Strategic management:
What Is Strategic Management?
Strategic management is the management of an organization's resources to achieve its goals and objectives.
Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization

Example of Strategic Management
For example, a for-profit technical college wishes to increase new student enrollment and enrolled student graduation rates over the next three years. The purpose is to make the college known as the best buy for a student's money among five for-profit technical colleges in the region, with a goal of increasing revenue.
In that case, strategic management means ensuring the school has funds to create high-tech classrooms and hire the most qualified instructors. The college also invests in marketing and recruitment and implements student retention strategies. The college's leadership assesses whether its goals have been achieved on a periodic basis.

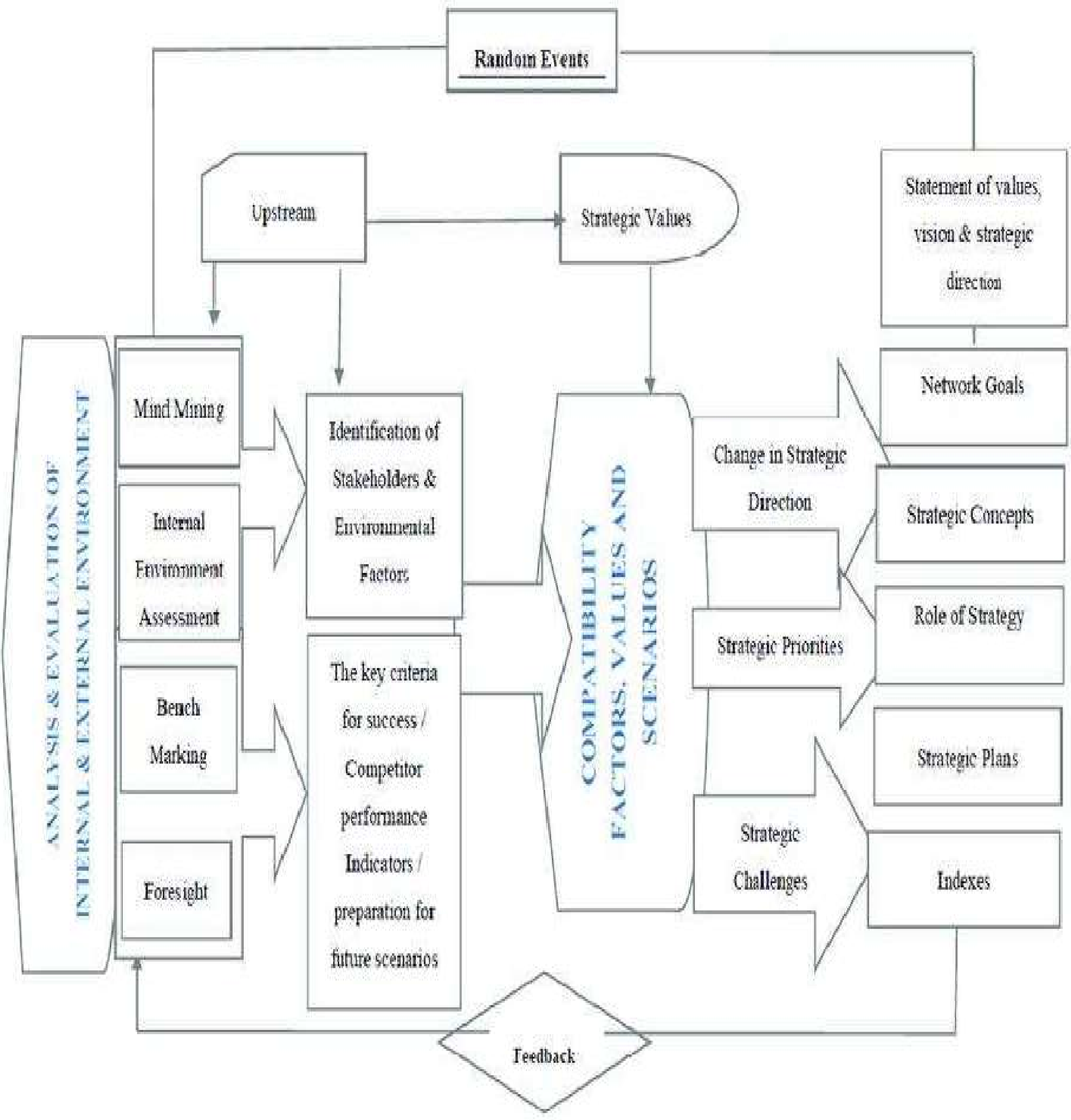
Elements of Strategic management:

ELEMENTS OF STRATEGIC MANAGEMENT

Some of the important elements of strategic management are:

1. Competitive advantage
2. Sustained competitive advantage
3. Resource- based view
4. Industrial/organizational view
5. Resources and capabilities
6. Relationship between resources, capabilities, competitive advantage and strategy
7. Vision and mission statements

Conceptual framework for Strategic management



STRATEGIC DECISION MAKING

WHAT IS STRATEGIC DECISION MAKING?

Strategic decision-making is a process of understanding the interaction of decisions and their impact upon the organization to gain an advantage. Wrong decisions taken at the wrong time, may result in catastrophic consequences. In other words, the power of strategic thinking lies in combining the power of the right decision with the right time.

Issues in strategic decision-making

- Criteria for decision-making
- Rationality in decision-making
- Creativity in decision-making
- Variability in decision-making
- Person-related factors in decision-making
- Individual versus group decision-making.

STRATEGIC FORMULATION PROCESS:

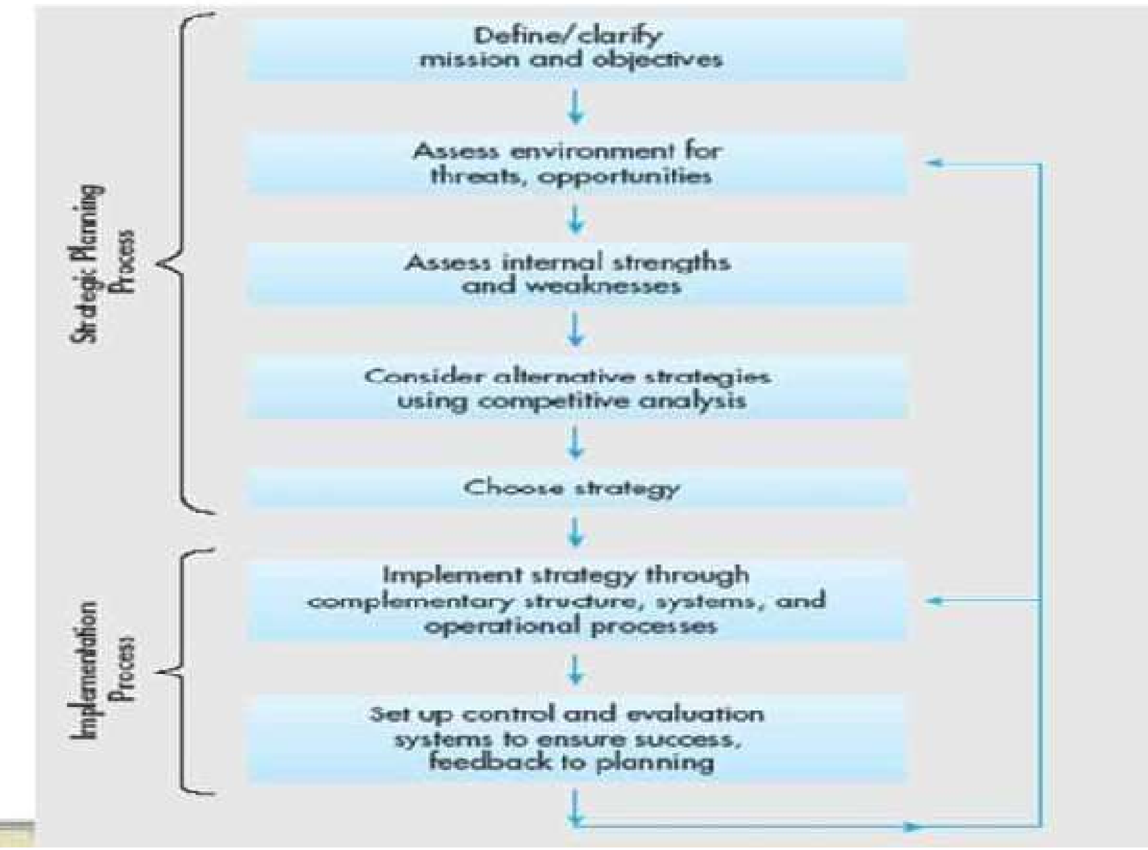
WHAT IS STRATEGY FORMULATION?

Strategy formulationis the process of using available knowledge to document the intended direction of a business and the actionable steps to reach its goals.

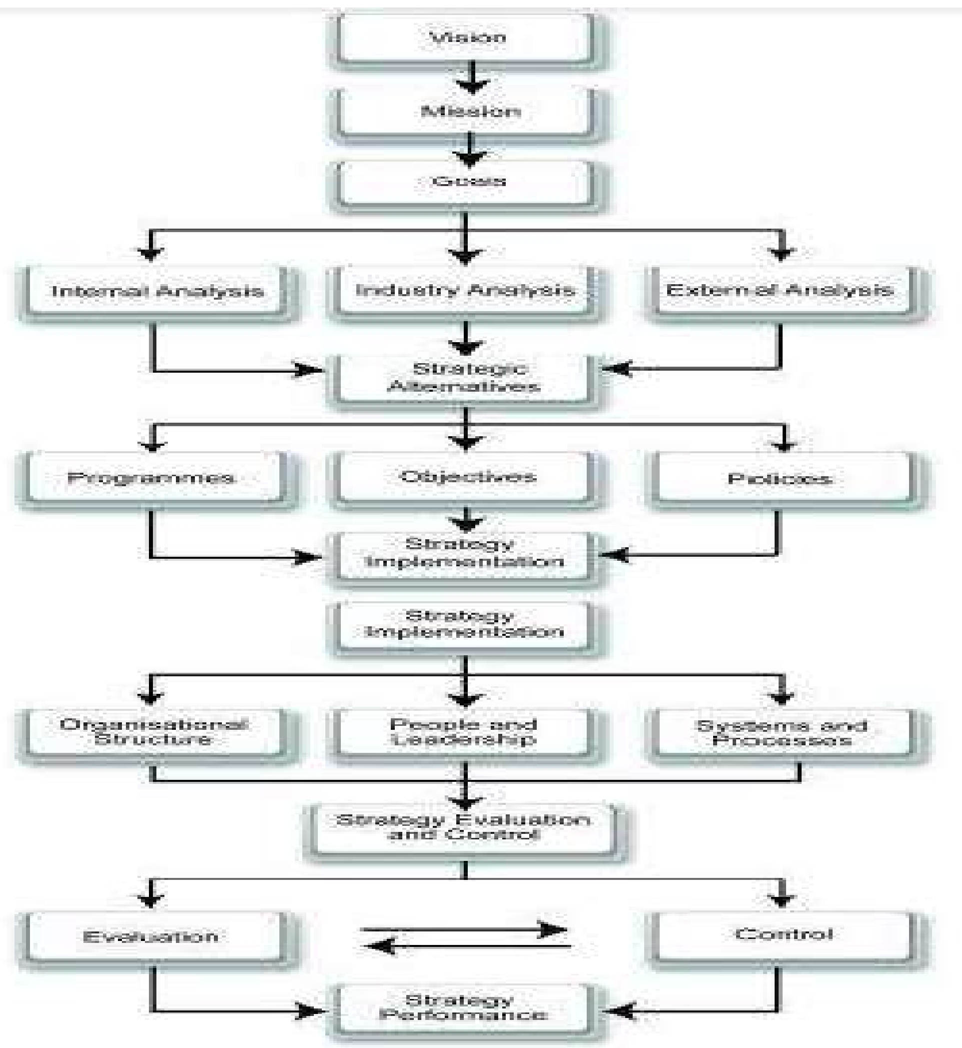
This process is used for resource allocation, prioritization, organization-wide alignment, and validation of business goals.

