible reporting systems
9. Flexible working hours

**Corporate level strategies**

These are concerned with the fundamental question of what business the company is in (or should be in) and how its resources are going to be deployed among a mix of distinct businesses that belong to several industries or product markets, so that synergies between them could be realised to maximise the shareholders’ value. These are known as grand strategies also and are categorised for the purpose of this study as follows:

1. **Forward Integration**

   In this strategy, a company takes forward action and tries to gain ownership or increased control over retailers/distributors or sales outlets of the company's products.

2. **Backward Integration**

   This strategy, a company takes backward action and tries to gain ownership or increased control of the sources of inputs like raw materials etc.
3. Market Penetration

In this strategy, a company seeks increased market share for the company's existing products or services in the existing markets through stepped up marketing efforts.

4. Market Development

This strategy involves selling the existing products of the company in new markets by adding different channels of distribution or by changing the advertisement material or using other promotional media.

5. Product Development

In this strategy, substantial modification of the existing products is made or new but related products are created which can be marketed through existing channels of distribution.

6. Horizontal Integration

This strategy involves the acquisition of one or more similar businesses operating at the same stage of the production or marketing chain and tries to eliminate the competitors.

7. Concentric Diversification

This strategy mandates adding new but related business to the existing business of the company. The new business added is related to the existing business in terms of technology, markets or products.

8. Conglomerate Diversification

This strategy aims at investing or acquiring a business because it promises an attractive investment opportunity and there is little concern to creating product or market synergy with the existing business.
9. **Horizontal Diversification**

This strategy means adding unrelated new products or services for the existing customers of the company.

10. **Joint Ventures**

In this strategy, the company joins hands with other firms for sharing financial, processing or marketing resources.

11. **Retrenchment/Turnaround**

This strategy aims at cost reduction and asset reconstruction strategies for the purpose of consolidating its basic distinctive competencies. This strategy is followed by a company with declining profits.

12. **Divestiture**

A company sells a business or a major component of its business because the retrenchment/turnaround strategy earlier followed has failed to yield results.

There are various models available which help a firm to choose its corporate strategy. Of course the corporate strategy to be chosen depends upon various factors, internal and external, as applicable to the firm in question. The following model provides a framework for choosing the appropriate strategy depending upon the market growth and competitive position of the firm.\(^{107}\)

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Fig. 3.7
Market Growth and Competitive Position Matrix

Rapid market growth

1. Concentration
2. Vertical integration
3. Concentric integration

Strong competitive position

I

II

Competitive position

IV

III

Slow market growth

Benefits of horizontal integration

Horizontal integration is a way of trying to increase the profitability of a company by\textsuperscript{108} (1) Reducing costs, (2) increasing the value of the company’s product offering through differentiation, (3) managing rivalry within the industry to reduce the risk of price warfare, and (4) increasing bargaining power over suppliers and buyers.

Increasing profitability through vertical integration

A company pursuing vertical integration is normally motivated by a desire to strengthen the competitive position of its original, or core, business.\textsuperscript{109} There are four

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main arguments for pursuing a vertical integration strategy. Vertical integration (1) enables the company to build barriers to new competition, (2) facilitates investments in efficiency – enhancing specialized assets, (3) promotes product quality, and (4) results in improved scheduling.

Vertically integrating forward or backward makes strategic sense only if it strengthens a company’s position via either cost reduction or creation of a differentiation-based advantage. Otherwise, the drawbacks of vertical integration (increased investment, greater business risk, increased vulnerability to technological changes, and less flexibility in making product changes) outweigh the advantages (better coordination of production flows and technological know-how from stage, more specialized use of technology, greater internal control over operations, greater scale economies, and matching production with sales and marketing). Collaborative partnerships with suppliers and/or distributions allies often permit a company to achieve the advantage to vertical integration without encountering the drawbacks.\textsuperscript{110}

Diversification

Diversification becomes an attractive strategy when a company runs out of profitable growth opportunities in its original business. The purpose of diversification is to build shareholder value. Diversification builds shareholder value when a diversified group of businesses can perform better under the auspices of a single corporate parent.\textsuperscript{111}

A diversified company can create value by (a) transferring competencies among existing businesses, (b) leveraging competencies to create new businesses, (c) sharing resources to realize economies of scope, (d) using diversification as a mean of