A successful strategy can allow your organization to share one clear vision, catch biases by examining the reasoning behind goals, and track performance with measurable key performance indicators (KPIs).

Strategic Formulation Process



Strategic management models:
Strategic management involves making decisions and taking actions that can help organisations achieve their objectives by adopting a systematic way of formulating the strategy, implementing the strategy, and evaluating and controlling the strategy implemented. Strategic management, therefore, integrates various functional areas like marketing, management, finance, accounting, human resources, production and information systems in a formal and systematic manner consistent with the objectives of the organisation and superior performance. This definition also suggests that strategic management comprises three key components, namely, strategy formulation, strategy implementation and strategy evaluation and control. There are three major components in strategic management, namely, strategy formulation, strategy implementation and strategy evaluation.


Vision
Mission
Goals
Internal Analysis
Industry Analysis
External Analysis
Strategic Alternatives
Programmes
Objectives
Policies
Strategy Implementation
Strategy Implementation
Organisational Structure
People and Leadership
Systems and Processes
Strategy Evaluation and Control
Evaluation
Control
Strategy Performance

1.3 Dimensions of Strategic Management

The characteristics of strategic management are as follows:

1. ***Top management involvement:*** Strategic management relates to several areas of a firm's operations. So, it requires top management's involvement. Generally, only the top management has the perspective needed to understand the broad implications of its decisions and the power to authorize the necessary resource allocations.

2. ***Requirement of large amounts of resources:*** Strategic management requires commitment of the firm to actions over an extended period of time. So they require substantial resources, such as, physical assets, money, manpower etc.

3. ***Affect the firm's long-term prosperity:*** Once a firm has committed itself to a particular strategy, its image and competitive advantage are tied to that strategy; its prosperity is dependent upon such a strategy for a long time.

4. ***Future-oriented:*** Strategic management encompasses forecasts, what is anticipated by the managers. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options. In the turbulent environment, a firm will succeed only if it takes a proactive stance towards change.

5. ***Multi-functional or multi-business consequences:*** Strategic management has complex implications for most areas of the firm. They impact various strategic business units especially in areas relating to customer-mix, competitive focus, organisational structure etc. All these areas will be

affected by allocations or reallocations of responsibilities and resources that result from these decisions.

6. ***Non-self-generative decisions:*** While strategic management may involve making decisions relatively infrequently, the organisation must have the preparedness to make strategic decisions at any point of time. That is why Ansoff calls them "non-self-generative decisions."

Need for Strategic Management

No business firm can afford to travel in a haphazard manner. It has to travel with the support of some route map. Strategic management provides the route map for the firm. It makes it possible for the firm to take decisions concerning the future with a greater awareness of their implications. It provides direction to the company; it indicates how growth could be achieved.

The external environment influences the management practices within any organisation. Strategy links the organisation to this external world. Changes in these external forces create both opportunities and threats to an organisation's position – but above all, they create uncertainty. Strategic planning offers a systematic means of coping with uncertainty and adapting to change. It enables managers to consider how to grasp opportunities and avoid problems, to establish and coordinate appropriate courses of action and to set targets for achievement.

Thirdly, strategic management helps to formulate better strategies through the use of a more systematic, logical and rational approach. Through involvement in the process, managers and employees become committed to supporting the organisation. The process is a learning, helping,

educating and supporting activity. An increasing number of firms are using strategic management for the following reasons:

1. It helps the firm to be more proactive than reactive in shaping its own future.
2. It provides the roadmap for the firm. It helps the firm utilize its resources in the best possible manner.
3. It allows the firm to anticipate change and be prepared to manage it.
4. It helps the firm to respond to environmental changes in a better way.
5. It minimizes the chances of mistakes and unpleasant surprises.
6. It provides clear objectives and direction for employees.

Benefits of Strategic Management

"We are tackling 20-year problems with five-year plans staffed with two-year personnel funded by one–year appropriations".

– Harlan Cleveland

The above quotation sums up why today's decision-makers must plan and manage strategically. In developing as well as in industrialized countries, the increasingly rapid nature of change as well as a greater openness in the political and economic environments, requires a different set of

perspective from that needed during more stable times.

When a certain degree of equilibrium existed in the environment, as during the 1950s, with constant positive economic growth, low debt, manageable budgets and relative environmental stability, managers could concentrate almost exclusively on the internal dimensions of their organisations and assume constancy in the external environment. Forward calculations were simple, inputs were predictable, and planning was mostly an arithmetic exercise.

Now, systems are much more open, environment is characterized by increasingly unstable economic growth, budgets are constantly revised, inputs are thoroughly unpredictable, and planning in the traditional sense is no longer tenable.

Therefore, today's enterprises need strategic management to reap the benefits of business opportunities, overcome the threats and stay ahead in the race. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; while long-term planning, in contrast, tries to optimize for tomorrow the trends of today.

Today, all top companies are involved in strategic management. They are finding ways to respond to competitors, cope with difficult environmental changes, meet changing customer needs and effectively use available resources. At a time when the business environment is changing rapidly, even established firms are paying more attention to strategy because they may face new competitors who threaten their core business. Should a firm compete in all areas or concentrate on one area? Should a company try to extend the brand to even more diverse areas of activity, or would it gain more by building profits in the existing areas, and achieving more synergies across the group? Should the company continue the current strategy as it is now, or would it initiate a radical review of its strategy? These are just a few examples of the strategic part of the management tasks.

A structured approach to strategy planning brings several benefits (Smith, 1995; Robbins, 2000)

1. ***It reduces uncertainty:*** Planning forces managers to look ahead, anticipate change and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.

2. ***It provides a link between long and short terms:*** Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.

3. ***It facilitates control:*** By setting out the organisation's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.

4. ***It facilitates measurement:*** By setting out objectives and standards, planning provides a basis for measuring actual performance.

Strategic management has thus both financial and non-financial benefits:

1. ***Non-financial benefits:*** Besides financial ***Financial Benefits:*** Research indicates that organisations that engage in strategic management are more *profitable* and *successful* than those that do not. Businesses that followed strategic management concepts have shown significant improvements in *sales*, *profitability* and *productivity* compared to firms without systematic planning activities.
2. benefits, strategic management offers other intangible benefits to a firm. They are;

(a) Enhanced awareness of external threats

(b) Improved understanding of competitors' strategies

(c) Reduced resistance to change

(d) Clearer understanding of performance-reward relationship

(e) Enhanced problem-prevention capabilities of organisation

(f) Increased interaction among managers at all divisional and functional levels

(g) Increased order and discipline.

According to Gordon Greenley, strategic management offers the following benefits:

1. It allows for identification, prioritization and exploitation of opportunities.
2. It provides objective view of management problems.

3.It provides a framework for improved coordination and control of activities.

4. It minimizes the effects of adverse conditions and changes.
5. It allows decision-making to support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous and *ad hoc* decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behaviour of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated enthusiastic approach to tackling problems and opportunities.
13. It encourages a favourable attitude towards change.
14. It gives a degree of discipline and formality to the management of a business.

Risks involved in Strategic Management

Strategic management is an intricate and complex process that takes an organisation into

unchartered territory. It does not provide a ready-to-use prescription for success. Instead, it takes the organisation through a journey and offers a framework for addressing questions and solving problems.

Strategic management is not, therefore, a guarantee for success; it can be dysfunctional if conducted haphazardly. The following are its limitations:

1. It is a costly exercise in terms of the time that needs to be devoted to it by managers. The negative effect of managers spending time away from their normal tasks may be quite serious.
2. A negative effect may arise due to the non-fulfillment of the expectations of the participating managers, leading to frustration and disappointment.
3. Another negative effect of strategic management may arise if those associated with the formulation of strategy are not intimately involved in the implementation of strategies. The participants in formulation of the policy may shirk their responsibility for the decisions taken.

As quoted by Fred R. David, some pitfalls to watch for and avoid in strategic planning are:

1. Using strategic planning to control over decisions and resources
2. Doing strategic planning only to satisfy accreditation or regulatory requirements
3. Moving too hastily from mission development to strategy formulation
4. Failing to communicate the strategic plan to the employees, who continue working in the dark
5. Top managers making many intuitive decisions that conflict with the formal plan
6. Top managers not actively supporting the strategic planning process

Failing to use plans as a standard for measuring performance.

Personal Values and Ethics

Values, personal values, and core values all refer to the same thing. They are desirable qualities, standards, or principles. Values are a person's driving force and influence their actions and reactions.

Ethics is defined as "the discipline dealing with what is good and bad, and right and wrong, or with moral duty and obligation."

Ethics refers to the moral principles and values that govern the behaviour of a person or group. Ethics helps us in deciding what is good or bad, moral or immoral, fair or unfair in conduct and decision-making. In other words, ethics serve as a **"moral compass"** to guide our actions.

There are many sources for an individual's ethics. These include family background, religious beliefs, community standards and expectations etc.

Importance of Ethics

There has been a growing interest in corporate ethics over the past several years. This is perhaps because

of a spate of recent corporate scandals at such firms as Enron, Tyco, Texaco etc. Without a strong ethical culture, the chances of ethical crises occurring in companies cannot be ruled out. Due to this, companies face enormous costs in terms of financial and reputational loss as well as erosion of human capital and relationships with suppliers, customers, society at large and governmental agencies.

An ethical organisation is driven by ethical values and integrity. Such values shape the search for opportunities, the design of systems and the decision-making processes of the organisation. They provide a common frame of reference that serves as a unifying force across different functions and employee groups. Organisational ethics define what a company is and what it stands for.

The potential benefits of an ethical organisation are many. A strong ethical orientation can have a positive effect on employee commitment and motivation to excel. This is particularly important in today's knowledge-intensive organisations, where human capital is critical in creating value and competitive advantage. An ethically sound organisation can also strengthen its bonds among its suppliers, customers and governmental agencies.

The ethical orientation of a leader is generally considered to be a key factor in promoting ethical behaviour among employees. Leaders who exhibit high ethical standards become role models for others in the organisation and raise its overall ethical behaviour. In essence, ethical behaviour must start with the leader, who plays a central role in instilling ethical behaviour in the organisation.

Approaches to Ethics

When an ethical dilemma arises, there are four approaches to guide our action. These four approaches are:

1. Utilitarian approach
2. Individualism approach
3. Moral – rights approach
4. Justice approach

Utilitarian Approach

According to this approach, moral behaviour is one that produces the greatest good for the greatest number.

Individualism Approach

According to this approach, acts are moral when they promote the individual's best long-term interests, which ultimately lead to the greater good.

Moral – Rights Approach

According to this approach, the fundamental rights and liberties should be respected in all decisions. Thus, an ethically correct decision is one that best maintains the rights of those people affected by it. Six moral rights should be considered during decision-making:

1. Right of free consent
2. Right of privacy
3. Right of freedom of conscience
4. Right of free speech
5. Right to due process
6. Right to life and safety

To make ethical decisions, managers need to avoid interfering with the rights of others.

Justice Approach

According to this approach, moral decisions must be based on equity, fairness and impartiality. Four types of justices are of concern to managers:

1. ***Distributive justice*** requires that individuals should not be treated differently on the basis of race, sex, religion or national origin. Individuals who are similar should be treated similarly. Thus, men and women should not receive different salaries if they are performing the same job.
2. ***Procedural justice*** requires that rules be administered fairly. Rules should be clearly stated and be consistently and impartially administered.
3. ***Compensatory justice*** requires that individuals should be compensated for the cost of their injuries by the party responsible. Moreover, individuals should not be held responsible for matters over which they have no control.
4. ***Natural duty principle:*** This principle reflects a duty to help others who are in need or danger; duty not to cause unnecessary suffering; and the duty to comply with the just rules of an institution.

Building an Ethical Organisation

A firm must have several key elements before it can become a highly ethical organisation. These elements must be constantly reinforced in order for the firm to be successful:

Role Models

For good or bad, leaders are role models in their organisation. The values as well as the character of leaders become transparent to an organisation’s employees through their behaviour. Leaders must take responsibility for ethical lapses within the organisation, which enhances the loyalty and commitment of employees through the organisation.

Code of Ethics

They are another important element of an ethical organisation. Such mechanisms provide a statement and guidelines for norms and beliefs as well as decision–making. They provide employees with a clear understanding of the ethical standards of the organisation. Many large companies have developed such codes code of conduct.

Reward and Evaluation Systems

An appropriate reward and evaluation system should consider both the outcomes and the means adopted to achieve the organisational goals and objectives. Inappropriate reward systems may cause individuals to commit unethical acts.

Policies and Procedures

Most of the unethical behaviours in organisations could be traced to the absence of policies and procedures to guide behaviour. It is important to carefully develop policies and procedures to guide behaviour so that all employees are encouraged to behave in an ethical manner. However, it is not enough merely to have policies "on the books". Rather, they must be effectively communicated, enforced and monitored. The company should also follow sound corporate governance practices.

Ethics Training

The purpose of ethic training is to encourage ethical behaviour. Companies should provide appropriate training in ethical standards. It enables managers to align ethical behaviour with organisational goals.

Ethics Audit

Companies should undertake periodic audits to ensure that proper ethical standards are being followed by all deportments of the organisation.

Chief Ethics Officer

Some large corporations appoint a senior officer with the exclusive responsibility of overseeing the ethical conduct of employees. He functions like a watchdog on ethics.

Ethics Committee

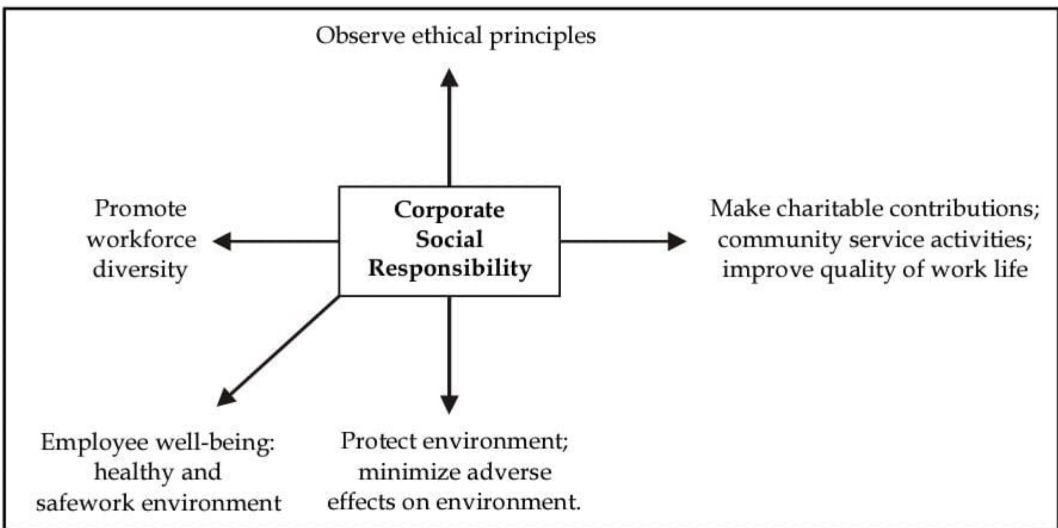
An ethics committee establishes polices regarding ethical conduct and resolves major ethical dilemmas faced by the employees of an organisation. Ethics committee performs such functions as organisation of regular meetings to discuss ethical issues, identifying possible violations of the code, enforcing the code, rewarding ethical behaviour etc.

Ethics Hotline

This is a special telephone line that enables employees to bypass the proper channel for reporting their ethical dilemmas and problems. The line is usually handled by an executive also investigates the matter and helps resolve the problems of the concerned employees.

Social Responsibility and Strategic Management

Corporate social responsibility (CSR) consists of "actions that appear to further some social good, beyond the interests of the firm" It includes such topics as environmental 'green' issues, treatment of employees and suppliers, charitable work and other matters related to the community. A brief idea of the areas included in CSR is given in figure.



It is important to note that CSR requires firms to go beyond what the law requires – just doing the minimum required by the law is not sufficient. "Corporate social

responsibility is concerned with the ways in which an organisation exceeds the minimum obligations to the stakeholders" (Johnson and Sholes, 2002).

Corporate Social Responsibility is therefore a company's duty to operate its business by means that *avoid harm to other stakeholders and the environment,* and also to consider *overall betterment of society* in its decisions and actions. The essence of socially responsible behaviour is that a company should strive to *balance* its actions to benefit its shareholders without any adverse impact on other stakeholders like employees, suppliers, customers, local communities and society at large, and, further, to proactively mitigate any harmful effects on the environment its actions and business may have.

Responsibilities of Business

A business organisation has four responsibilities:

1. ***Economic responsibilities:*** are the most basic responsibilities of a business firm. This involves the essential responsibility of business to provide goods and services to society at a reasonable cost. In discharging that economic responsibility, the company provides productive jobs to its workforce, pays taxes to central, state and local governments.
2. ***Legal responsibilities:*** reflect the firm's obligation to comply with the laws that regulate business activities, especially in the areas of consumer safety and pollution control.
3. ***Ethical responsibilities:*** reflect the company's notion of right or proper business behaviour. Ethical responsibilities go beyond legal requirements. Firms are expected, though not legally bound, to behave ethically.
4. ***Discretionary responsibilities:*** are those that are voluntarily assumed by business organisations that adopt the citizenship approach. They support ongoing charities, public-

service advertisement campaigns, donations, medical camps, public welfare activities etc. A commitment to full corporate responsibility requires strategic managers to attack social problems with the same zeal in which they tackle business problems.

Business managers should keep in mind that economic and legal responsibilities are mandatory, ethical responsibilities are expected, and discretionary responsibilities are desirable.

The above four responsibilities are listed in order of priority. A business firm must first make a profit to satisfy its economic responsibilities. A firm must also follow the laws

as a good corporate citizen. Carrol, however, argues that business firms have obligations beyond the economic and legal responsibilities; that firms must also fulfill its social responsibilities. Social responsibility includes both ethical and discretionary responsibilities, but not economic and legal responsibilities.

Need for CSR: The Strategy

After considering the arguments for and against CSR, it becomes evident that it is in the enlightened self-interest of companies to be good corporate citizens and devote some of their resources and energies to employees, the communities in which they operate, and society in general. There are five important reasons why companies should undertake social responsibilities.

Self-interest of the Organisation

Every organisation obtains critical inputs from the environment and converts them into goods and services to be used by society at large. In this process they help shareholders to get appropriate returns on their investment. It is expected that organisations acknowledge and act upon the interests and demands of other stakeholders such as citizens and society in general that are beyond its immediate constituencies – owners, customers, suppliers and employees. That is, they must consider the needs of the broader community at large, and act in a socially responsible way.

It generates Internal Benefits

CSR generates internal benefits like employee recruitment, workforce retention and training. Companies with good CSR reputation are better able to attract and retain employees compared to companies with tarnished reputations. Some employees just feel better about working for a company committed to improving society. This can contribute to lower turnover and better worker productivity. This also benefits the firm by way of lower costs for staff recruitment and training. Provision of good working conditions results in greater employee commitment.

It Reduces Risks

CSR reduces the risk of damage to reputation and increases buyer patronage. Consumer, environmental and human rights activist groups are quick to criticise businesses that are not socially responsive. Pressure groups can generate adverse publicity, organise boycotts, and influence buyers to avoid an offender’s products. Research has shown that adverse publicity is likely to cause a decline in a company’s

stock price.

In the Best Interest of Shareholders

CSR is in the best interest of shareholders. Well-conceived social responsibility strategies work to the advantage of shareholders in several ways. Socially responsible behaviour can help avoid

or prevent legal and regulatory actions that could prove costly or burdensome. A study of leading companies found that environmental compliance and developing eco-friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts.

It gives Competitive Advantage

Being known as a socially responsible firm may provide a firm a competitive advantage.

Example: Firms that are eco-friendly enhance their corporate image. In western countries, many consumers boycott products that are not "green". Companies that take the lead in being environmentally friendly, such as by using recycled materials, producing 'green' products, and helping social welfare programmes, enhance their corporate image.

sum, companies that take social responsibility seriously can improve their business reputation and operational efficiency while reducing their risk of exposure and encouraging loyalty and innovation. Overall, companies that take special pains to protect the environment (beyond what is required by law), are active in community affairs, and are generous supporters of charitable causes are more likely to be seen as good companies to work for or do business with. It will also benefit the shareholders.

As quoted by Fred R. David, some pitfalls to watch for and avoid in strategic planning are:

1. Using strategic planning to control over decisions and resources
2. Doing strategic planning only to satisfy accreditation or regulatory requirements
3. Moving too hastily from mission development to strategy formulation
4. Failing to communicate the strategic plan to the employees, who continue working in the dark
5. Top managers making many intuitive decisions that conflict with the formal plan

6. Top managers not actively supporting the strategic planning process
7. Failing to use plans as a standard for measuring performance
7. legating strategic planning to a consultant rather than involving all managers
8. Failing to involve key employees in all phases of planning
9. Failing to create a collaborative climate supportive of change
10. Viewing planning to be unnecessary or unimportant
11. Becoming so engrossed in current problems that insufficient or no planning is done
12. Being so formal in planning that flexibility and creativity are stifled.

UNIT 2

Strategic Management Process

Introduction

Developing an organizational strategy involves four main elements – strategic analysis, strategic choice, strategy implementation and strategy evaluation and control. Each of these contains further steps, corresponding to a series of decisions and actions, that form the basis of strategic management process.

1. **Strategic Analysis**: The foundation of strategy is a definition of organisational purpose. This defines the business of an organisation and what type of organisation it wants to be. Many organisations develop broad statements of purpose, in the form of vision and mission statements. These form the spring – boards for the development of more specific objectives and the choice of strategies to achieve them.