\textsuperscript{111} Ibid.
managing rivalry in one or more industries, and (e) exploiting general organizational competencies that enhance the performance of all business units within a diversified company. The bureaucratic costs of diversification are a function of the number of independent business units within the company and the extent of coordination between those business units.\(^{112}\)

There are two fundamental approaches to diversification—into related businesses and into unrelated businesses.\(^{113}\) The rationale for related diversification is strategic: Diversify into businesses with strategic fits along their respective value chains, capitalize on strategic-fit relationships to gain competitive advantage, and then use competitive advantage to achieve the desired \(1+1 = 3\) impact on shareholder value. Businesses have strategic fit when their value chains offer potential (1) for realizing economies of scope or cost-saving efficiencies associated with sharing technology, facilities, functional activities, distribution outlets, or brand names; (2) for competitively valuable cross-business transfers of technology, skills, know-how, or other resource capabilities; (3) for leveraging use of a well-known and trusted brand name, and (4) for competitively valuable cross-business collaboration to build new or stronger resource strength and competitive capabilities.

The basic premise of unrelated diversification is that any business that has good profit prospects and can be acquired on good financial terms is a good business to diversify into. Unrelated diversification strategies surrender the competitive advantage potential of strategic fit in return for such advantage as (1) spreading business risk over a variety of industries and (2) providing opportunities for financial


gain, if candidate acquisitions have undervalued assets, are bargain-priced and have good upside potential given the right management etc.\textsuperscript{114}

\textbf{Strategic Alliances}

Many companies are using strategic alliances and collaborative partnerships to help them in the race to build a global market presence and in the technology race.\textsuperscript{115} Even large and financially strong companies have concluded that simultaneously running both races requires more diverse and expensive skills and competitive capabilities than they can assemble and manage alone. Strategic alliances are an attractive, flexible, and often cost-effective means by which companies can gain access to missing technology, expertise, and business capabilities.

The competitive attraction of alliances is to bundle competencies and resources that are more valuable in a joint effort than when kept separate. Competitive advantage emerges when a company acquires valuable resources and capabilities through alliances that it could not readily obtain on its own and that give it an edge over rivals.

\textbf{Mergers and acquisitions}

Mergers and acquisitions are another attractive strategic option for strengthening a firm's competitiveness and increasing the market share or becoming a major player in the domestic or global market.

\textbf{Outsourcing}

Outsourcing has become an important competitive weapon recently. Firms in developed countries outsource their labor intensive operations to developing and under-developed countries to cut costs and compete with their rivals. It is not that

\textsuperscript{114} Ibid., p.280.

only labour intensive operations are outsourced but also where availability of material or skilled manpower is available. Outsourcing can enhance a company’s competitiveness whenever\(^{116}\) (1) an activity can be performed better or more cheaply by outside specialist; (2) the activity is not crucial to the firm’s ability to achieve sustainable competitive advantage and won’t hollow out its core competencies, capabilities, or technical know-how; (3) outsourcing reduces the company’s risk exposure to changing technology and/or changing buyer preferences; (4) outsourcing streamlines company operations in ways that improve organizational flexibility, cut cycle time, speed decision making, and reduce coordination costs; and/or (5) outsourcing allows a company to concentrate on its core business and do what it does best. In many situations outsourcing is a superior strategic alternative to vertical integration.

**Retrenchment**

Retrenchment is usually accomplished by divesting businesses that are no longer strategically fit into the firm’s vision and mission. Corporate restructuring strategies involve divesting some businesses and acquiring new businesses so as to put a whole new face on the company’s business lineup. Performing radical surgery on the group of businesses a company is in becomes an appealing strategy alternative when a diversified company’s financial performance is being squeezed or eroded by (1) too many businesses in slow-growth or declining or low-margin or otherwise unattractive industries, (2) too many competitively weak businesses, (3) ongoing declines in the market shares of the one or more major business units that are falling prey to more market-savvy competitors, (4) an excessive debt burden with interest

\(^{116}\) Ibid., p.170.
costs that eat deeply into profitability, or (5) ill-chosen acquisitions that haven’t lived up to expectations\textsuperscript{117}.

It is advocated that a business should be divested or acquired based on the unique advantages a parent company can give to its affiliate company. A parent company should not only add more value than any other potential parent. Parent companies should ask themselves whether they offer the best potential synergies to a subsidiary. The corporation should only retain or acquire a business if they have such a parenting advantage\textsuperscript{118}.