   Environmental analysis – assessing both the external and internal environments is the next step in the strategy process. Managers need to assess the opportunities and threats of the external environment in the light of the organisation's strengths and weaknesses keeping in view the expectations of the stakeholders.

   This analysis allows the organisation to set more specific goals or objectives which might specify where people are expected to focus their efforts. With a more specific set of objectives in hand, managers can then plan how to achieve them.

2. **Strategic Choice:** The analysis stage provides the basis for strategic choice. It allows managers to consider what the organisation could do given the mission, environment and capabilities – a choice which also reflects the values of managers and other stakeholders. (Dobson et al. 2004). These choices are about the overall scope and direction of the business.

   Since managers usually face several strategic options, they often need to analyze these in terms of their feasibility, suitability and acceptability before finally deciding on their direction.

3. **Strategy Implementation:** Implementation depends on ensuring that the organisation has a suitable structure, the right resources and competencies (skills, finance, technology etc.), right leadership and culture. Strategy implementation depends on operational factors being put into place.

4. **Strategy Evaluation and Control:** Organisations set up appropriate monitoring and control systems, develop standards and targets to judge performance.

Table 1.1: Steps in Strategic Management Process

Table 1.1 summarizes the steps involved in each of the above elements of strategic management.

Table 1.1: Steps in Strategic Management Process

Elements in strategy process	Questions	Description
STRATEGY FORMULATION		
Strategic analysis		
Defining organizational purpose	What is our purpose? What kind of organization do we want to be?	Organizational purpose is generally articulated in vision and mission statements. The first task is, therefore, to identify vision and mission of the organization. Environmental analysis involves the gathering and analysis of intelligence on the business environment. This encompasses the external environment (general and competitive forces), the internal environment (resources, competences, performance relative to competitors), and stakeholder expectations.
Strategic choice		
Objectives	Where do we want to be?	Objectives provide a more detailed articulation of purpose and a basis for monitoring performance.
Options analysis	Are there alternative routes?	Alternative strategic options may be identified; options require to be appraised in order that the best can be selected.
Strategies	How are we going to get there?	Strategies are the *means* or *courses* of action to achieve the purpose of the organization.
STRATEGY IMPLEMENTATION		
Actions	How do we turn plans into reality?	A specification of the operational activities and tasks required to enable strategies to be implemented.
STRATEGY EVALUATION AND CONTROL		
Monitoring and control	How will we know if we are getting there?	Monitoring performance and progress in meeting objectives, taking corrective action as necessary and reviewing strategy.

The above steps can also be depicted as a series of processes involved in strategic management.

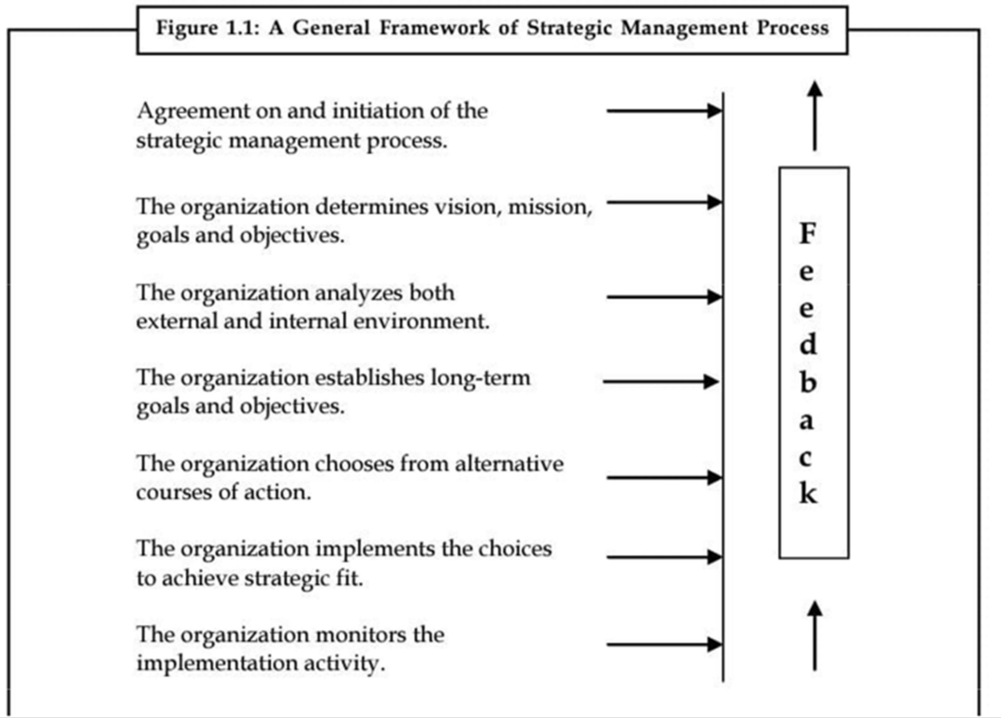


Figure 1.1: A General Framework of Strategic Management Process

The seven steps in the above model of strategy process fall into three broad phases – formulation, implementation and evaluation – though in practice the three phases interact closely.

Good strategists know that formulation and implementation of strategy rarely proceed according to plan, partly because the constantly changing external environment brings new opportunities or threats, and partly because there may also be inadequate internal competence.

Strategy Formulation and Defining Vision

Introduction

Strategy formulation is the process of determining appropriate courses of action for achieving organisational objectives and thereby accomplishing organisational purpose.

Strategy formulation is vital to the well-being of a company or organisation. It produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organisation, and supply the strategies for accomplishing them. In formulation, we are trying to modify the current objectives and strategies in ways to make the organisation more successful. This includes trying to create "sustainable" competitive advantages – although most competitive advantages are eroded steadily by the efforts of competitors.

2.1 **Business Vision**

The first task in the process of strategic management is to formulate the organisation's vision and mission statements. These statements define the organisational purpose of a firm. Together with objectives, they form a "hierarchy of goals."

Box 2.1: Definitions of Vision

1. ***Johnson:*** Vision is "clear mental picture of a future goal created jointly by a group for the benefit of other people, which is capable of inspiring and motivating those whose support is necessary for its achievement".
2. ***Kirkpatrick et al:*** Vision is "an ideal that represents or reflects the shared values to which the organisation should aspire".
3. ***Thornberry:*** Vision is "a picture or view of the future. Something not yet real, but imagined. What the organisation could and should look like. Part analytical and part emotional".
4. ***Shoemaker:*** Vision is "the shared understanding of what the firm should be and how it must change".
5. ***Kanter et al:*** Vision is "a picture of a destination aspired to, an end state to be achieved via the change. It reflects the larger goal needed to keep in mind while concentrating on concrete daily activities".
6. ***Stace and Dunphy:*** Vision is "an ambition about the future, articulated today, it is a process of managing the present from a stretching view of the future".

A clear vision helps in developing a mission statement, which in turn facilitates setting of objectives of the firm after analyzing external and internal environment. Though vision, mission and objectives together reflect the "strategic intent" of the firm, they have their distinctive characteristics and play important roles in strategic management.

Vision can be defined as "a mental image of a possible and desirable future state of the organisation" (Bennis and Nanus). It is "a vividly descriptive image of what a company wants to become in future". Vision represents top management's aspirations about the company's direction and focus. Every organisation needs to develop a vision of the future. A clearly articulated vision moulds organisational identity, stimulates managers in a positive way and prepares the company for the future.

"The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organisation, a condition that is better in some important ways than what now exists."

Vision, therefore, not only serves as a backdrop for the development of the purpose and strategy of a firm, but also motivates the firm's employees to achieve it.

According to Collins and Porras, **a well-conceived vision consists of two major components:**

1. Core ideology

Core ideology is based on the enduring values of the organisation ("what we stand for and why we exists"), which remain unaffected by environmental changes. Envisioned future consists of a long-term goal (what we aspire to become, to achieve, to create") which demands significant change and progress.

In Table 2.1, many writers have presented their views on the key elements that constitute a good vision.

Table 2.1: Characteristics of a Good Vision

Jock	Kotter	Metais	Johnson	El-Namaki
• Clear and concise • Memorable • Exciting and inspiring • Challenging • Centered on excellence • Both stable and flexible • Achievable and tangible	• *Imaginable*— it conveys picture of what future will look like • *Desirable*—It appeals to long-term interests of stakeholders, for example, employees, customers, stockholders • *Feasible*—It embodies realistic, attainable goals • *Focused*—It provides guidance in decision making • *Flexible*—It is general enough to enable individual initiative and alternative responses to changing environments • *Communicable*—It can be explained in five minutes	• It is a dream—it provides emotional involvement • It is excessive—and not attainable within current actions or resources • It is deviant—it breaks conventiona l thinking and frames of reference	• It visualizes a future aim • It is contributed from a variety of sources • It implicates the need for people with specialist skills • It can be communicat -ed easily • It has a powerful motivational effect • It serves an important need • It is aligned with the values of prospective supporters	• Coherence—It integrates the company strategy and the future image of the company • Translatable—It is translatable into meaningful company goals and strategies • Powerful—It generates enthusiasm • Challenging—It is challenging for all organizational participants • Unique—It distinguishes the company from others • Feasible—It is realistic and achievable • Idealistic—It communicates desired outcome

2.1.1 Defining Vision

Vision has been defined in several different ways. Richard Lynch defines vision as " a challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position." E1-Namaki defines it as "a mental perception of the kind of environment that an organisation aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception". Kotter defines it as "a description of something (an organisation, corporate culture, a business , a technology, an activity) in the future."

Box 2.1 sets out a range of definitions of organisational vision. Most refer to a future or ideal to which organisational efforts should be directed. The vision itself is presented as a picture or image that serves as a guide or goal. Depending on the definition, it is referred to as inspiring, motivating, emotional and analytical. For Boal and Hooijberg, effective visions have two components:

1. A cognitive component (which focuses on outcomes and how to achieve them)
2. An affective component (which helps to motivate people and gain their commitment to it)

2.1.2 Nature of Vision

A vision represents an animating dream about the future of the firm. By its nature, it is hazy and vague. That is why Collins describes it as a "Big hairy audacious goal" (BHAG). Yet it is a powerful motivator to action. It captures both the minds and hearts of people. It articulates a view of a realistic, credible, attractive future for the organisation, which is better than what now exists. Developing and implementing a vision is one of the leader's central roles. He should not only have a "strong sense of vision", but also a "plan" to implement it.

EG 1. Henry Ford's vision of a "car in every garage" had power. It captured the imagination of others and aided internal efforts to mobilize resources and make it a reality. A good vision always needs to be a bit beyond a company's reach, but progress towards the vision is what unifies the efforts of company personnel.

2. One of the most famous examples of a vision is that of Disneyland "To be the happiest place on earth". Other examples are:

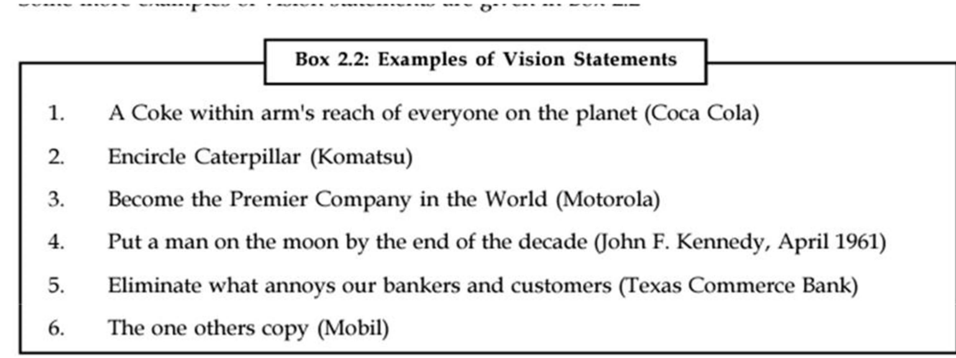
(a) Hindustan Lever: Our vision is to meet the everyday needs of people everywhere.

(b) Microsoft: Empower people through great software any time, any place and on any device.

(c) Britannia Industries: Every third Indian must be a Britannia consumer.

Although such vision statements cannot be accurately measured, they do provide a fundamental statement of an organisation's values, aspirations and goals.

Some more examples of vision statements are given in Box 2.2



Box 2.2: Examples of Vision Statements

1. A Coke within arm's reach of everyone on the planet (Coca Cola)
2. Encircle Caterpillar (Komatsu)
3. Become the Premier Company in the World (Motorola)
4. Put a man on the moon by the end of the decade (John F. Kennedy, April 1961)
5. Eliminate what annoys our bankers and customers (Texas Commerce Bank)
6. The one others copy (Mobil)

2.1.3 Characteristics of Vision Statements

As may be seen from the above definitions, many of the characteristics of vision given by these authors are common such as being clear, desirable, challenging, feasible and easy to communicate. Nutt and Backoff have identified four generic features of visions that are likely to enhance organisational performance:

1. Possibility means the vision should entail innovative possibilities for dramatic organisational improvements.
2. Desirability means the extent to which it draws upon shared organisational norms and values about the way things should be done.
3. Actionability means the ability of people to see in the vision, actions that they can take that are relevant to them.
4. Articulation means that the vision has imagery that is powerful enough to communicate clearly a picture of where the organisation is headed.

According to Thompson and Strickland, some important characteristics of an effective vision statement are:

1. It must be easily communicable: Everybody should be able to understand it clearly.
2. It must be graphic: It must paint a picture of the kind of company the management is trying to create.
3. It must be directional: It must say something about the company's journey or destination.

4. It must be feasible: It must be something which the company can reasonably expect to achieve in due course of time.
5. It must be focused: It must be specific enough to provide managers with guidance in making decisions.
6. It must be appealing to the long term interests of the stakeholders.
7. It must be flexible: It must allow company's future path to change as events unfold and circumstances change.

s

2.1.4 Importance of Vision

Having a strategic vision is linked to competitive advantage, enhancing organisational performance, and achieving sustained organisational growth. Clear vision enable firms to determine how well organisational leaders are performing and to identify gaps between the vision and current practices. Organisations preparing for transformational change regularly undertake "envisioning" exercises to help guide them into the future. The visioning process itself can enhance the self-esteem of the people who participate in it because they can see the potential fruits of their labours.

Conversely, a "lack of vision" is associated with organisational decline and failure. As Beaver argues "Unless companies have clear vision about how they are going to be distinctly different and unique in adding and satisfying their customers, they are likely to be the corporate failure statistics of tomorrow". Lacking vision is used to explain why companies fail to build their core competencies despite having access to adequate resources to do so. Business strategies that lack visionary content may fail to identify when change is needed. Lack of an adequate process for translating shared vision into collective action is associated with the failure to produce transformational organisational change.

Thus vision statements serve as:

1. A basis for performance: A vision creates a mental picture of an organisation's path and direction in the minds of people in the organisation and motivates them for high performance.
2. Reflects core values: A vision is generally built around core values of an organisation, and channelises the group's energies towards such values and serves as a guide to action.
3. Way to communicate: A vision statement is an exercise in communication. A well-communicated vision statement will bring the employees together and galvanize them into action.
4. A desirable challenge: A vision provides a desirable challenge for both senior and junior managers.

While providing a sense of direction, strategic vision also serves as a kind of "emotional commitment". Thompson and Strickland point out the significance of "vision" which is broadly as follows:

1. It crystallizes top management's own view about firm's long-term direction.
2. It reduces the risk of rudderless decision-making.
3. It serves as a tool for maximizing the support of organisation members for internal changes.
4. It serves as a "beacon" to guide managers in decision-making.
5. It helps the organisation to prepare for the future.

Vision poses a challenge and addresses the human need for something to strive for. It can depict an image of the future that is both attractive and worthwhile.

Indeed, developing a strategic vision may be regarded as a managerial imperative in the strategic management process. This is because strategic management presupposes the necessity to look beyond today, to anticipate the impact of new technology, changes in customer needs and market opportunities. Creating a well-conceived vision illuminates an organisation's direction and purpose, and then using it repeatedly as a reminder of "where we are headed and why" helps keep organisation members on the chosen path.

Notes

Table 2.2: Developing the Vision

Implementing Strategic Vision (Gratton, 1996)	Vision Retreat (Nanus, 1996)	Strategic Vision and Core Capabilities 1992:67)	Developing the Vision (Pendiebury *et al.*, 1998:63–67)
1. Articulate the long-term vision 2. Identify strategic people and processes critical to achieving the vision 3. Assess alignment of the vision with current capabilities 4. Prioritize key actions to bridge from current reality to vision of the future	*Phase 1: Preparation.* Establish purpose and goals of the retreat *Phase 2: Initial meeting.* Two-day meeting with discussion on vision audit (character of organization), vision scope (who it includes and desired vision characteristics), and vision context (environmental issues) *Phase 3: Analysis and report cycle.* Facilitator prepares three scenarios of the future that are discussed among participants over a number of weeks *Phase 4: Final meeting* One-day discussion and evaluation of vision alternatives and their strategic implications *Phase 5: Post-retreat activities.* Conclusions communicated throughout the organization including ways of implementing it	1. Generate scenarios of possible futures the organization may face 2. Do a competitive analysis of the industry 3. Analyze the core capabilities of the company and its competitors 4. Develop a strategic vision (best) aligned to the strategic options generated from steps 1–3	1. Formalize the need for change 2. Identify the issues that need to be addressed 3. Develop multiple visions 4. Choose an appropriate vision 5. Formalize the vision, ensuring it is clear and communicable

2.1.5 Advantages of Vision

Several advantages accrue to an organisation having a vision. Parikh and Neubauer point out the following advantages:

1. Good vision fosters long-term thinking.
2. It creates a common identity and a shared sense of purpose.
3. It is inspiring and exhilarating.
4. It represents a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
5. It fosters risk-taking and experimentation.
6. A good vision is competitive, original and unique. It makes sense in the market place.
7. A good vision represents integrity. It is truly genuine and can be used for the benefit of people.

Notes

A good recommendation should be: effective in solving the stated problem(s), practical (can be implemented in this situation, with the resources available), feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key "stakeholders" in the organisation. It is important to consider "fits" between resources plus competencies with opportunities, and also fits between risks and expectations.

There are four primary steps in this phase:

1. Reviewing the current key objectives and strategies of the organisation, which usually would have been identified and evaluated as part of the diagnosis
2. Identifying a rich range of strategic alternatives to address the three levels of strategy formulation outlined below, including but not limited to dealing with the critical issues
3. Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effects on the issues and contributions to the success of the organisation
4. Deciding on the alternatives that should be implemented or recommended.

In organisations, and in the practice of strategic management, strategies must be implemented to achieve the intended results. Here it has to be remembered that the most wonderful strategy in the history of the world is useless if not implemented successfully.

2.2 Aspects of Strategy Formulation

The following three aspects or levels of strategy formulation, each with a different focus, need to be dealt with in the formulation phase of strategic management. The three sets of

recommendations must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy, in the order given.

1. Corporate Level Strategy
2. Competitive Strategy
3. Functional Strategy

Let us understand each of them one by one.

1. Corporate Level Strategy: In this aspect of strategy, we are concerned with broad decisions about total organisation's scope and direction. Basically, we consider what changes should be made in our growth objective and strategy for achieving it, the lines of business we are in, and how these lines of business fit together. It is useful to think of three components of corporate level strategy:

(a) Growth or directional strategy (what should be our growth objective, ranging from retrenchment through stability to varying degrees of growth - and how do we accomplish this)

(b) Portfolio strategy (what should be our portfolio of lines of business, which implicitly requires reconsidering how much concentration or diversification we should have), and

(c) Parenting strategy (how we allocate resources and manage capabilities and activities across the portfolio – where do we put special emphasis, and how much do we integrate our various lines of business).

This comprises the overall strategy elements for the corporation as a whole, the grand strategy, if you please. Corporate strategy involves four kinds of initiatives:

(a) Making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.

(b) Initiating actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial, managerial, and other resources, or acquiring and/or merging other companies with an existing LOB.

(c) Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages – especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers.

(d) Establishing investment priorities and moving more corporate resources into the most attractive LOBs.

2. Competitive Strategy: It is quite often called as Business Level Strategy. This involves deciding how the company will compete within each Line of Business (LOB) or Strategic Business Unit (SBU). In this second aspect of a company's strategy, the focus is on how to compete successfully in each of the lines of business the company has chosen to engage in. The central thrust is how to build and improve the company's competitive position for each of its lines of business. A company has competitive advantage whenever it can attract customers and defend against competitive forces better than its rivals. Companies want to develop competitive advantages that have some sustainability (although the typical term "sustainable competitive advantage" is usually only true dynamically, as a firm works to continue it). Successful competitive strategies usually involve building uniquely strong or distinctive competencies in one or several areas crucial to success and using them to maintain a competitive edge over rivals. Some examples of distinctive competencies are superior technology and/or product features, better manufacturing technology and skills, superior sales and distribution capabilities, and better customer service and convenience.

3. Functional Strategy: These more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity. Functional strategies are relatively short-term activities that each functional area within a company will carry out to implement the broader, longer-term corporate level and business level strategies. Each functional area has a number of strategy choices, that interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies: shorter time horizon, greater specificity, and primary involvement of operating managers.

A few examples follow of functional strategy topics for the major functional areas of marketing, finance, production/operations, research and development, and human resources management. Each area needs to deal with sourcing strategy, i.e., what should be done in-house and what should be outsourced?

Marketing strategy deals with product/service choices and features, pricing strategy, markets to be targeted, distribution, and promotion considerations. Financial strategies include decisions about capital acquisition, capital allocation, dividend policy, and investment and working capital management. The production or operations functional strategies address choices about how and where the products or services will be manufactured or delivered, technology to be used, management of resources, plus purchasing and relationships with suppliers. For firms in high-tech industries, R&D strategy may be so central that many of the decisions will be made at the business or even corporate level, for example the role of technology in the company's competitive strategy, including
choices between being a technology leader or follower. However, there will remain more specific decisions that are part of R&D functional strategy, such as the relative emphasis between product and process R&D, how new technology will be obtained (internal development vs. external through purchasing, acquisition, licensing, alliances, etc.), and degree of centralization for R&D activities. Human resources functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval.

Defining Mission, Goals and Objectives

Introduction

"A mission statement is an enduring statement of purpose". A clear mission statement is essential for effectively establishing objectives and formulating strategies.