**Strategic Implementation**

A Strategy is only useful when it has been implemented and hence the organization must have an appropriate structure, clear and contributory functional strategies and systems which ensure that the organization behaves in a cohesive rather than a fragmented way. The larger or more diverse the organization becomes, the more likely it is that this becomes a problem.

The way that an organization is structured into divisions and / or functions, and the amount of authority that is delegation to individual managers must inevitably influence day-to-day decision making. The objectives that an organization is pursuing in reality therefore stem from strategy implementation. However, there are conflicting views on the importance of structure over strategy. Hence the ‘Strategic Analysis’ contains an assessment of both the objectives currently being pursued and the desired objectives.

Implementation process cannot be mechanized. The process of implementation of strategies has to take into consideration the business practices and


competitive situations, work environments and cultures, policies, compensation incentives, personalities and firm history. It is important to understand that the strategies are implemented by people and firms.

Implementing strategy is a job for whole management team and the top management has to orchestrate major implementation initiatives. But they must rely on middle & lower-level managers to get things done. In most of the organizations, the type of leadership of the firm has a major role to play in the implementation of strategies. He shall institute best practices and mechanisms for continuous improvement.

Arthur A Thompson Jr\textsuperscript{119} states that strategy implementation involves the following processes:

1. Building an organization with the competencies, capabilities, and resource strengths to execute strategy successfully.
2. Marshalling resources to support the strategy execution effort.
3. Instituting polices and procedures that facilitate strategy execution.
4. Installing information and operating systems that enable company personnel to carry out their strategic roles proficiently.
5. Tying rewards and incentives directly to the achievement of strategic and financial targets and to good strategy execution.
6. Shaping the work environment and corporate culture to fit the strategy.
7. In deciding how to implement a new or revised strategy, managers have to determine what internal conditions are needed to execute the strategic plan successfully. Then they must create these conditions as rapidly as practical.

Many companies repeatedly fail to motivate their people to work with enthusiasm. Most companies and organizations know their businesses, and the strategies required for success. However, many corporations—especially large ones—struggle to translate the theory into action plans that will enable the strategy to be successfully implemented and sustained. A Fortune Magazine study has shown that 7 out of 10 CEOs, who fail, do so not because of bad strategy, but because of bad execution. In another study of Times of 1000 companies, 80% of the directors said they had the right strategies but only 14% thought they were implementing them well.

Real leadership is required to compete effectively and deliver growth. People look to leaders to bring meaning, to make sense of the seemingly unquenchable demand for results and the need for individuals to find purpose and value. Leadership is the common thread which runs through the entire process of translating strategy into results and is the key to engaging the hearts and minds of the people in a firm. Effective leadership will make the difference in the implementation of strategies.

**Structural considerations**

An organization is necessary if strategic purpose is to be accomplished. Thus, organizational structure is a major priority in implementing a carefully formulated strategy. If activities, responsibilities, and interrelationships are not organized in a manner that is consistent with the strategy chosen, the structure is left to evolve on its own. If structure and strategy are not coordinated, the result will probably be inefficiencies, misdirection and fragmented efforts.

The need for structure becomes apparent as a business evolves. In a small firm where one person manages current operations and plans for the future, organizational structure is relatively simple. As the magnitude of business activity increases, the

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need to subdivide activities, assign responsibilities, and provide for the integration and coordination of the new organizational parts becomes imperative. Thus, how to structure the organization to effectively execute the business’s strategy has become a major concern.

What is structure? A basically simple concept: the division of tasks for efficiency and clarity of purpose, and coordination between the interdependent parts of the organization to ensure organizational effectiveness. Structure balances the need for specialization with the need for integration. It provides a formal means of decentralizing and centralizing consistent with the organizational and control needs of the strategy.\textsuperscript{121}

Structure is not the only means for getting “organized” to implement the strategy. Rewards systems, planning procedures, and information and budgetary systems are other examples that should be employed.\textsuperscript{122} In the day – to – day implementation of strategy, theses elements operate interdependently with the formal organizational structure to shape how things are done. These other means may also be important, but it is through structure that strategists attempt to balance internal efficiency and overall effectiveness within a broader environment.

What are the structural choices? Five basic types are currently used by most business firms:

1. Simple
2. Functional
3. Divisional
4. Strategic business unit
5. Matrix

\textsuperscript{121} Ibid., p.359.