A mission statement is the purpose or reason for the organisation's existence. A well-conceived mission statement defines the fundamental, unique purpose that sets it apart from other companies of its type and identifies the scope of its operations in terms of products offered and markets served. It also includes the firm's philosophy about how it does business and treats its employees. In short, the mission describes the company's product, market and technological areas of emphasis in a way that reflects the values and priorities of the strategic decision makers.

As Fred R. David observes, mission statement is also called a creed statement, a statement of purpose, a statement of philosophy etc. It reveals what an organisation wants to be and whom it wants to serve. It describes an organisation's purpose, customers, products, markets, philosophy and basic technology. In combination, these components of a mission statement answer a key question about the enterprise: "What is our business?"

3.1 Defining Mission

Thompson defines mission as "The essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy". Hunger and Wheelen simply call the mission as the "purpose or reason for the organisation's existence".

A mission can be defined as a sentence describing a company's function, markets and competitive advantages. It is a short written statement of your business goals and philosophies. It defines what an organisation is, why it exists and its reason for being. At a minimum, a mission statement should define who are the primary customers of the company, identify the products and services it produces, and describe the geographical location in which it operates.

	Missions have one or more of the five distinct and identifiable
	components:
1.	Customers
2.	Products or services
3.	Markets
4.	Concern for growth
5.	Philosophy

Importance of Mission statement

The purpose of the mission statement is to communicate to all the stakeholders inside and outside the organisation what the company stands for and where it is headed. It is important to develop a mission statement for the following reasons:

1. It helps to ensure unanimity of purpose within the organisation.
2. It provides a basis or standard for allocating organisational resources.
3. It establishes a general tone or organisational climate.
4. It serves as a focal point for individuals to identify with the organisation's purpose and direction.
5. It facilitates the translation of objectives into tasks assigned to responsible people within the organisation.
6. It specifies organisational purpose and then helps to translate this purpose into objectives in such a way that cost, time and performance parameters can be assessed and controlled.

Developing a comprehensive mission statement is also important because divergent views among managers can be revealed and resolved through the process.

According to Pearce (1982), vision and mission statements have the following value:

1. They provide managers with a unity of direction that transcends individual, parochial andtransitory needs.

2. They promote a sense of shared expectations among all levels and generations of employees.
3. They consolidate values over time and across individuals and interest groups.

4. They project a sense of worth and intent that can be identified and assimilated by company outsiders.

5. Finally, they affirm the company's commitment to responsible action, in order to preserve and protect the essential claims of insiders for sustained survival, growth and profitability of the firm.

According to Fred R. David, a mission statement is more than a statement of purpose. It is

1. A declaration of attitude and outlook
2. A declaration of customer orientation
3. A declaration of social policy and responsibility

3.3 Characteristics of a Mission Statement

A good mission statement should be short, clear and easy to understand. It should therefore possess the following characteristics:

1. ***Not lengthy:*** A mission statement should be brief.
2. ***Clearly articulated:*** It should be easy to understand so that the values, purposes, and goals of the organisation are clear to everybody in the organisation and will be a guide to them.
3. ***Broad, but not too general:*** A mission statement should achieve a fine balance between specificity and generality.
4. ***Inspiring:*** A mission statement should motivate readers to action. Employees should findit worthwhile working for such an organisation.
5. ***It should arouse positive feelings and emotions*** of both employees and outsiders aboutthe organisation.
6. ***Reflect the firm's worth:*** A mission statement should generate the impression that the firm is successful, has direction and is worthy of support and investment.
7. ***Relevant:*** A mission statement should be appropriate to the organisation in terms of its history, culture and shared values.
8. ***Current:*** A mission statement may become obsolete after some time. As Peter Drucker points out, "Very few mission statements have anything like a life expectancy of thirty, letalone, fifty years. To be good enough for ten years is probably all one can normally expect". Changes in environmental factors and organisational factors may necessitate modification of the mission statement.
9. ***Unique:*** An organisation's mission statement should establish the individuality and uniqueness of the company.
10. ***Enduring:*** A mission statement should continually guide and inspire the pursuit of organisational goals. It may not be fully achieved, but it should be challenging for managers and employees of the organisation.
11. ***Dynamic:*** A mission statement should be dynamic in orientation allowing judgments about the most promising growth directions and the less promising ones.
12. ***Basis for guidance:*** Mission statement should provide useful criteria for selecting a basisfor generating and screening strategic options.
13. ***Customer orientation:*** A good mission statement identifies the utility of a firm's productsor services to its customers, and attracts customers to the firm.
14. A declaration of social policy: A mission statement should contain its philosophy about social responsibility including its obligations to the stakeholders and the society at large.
15. Values, beliefs and philosophy: The mission statement should lay emphasis on the values the firm stands for; company philosophy, known as "company creed", generally accompanies or appears within the mission statement.

3.4 Components of a Mission Statement

Mission statements may vary in length, content, format and specificity. But most agree that an effective mission statement must be comprehensive enough to include all the key components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all the following essential components:

1. Basic product or service: What are the firm's major products or services?
2. Primary markets: Where does the firm compete?
3. Principal technology: Is the firm technologically current?
4. Customers: Who are the firm's customers?
5. Concern for survival, growth and profitability: Is the firm committed to growth and financial soundness?
6. Company philosophy: What are the basic beliefs, values, aspirations and ethical priorities of the firm?
7. Company self-concept: What is the firm's distinctive competence or major competitive advantage?
8. Concern for public image: Is the firm responsive to social, community and environmental concerns?
9. Concern for employees: Are employers considered a valuable asset of the firm?
10. Concern for quality: Is the firm committed to highest quality ?

Products or Services, Markets and Technology

An indispensable component of the mission statement is specification of the firm's basic product or service, markets and technology. These three components describe the company's activity.

Survival, Growth and Profitability

Every firm has to secure its survival through growth and profitability. These three economic goals guide the strategic direction of almost every business organisation.

A firm that is unable to survive will be incapable of satisfying the aims of any of its stakeholders. Profitability is the mainstay goal of a business organisation, and profit over the long term is the clearest indication of a firm's ability to satisfy the claims and desires of all stakeholders. A firm's growth is inextricably linked to its survival and profitability.

Company Philosophy

The statement of a company's philosophy (also called company creed) generally appears within the mission statement. It specifies the basic values, beliefs and aspirations to which the strategic decision-makers are committed in managing the company. The company philosophy provides a distinctive and accurate picture of the company's managerial

Company Self-concept

Both individuals and companies have a crucial need to know themselves. The ability of a company to survive in a highly competitive environment depends on its realistic evaluation of its strengths and weaknesses. Description of the firm's self-concept provides a strong impression of the firm's self-image.

Public Image

Mission statements should reflect the public expectations of the firm since this makes achievement of the firm's goals more likely.

Sometimes, a negative public image can be corrected by emphasizing the beneficial aspects in the mission statements.

Concern for Employees

Mission statements should also emphasize their concern for improvement of quality of work life, equal opportunity for all, measures for employee welfare etc.

Customers

"The customer is our top priority" is a slogan that would be claimed by most of the businesses the world over. A focus on customer satisfaction causes managers to realize the importance of providing an excellent customer service. So, many companies have made customer service a key component of their mission statement.

Quality

The emphasis on quality has received added importance in many corporate philosophies.

Example: Motorola's mission statement contains a statement that "dedication to quality is a way of life at our company, so much so that it goes beyond rhetorical slogans."

3.5 Formulation of Mission Statements

There is no standard method for formulating mission statements. Different firms follow different approaches. As indicated in the strategic management model, a clear mission statement is needed before alternative strategies can be formulated and implemented. It is important to involve as many managers as possible in the process of developing a mission statement, because through involvement, people become committed to the mission of the organisation.

Mission statements are generally formulated as follows:

1. In many cases, the mission is inherited i.e. the founder establishes the mission which may remain unchanged down the years or may be modified as the conditions change.

2. In some cases, the mission statement is drawn up by the CEO and board of directors or a committee of strategists constituted for the purpose.

3. Engaging consultants for drawing up the mission statement is also common.

4. Many companies hold brainstorming sessions of senior executives to develop a mission statement. Soliciting employee's views is also common.

5. According to Fred R. David, an ideal approach for developing a mission statement would be to select several articles about mission statements and ask all managers to read these as background information. Then ask managers to prepare a draft mission statement for the organisation. A facilitator or a committee of top managers, merge these statements into a single document and distribute this draft mission statement to all managers. Then the mission statement is finalized after taking inputs from all the managers in a meeting. Thus, the process of developing a mission statement represents a great opportunity for strategists to obtain needed support from all managers in the firm.

6. Decision on how best to communicate the mission to all managers, employees and external constituencies of an organisation are needed when the document is in its final form. Some

organisations even develop a videotape to explain the mission statement and how it was developed.

7. The practice in Indian companies appears to be a consultative-participative route. For example, at Mahindra and Mahindra, workshops were conducted at two levels within the organisation with corporate planning group acting as facilitators. The State Bank of India went one step ahead by inviting labour unions to partake in the exercise. Satyam Computers went one more step ahead by involving their joint venture companies and overseas clients in the process.

3.6 Evaluating Mission Statements

For a mission statement to be effective, it should meet the following ten conditions:

1. The mission statement is clear and understandable to all parties involved. The organisation can articulate and relate to it.
2. The mission statement is brief enough for most people to remember.
3. The mission statement clearly specifies the purpose of the organisation. This includes a clear statement about:

(a) What needs the organisation is attempting to fill (not what products or services are offered)?

(b) Who the organisation's target populations are?

(c) How the organisation plans to go about its business; that is, what its primary technologies are?

4. The mission statement should have a primary focus on a single strategic thrust.
5. The mission statement should reflect the distinctive competence of the organisation (e.g., what can it do best? What is its unique advantage?)
6. The mission statement should be broad enough to allow flexibility in implementation, but not so broad as to permit lack of focus.
7. The mission statement should serve as a template and be the same means by which the organisation can make decisions.
8. The mission statement must reflect the values, beliefs and philosophy of operations of the organisation.
9. The mission statement should reflect attainable goals.
10. The mission statement should be worked so as to serve as an energy source and rallying point for the organisation (i.e., it should reflect commitment to the vision).

3.7 Distinction between Vision and Mission

We have already distinguished between vision and mission statements in the previous section; we throw more light on this distinction in this section. While a mission statement describes what the organisation is now; a vision statement describes what the organisation would like to become. A vision statement defines more of a direction as to “where are we headed” and “what do we want to become”, whereas the company’s mission broadly indicates the “business purpose” of the organisation. The distinction between vision and mission can be summarized as follows:

Vision	Mission
. A mental image of a possible and desirable future state of the organization.	1. Enduring statement of philosophy, a creedstatement.
2. A dream.	2. The purpose or reason for a firm’s existence.
3. Broad.	3. More specific than vision
. Answers the question “what we want to become?”	4. Answers the question “what is our business”.

3.8 Concept of Goals and Objectives

3.8.1 Goals

The terms “goals and objectives” are used in a variety of ways, sometimes in a conflicting sense.

The term “goal” is often used interchangeably with the term “Objective”. But some authors prefer to differentiate the two terms.

A goal is considered to be an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for its completion. For example, a simple statement of “increased profitability” is thus a goal, not an objective, because it does not state how much profit the firm wants to make. Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified. For example, “increase profits by 10% over the last year” is an objective.

As may be seen from the above, “goals” denote what an organisation hopes to accomplish in a future period of time. They represent a future state or outcome of the effort put in now. “Objectives” are the ends that state specifically how the goals shall be achieved. In this

sense, objectives make the goals operational. Objectives are concrete and specific in contrast to goals which are generalized. While goals may be qualitative, objectives tend to be mainly quantitative, measurable and comparable.

GOALS	OBJECTIVES
1.General	**specific**
2.Qualitative	**Quantitative, Measurable**
3.Broad Organization- wide targets	**Narrow targets separated by operating divisions**
4.Long term results	**Immediate short term results**

Some writers, however, have reversed the usage, referring to objectives as the desired long- term results and goals as the desired short-term results. And still others use the terms interchangeably, meaning one and the same. These authors view that, little is gained from semantic distinctions between goals and objectives. The important thing is to recognize that the results an enterprise seeks to achieve vary as to both scope and time-frame. To avoid confusion, it is better to use the single term "objectives" to refer to the performance targets and results an organisation seeks to attain. We can use the adjectives long-term (long-range) and short-term (short- range) to identify the relevant time-frame, and try to describe their intended scope and level in the organisation, by using expressions like broad objectives, functional objectives, corporate objectives etc

Some of the areas in which a company might establish its goals and objectives are:

1. Profitability (net profit)
2. Efficiency (low costs, etc)
3. Growth (increase in sales etc)
4. Shareholder wealth (dividends etc)
5. Utilization of resources (return on investment)
6. Market leadership (market share etc)

Stated vs. Operational Goals

Operational goals are the real goals of an organisation. Stated goals are the official goals of an organisation. Operational goals tell us what the organisation is trying to do, irrespective of what the official goals say the aims are. Official goals generally reflect the basic philosophy of the company and are expressed in abstract terminology, for example, 'sufficient profit', 'market leadership' etc. According to Charles Perrow, the following are the important operational goals:

1. Environmental Goals: An organisation should be responsive to the broader concerns of the communities in which it operates, and should have goals that satisfy people in the external environment. For example, goals like customer satisfaction and social responsibility may be important environmental goals.
2. Output Goals: Output goals are related to the identification of customer needs. Issues like what markets should we serve, which product lines should be followed, etc. are examples of output goals.
3. System Goals: These goals relate to the maintenance of the organisation itself. Goals like growth, profitability, stability etc. are examples.
4. Product Goals: These goals relate to the nature of products delivered to customers. They define quantity, quality, variety, innovativeness of products.
5. Goals: These goals relate to derived or secondary areas like contribution to political activities, promoting social service institutions etc.

Note
s

3.8.2 Objectives

Objectives are the results or outcomes an organisation wants to achieve in pursuing its basic mission. The basic purpose of setting objectives is to convert the strategic vision and mission into specific performance targets. Objectives function as yardsticks for tracking an organisation's performance and progress.

Characteristics of Objectives

Well – stated objectives should be:

1. Specific
2. Quantifiable
3. Measurable
4. Clear
5. Consistent
6. Reasonable
7. Challenging
8. Contain a deadline for achievement
9. Communicated, throughout the organisation

Role of Objectives

Objectives play an important role in strategic management. They are essential for strategy formulation and implementation because:

1. They provide legitimacy
2. They state direction
3. They aid in evaluation
4. They create synergy
5. They reveal priorities
6. They focus coordination
7. They provide basis for resource allocation
8. They act as benchmarks for monitoring progress
9. They provide motivation

Nature of Objectives

The following are the characteristics of objectives:

Hierarchy of Objectives

In a multi – divisional firm, objectives should be established for the overall company as well as for each division.

Objectives are generally established at the corporate, divisional and functional levels, and as such, they form a hierarchy. The zenith of the hierarchy is the mission of the organisation. The objectives at each level contribute to the objectives at the next higher level.

Long-range and Short-range Objectives

Organisations need to establish both long-range and short-range objectives (Long–range means more than one year, and short– range means one year and less.) Short-range objectives spell out the near – term results to be achieved. By doing so, they indicate the speed and the level of performance aimed at each succeeding period. Short – range objectives can be identical to long– range objectives if an organisation is performing at the targeted long-term level (for example, 20% growth - rate every year). The most important situation where short-range objectives differ from the long-range objectives occurs when managers cannot reach the long-range target in just one year, and are trying to elevate organisational performance. Short–range objectives (one – year goals) are the means for achieving long range objectives. A company that has an objective of doubling its sales

within five years can’t wait until the third or fourth year of its five-year strategic plan. Short range objectives then serve as stepping-stones or milestones.

Multiplicity of Objectives

Organisations pursue a number of objectives. At every level in the hierarchy, objectives are likely to be multiple.

There is no agreement to the number of objectives that a manager can effectively handle. But, if there are so many that none receives adequate attention, the execution of objectives becomes ineffective; there is a need to be cautious. It will be wise to identify the relative importance of each objective, in case the list is not manageable.

Network of Objectives

Objectives form an interlocking network. They are inter-related and inter-dependent. The implementation of one may impact the implementation of the other. If there is no consistency between company objectives, people may pursue goals that may be good for their own function but detrimental to the company as a whole. Therefore, objectives should not only “fit” but also reinforce each other. As observed by Koontz et al., “it is bad enough when goals do not support and interlock with one another. It may be catastrophic when they interfere with one another.”

UNIT – 3

ENVIRONMENTAL ANALYSIS

ENVIRONMENTAL ANALYSIS

- Environmental analysis is a strategic tool.
- It is a process to identify all the external and internal elements, which can affect the organization's performance.
- The analysis entails assessing the level of threat or opportunity the factors might present.
- These evaluations are later translated into the decision-making process.
- The analysis helps align strategies with the firm's environment.
- Businesses are greatly influenced by their environment, so they must constantly analyze the trade environment and the market.

PESTEL FRAMEWORK

- There are many strategic analysis tools that a firm can use, but some are more common.
- The most used detailed analysis of the environment is the PESTEL analysis.
- This is a bird's eye view of the business conduct.
  Managers and strategy builders use this analysis to find where their market currently.

- It also helps foresee where the organization will be in the future.
  PESTEL analysis consists of various factors that affect the business environment.

  - These factors can affect every industry directly or indirectly
- **P** Is for "Political.
- **E** Is for "Economic".
- **S** Is for "Social".
- **T** Is for "Technological".
- **E** Is for "Environmental".
- **L** Is for "Legal".

Political Factors

- The political factors take the country's current political situation.
- It also reads the global political condition's effect on the country and business.
  - Some of the factors considered for analysis are:
    - Government policies
    - Taxes laws and tariff
    - Stability of government
    - Entry mode regulations

Economic Factors

- Economic factors involve all the determinants of the economy and its state.
- These are factors that can conclude the direction in which the economy might move.
- So, businesses analyze this factor based on the environment.
  - It helps to set up strategies in line with changes.

Economic Factors

- Some of the determinants considered for analysis are:
  - The inflation rate
  - The interest rate
  - Disposable income of buyers
  - Credit accessibility
  - Unemployment rates
  - The monetary or fiscal policies
  - The foreign exchange rate

Social Factors

  - Countries vary from each other.
  - Every country has a distinctive mindset.
- These attitudes have an impact on the businesses.
- The social factors might ultimately affect the sales of products and services.

Social Factors

  - Some of the social factors analysed:
    - The cultural implications
    - The gender and connected demographics
    - The social lifestyles
    - The domestic structures
    - Educational levels
    - Distribution of Wealth

Technological Factors

- Technology is advancing continuously.
- The advancement is greatly influencing businesses.

- Performing environmental analysis on these factors will help you stay up to date with the changes.
- Technological factors will help you know how the consumers react to various trends.
  - Social media has become a vital part of any business now-a-days.

Technological Factors

- Companies will have to perform this analysis for their benefit. It helps them:
  - New discoveries
  - Rate of technological obsolescence
  - Rate of technological advances
  - Innovative technological platforms

Environment Factors

- The location influences business trades.
- Climatic changes can affect the trade of businesses.
- The consumer reactions to particular offering can also be an issue.
- This most often affects agri-businesses.
- Some environmental factors to be noticed are:
  - Geographical location
  - The climate and weather
  - Waste disposal laws
  - Energy consumption regulation
  - People's attitude towards the environment

Legal Factors

- Legislative changes take place from time to time.
- Many of these changes affect the business environment.
- If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy.
- So, businesses should also analyze the legal developments in respective environments.
  - Some of the legal factors to be aware of:
    - Product regulations
    - Employment regulations
    - Competitive regulations
    - Patent infringements
    - Health and safety regulations

IMPORTANCE OF ENVIRONMENT ANALYSIS

- There are many external factors other than the ones discussed.
  - None of these factors are independent.
  - They rely on each other.
- It is true that industry factors have an impact on the company performance.
- Environmental analysis is essential to determine what role certain factors play in your business.
  - PEST or PESTEL analysis allows businesses to take a look at the external factors.
  - Many organizations use these tools to project the growth of their company effectively.
  - The analyses provide a good look at factors like revenue, profitability, and corporate success.

STEPS TO CONDUCT ENVIRONMENT ANALYSIS

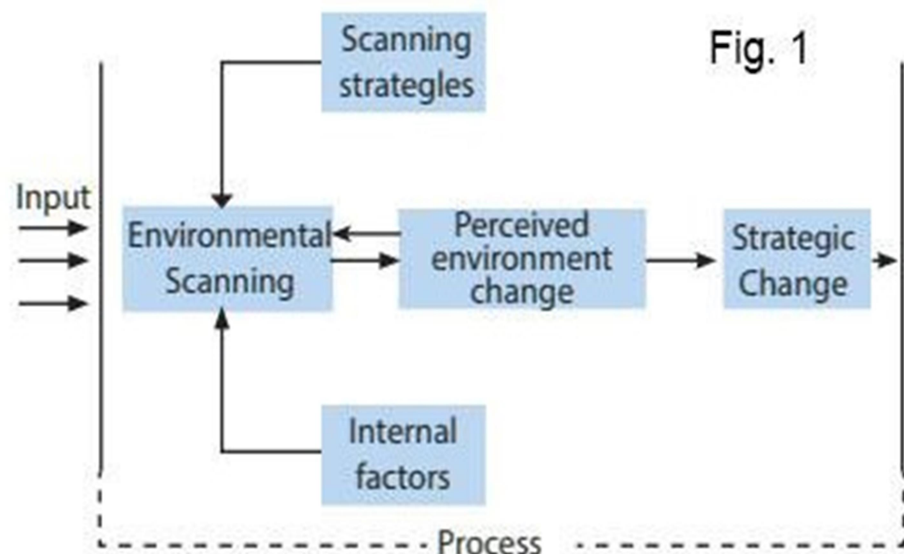
- Understand all the environmental factors before moving to the next step.
- Collect all the relevant information.
- Identify the opportunities for the organization.
- Recognize the threats the company faces.
- The final step is to take action.