\textsuperscript{122} Ibid.
The above forms of organizational structures can be illustrated with the following diagrams, which are adopted from John A. Pearce II (1996).\(^{123}\)

**Fig. 3.8**

Simple and functional organization structures

**A. Simple Structure**

- **Owner – Manager**
- **Employees**
- **Production**

**Advantages**
1. Facilitates control of all the business activities.
2. Rapid decision making ability to change with market signals
3. Simple and informal motivation/reward/control systems

**Disadvantages**
1. Very demanding on the owner – manager
2. Increasingly inadequate as volume expands
3. Does not facilitate development of future managers
4. Tends to focus owner-manager on day-to-day matters and not on future strategy

**B. Functional Structure**

- **Chief Executive Officer**
- **Staff Functions**
  - Finance/Accounting
  - Personnel
- **Line Functions**
- **Marketing**
- **Engineering**

**Advantages**
1. Efficiency through specialization
2. Improved development of functional expertise.
3. Differentiates and delegates day-to-day operating decisions
4. Retains centralized control of strategic decisions

**Disadvantages**
1. Promotes narrow specialization and potential functional rivalry or conflict
2. Difficult in functional coordination and inter-functional decision making
3. Staff-line conflict
4. Limits internal development of general managers

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Fig. 3.9

Divisional organization structure

Advantages
1. Forces coordination and necessary authority down to the appropriate level for rapid response.
2. Places strategy development and implementation in closer proximity to the divisions' unique environment.
3. Frees chief executive officer for broader strategic decision making.
5. Retains functional specialization within each division.
6. Good training ground for strategic managers.

Disadvantages
1. Fosters potentially dysfunctional competition for corporate-level resources.
2. Problem with the extent of authority given to division managers.
3. Potential for policy inconsistencies between divisions.
4. Problem for arriving at a method to distribute corporate overhead costs that is acceptable to different managers with profit responsibility.
Advantages
1. Improves coordination between divisions with similar strategic concerns and product/market environments.
2. Tightens the strategic management and control of large, diverse business enterprises.
3. Facilitates distinct and in-depth business planning at the corporate and business levels.
4. Channels accountability to distinct business units.

Disadvantages
1. Places another layer of management between the divisions and corporate management.
2. Dysfunctional competition for corporate resources may increase.
3. The role of the group vice president can be difficult to define.
4. Difficulty in defining the degree of autonomy for the group vice presidents and division managers.
Advantages
1. Accommodates a wide variety of project oriented business activity.
2. Good training ground for strategic managers.
4. Fosters creativity and multiple sources of diversity.
5. Broader middle-management exposure to strategic issues for the business

Disadvantages
1. Dual accountability can create confusion and contradictory policies.
2. Necessitates tremendous horizontal and vertical coordination.

The job of strategy implementation and execution is to convert strategic plans into actions and good results. The test of successful strategy execution is whether actual organization performance matches or exceeds the targets spelled out in the
strategic plan. Shortfalls in performance signal weak strategy, weak execution, or both.

Like crafting strategy, executing strategy is a job for a company's whole management team, not just a few senior managers\textsuperscript{124}. Top-level managers have to rely on the active support and cooperation of middle and lower managers to push strategy changers into functional areas and operating units and to see that the organization actually operates in accordance with the strategy on a daily basis. Middle and lower-level managers are not only responsible for initiating and supervising the execution process in their areas of authority but also instrumental in getting subordinates to continuously improve on critical value chain activities. Thus, all managers need an action agenda.

Building a capable organization is always a top priority in strategy execution, and three types of organization building actions are paramount:

1. **Staffing the organization.**

2. **Building core competencies and competitive capabilities.**

3. **Structuring the organization and work effort.**

Selecting able people for key positions tends to be one of the earliest strategy implementation steps. No company can hope to perform the activities required for successful strategy execution without attracting capable managers and without employees that give it a suitable knowledge base and portfolio of intellectual capital.

Structuring the organization and organizing the work effort in strategy-supportive fashions has five aspects\textsuperscript{125}:


1. Deciding which value chain activities to perform internally and which ones to outsource.

2. Making internally performed strategy-critical activities the main building blocks in the organization structure.

3. Decide how much authority to centralize at the top and how much to delegate to down-the-line managers and employees.

4. Providing for internal cross-unit coordination and collaboration to build and strengthen internal competencies/capabilities.

5. Providing for the necessary collaboration and coordination with suppliers and strategic allies.

Competent strategy execution entails visible, unyielding managerial commitment to best practices and continuous improvement. Benchmarking, the discovery and adaptation of best practices, business process reengineering, and continuous improvement initiatives like total quality management (TQM) or Six Sigma programs all aim at improved efficiency, lower costs, better product quality, and greater customer satisfaction. An organization bent on continuous improvement is a valuable competitive asset—one that, over time, can yield competitive capabilities (in reducing costs, speeding new products to market, or improving product quality, service, or customer satisfaction) and be a source of competitive advantage.

Company strategies can't be implemented or executed well without a number of support systems to carry on business operations. Well-conceived state-of-art support systems can not only facilitate better strategy execution but also strengthen organizational capabilities enough to provide a competitive edge over rivals.

\[^{126}\text{Ibid.}, \text{pp.366-367.}\]
Strategy-supportive motivational practices and reward systems are powerful management tools for gaining employee commitment. The key to creating a reward system that promotes good strategy execution is to make strategically relevant measures of performance the dominating basis for designing incentives, evaluating individual and group efforts, and handing our rewards. Positive motivational practices generally work better than negative ones, but there is a place for both. There's also a place for both monetary and non-monetary incentives.

**The 7S Approach**

Strategy implementation is not merely structure and leadership. Effective organizational change is really the relationship between structure, strategy, systems, style, skills, staff and super-ordinate goals. The diagram below conveys that the seven factors are interconnected and it is not possible to make significant progress in one area ignoring the other areas. Also, the shape of diagram suggests that no factor can claim priority over the other factors. The changes that can be brought to an organisation can begin with changes in strategy or system or structure or due to any of the other factors.

**Fig. 3.12**

7S Model

![7S Model Diagram](image-url)
More important, it suggests the wisdom of taking seriously the variables in organizing that have been considered soft, informal, or beneath the purview of top management interest. Style, systems, skills, super-ordinate goals can be observed directly, even measured—if only they are taken seriously. These variables can be at least as important as strategy and structure in orchestrating major change; indeed, they are almost critical for achieving necessary, or desirable, change. A shift in systems, a major retraining program for staff, or the generation of top-to-bottom enthusiasm around a new super-ordinate goal could take years. Changes in strategy and structure, on the surface, may happen more quickly. But the pace of real change is geared to all seven S’s. The diagram can be seen as a set of compasses. “When all seven needles are all pointed the same way you’re looking at an organized company.”

The Principles of Strategy Evaluation and Control

Strategic controls can be considered to be non-financial performance measures or milestones. It is natural that a firm is interested in knowing how the strategies under execution work. Of the many tests that could justifiably be applied to a business strategy, most will fit within one of these broad criteria:

- Consistency: The strategy must not present mutually inconsistent goals and policies.
- Consonance: The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.
- Advantage: The strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity.
- Feasibility: The strategy must neither overtax available resources nor create unsolvable sub-problems.

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Corporate Social Responsibility

The strategies formulated and implemented shall not be to the detriment of the stakeholders as earlier discussed. This is a narrow definition of corporate social responsibility. The firms shall behave as socially responsible corporate citizens like any individual leads his living in a society. The firms have to give something in return to the society for the endowments in air, water, natural resources, government support, manpower, system, legal framework, consuming public and so many other things the society provides to the firm for its business to grow. Again, it is well known that only firms who discharge their responsibilities to the society survive in the long run and add value to their stakeholders. So, it is in the long run interest of firms that they are socially responsible.

Corporate social responsibility is defined as the company’s duty to operate its business by means that avoid harm to other stakeholders and the environment and further, to consider the overall betterment of society in its decisions and actions. The essence of socially responsible business behavior is that a company should strive to balance the benefits of strategic actions to benefit shareholders against any possible adverse impacts to other stakeholders (employees, suppliers, customers, local communities, and society at large) and, further to proactively mitigate any harmful effects on the environment that its actions and business may have. Each company’s social responsibility strategy should logically be matched to its core values and business mission.

The business case for social responsibility holds that it is in the enlightened self-interest of companies to be good citizens and devote some of their energies and resources to the betterment of such stakeholders as employees, the communities in

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which it operates, and society in general. There are three reasons why the exercise of social responsibility is good business:\(^\text{130}\):

- It generates internal benefits (particularly as concerns employees recruiting, workforce retention, and training costs).

- It reduces the risk of reputation-damaging incidents and can lead to increased buyer patronage. The higher the public profile of a company or brand, the greater the scrutiny of its activities and the higher the potential for it to become a target of pressure group action.

- It is in the best interest of shareholders.

\(^{130}\) Ibid., pp.312-313.