PESTEL ANALYSIS OF FOOD INDUSTRY IN INDIA

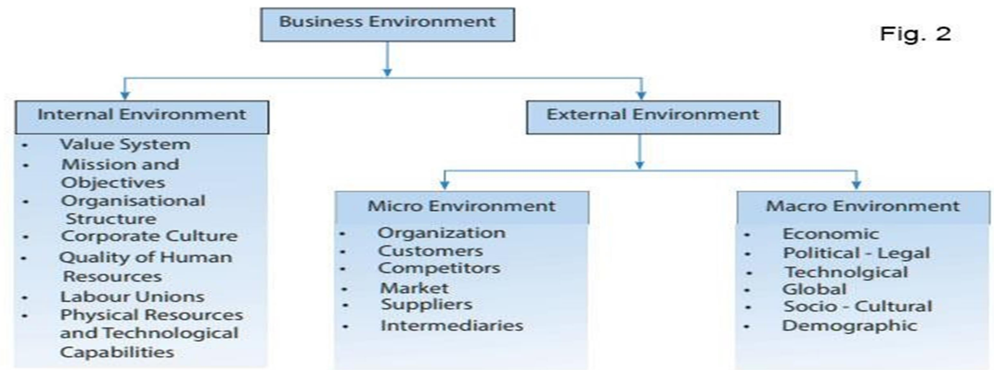
- **Political Factors:**
  - FDI & growth
  - Wide regulations
  - EXIM Policy
  - Harmonised System for tariff rates
- **Economic Factors:**
  - Growing Disposable Incomes
  - Increasing Labor Costs
  - GDP
  - Inflation
  - Fiscal Policy
- **Social Factors:**
  - Health consciousness
  - Dietary Regulations
- **Technological Factors:**
  - Growth of e-commerce & digital economy
  - Automation
- **Environmental Factors:**
  - Organic farming
- **Legal Factors:**
  - Food Safety & Standards Authority of India (FSSAI)
  - Bureau of Indian Standards (BIS) & Indian Standards Institute (ISI)
  - Custom Clearance Procedure
  - International Organisation for Standardisation (ISO)
  - Agmark
  - Food Safety & Standards (Packing & labelling) Regulation

ENVIRONMENTAL SCANNING

- Every organization has an internal and external environment.
- In order for the organization to be successful, it is important that it scans its environment regularly to assess its developments and understand factors that can contribute to its success.
- Environmental scanning is a process used by organizations to monitor their external and internal environments.



COMPONENTS OF A BUSINESS ENVIRONMENT



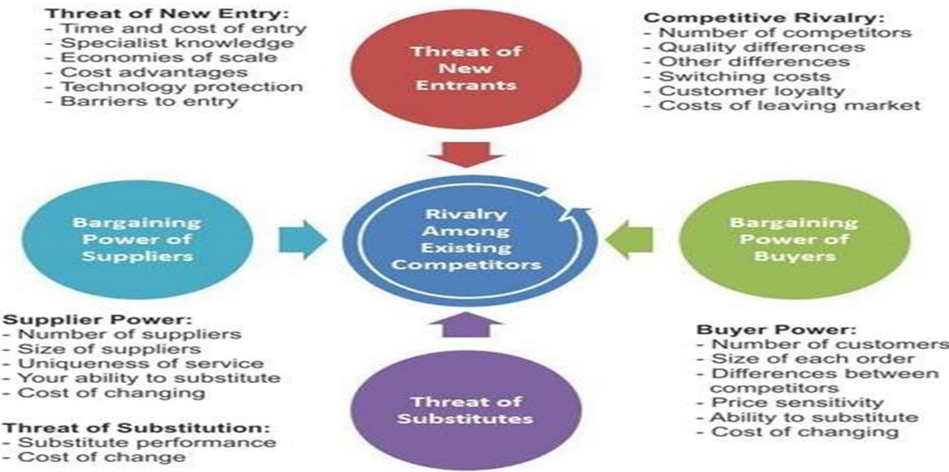
Industry analysis

- Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services.
- Understanding the forces at work in the overall industry is an important component of effective strategic planning.
- Industry analysis enables small business owners to identify the threats and opportunities facing their businesses, and to focus their resources on developing unique capabilities that could lead to a competitive advantage

Porter's five forces model

- "**Porter's five forces model** is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy"
- "It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level."

Porter's Five Forces Model



Porter's Five Forces Model

- Originally developed by Harvard Business School's **Michael E. Porter** in 1979, the five forces model looks at five specific factors that help determine whether or not a business can be profitable, based on other businesses in the industry.
- Understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time," Porter wrote in a Harvard Business Review article.

Porter's Five Forces Model

- **Competitive rivalry**. This force examines how intense the competition currently is in the marketplace, which is determined by the number of existing competitors and what each is capable of doing.
- Rivalry competition is high when there are just a few businesses equally selling a product or service, when the industry is growing and when consumers can easily switch to a competitors offering for little cost.
- When rivalry competition is high, advertising and price wars can ensue, which can hurt a business's bottom line.

Porter's Five Forces Model

- **Bargaining power of suppliers**. This force analyzes how much power a business's supplier has and how much control it has over the potential to raise its prices, which, in turn, would lower a business's profitability.
- In addition, it looks at the number of suppliers available: The fewer there are, the more power they have. Businesses are in a better position when there are a multitude of suppliers.
- Sources of supplier power also include the switching costs of firms in the industry, the presence of available substitutes, and the supply purchase cost relative to substitutes.

Porter's Five Forces Model

- **Bargaining power of customers**. This force looks at the power of the consumer to affect pricing and quality.
- Consumers have power when there aren't many of them, but lots of sellers, as well as when it is easy to switch from one business's products or services to another.
- Buying power is low when consumers purchase products in small amounts and the seller's product is very

different from any of its competitors.

Porter's Five Forces Model

- **Threat of new entrants**. This force examines how easy or difficult it is for competitors to join the marketplace in the industry being examined.
- The easier it is for a competitor to join the marketplace, the greater the risk of a business's market share being depleted.
- Barriers to entry include absolute **cost advantages, access to inputs, economies of scale and well-recognized brands.**

Porter's Five Forces Model

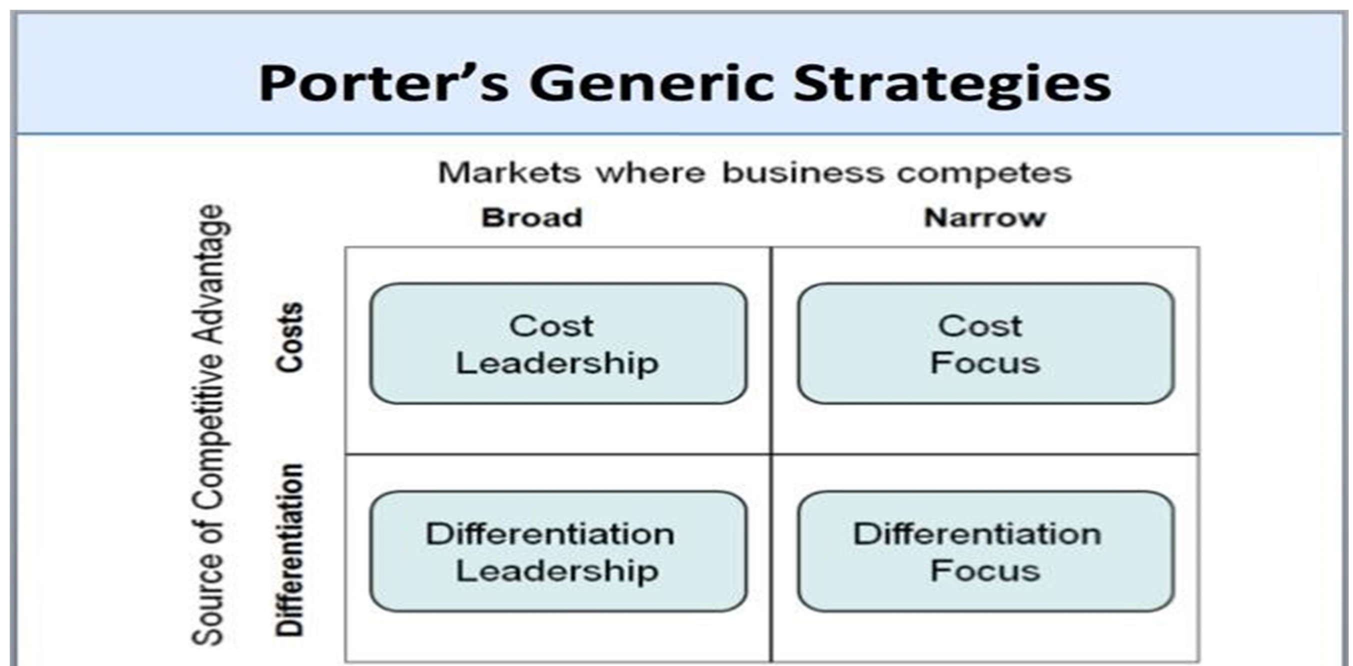
- **Threat of substitute products or services**. This force studies how easy it is for consumers to switch from a business's product or service to that of a competitor.
- It looks at how many competitors there are, how their prices and quality compare to the business being examined and how much of a profit those competitors are earning, which would determine if they have the ability to lower their costs even more.
- The threat of substitutes are informed by switching costs, both immediate and long-term, as well as a buyer's inclination to change.

Porter's generic strategies

- Today, companies face their toughest competition ever.
- Companies use their understanding to design market offers to deliver more value than the offers of competitors seeking to win the same customers.
- Companies must also understand their competitors, identify and analyze their strategies to position themselves in such a way as to gain the greatest possible **competitive advantage** against competitors in the marketplace.

Porter's Generic Strategy Framework

- Michael Porter has suggested three general types of positioning strategies to achieve competitive advantage.
- These three generic strategies are defined along two dimensions: strategic scope and strategic strength.
  - *Strategic scope* looks at the size and composition of the market you intend to target.
  - *Strategic strength* is a supply-side dimension and looks at the strength or core competency of the firm.



Cost leadership

- With this strategy, the objective is to become the **lowest- cost producer in the industry**.
- The traditional method to achieve this objective is to produce on a large scale which enables the business to exploit economies of scale.
- This strategy is usually associated with large-scale businesses offering "standard" products with relatively **little differentiation** that are readily acceptable to the majority of customers.
- Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

A strategy of cost leadership requires close cooperation between all the functional areas of a business.

- To be the lowest-cost producer, a firm is likely to achieve or use several of the following:
  - High levels of productivity
  - High capacity utilisation
  - Use of bargaining power to negotiate the lowest prices for production inputs

- Lean production methods (e.g. JIT)
- Effective use of technology in the production process

- Access to the most effective distribution channels

Differentiation leadership

- With differentiation leadership, the business targets much larger markets and aims to achieve **competitive advantage through differentiation across the whole of an industry.**
- This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria.
- This strategy is usually associated with charging a **premium price** for the product - often to reflect the higher production costs and extra value-added features provided for the consumer.
- Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

- There are several ways in which this can be achieved, though it is not easy and it requires substantial and sustained marketing investment. The methods include:
- Superior product quality (features, benefits, durability, reliability)
- Branding (strong customer recognition & desire; brand loyalty)
- Industry-wide distribution across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- Consistent promotional support – often dominated by advertising, sponsorship etc
- Great examples of a differentiation leadership include global brands like Nike and Mercedes. These brands achieve significant economies of scale, but they do not rely on a cost leadership strategy to compete. Their business and brands are built on persuading customers to become brand loyal and paying a premium for their products.

Cost focus

- Here a business seeks a lower-cost advantage in just one or a small number of market segments.
- The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".
- Example: All private brands that acts as substitutes for national brands.
- **Southwest Airlines**, famous for its low cost focus follows basically a linear route structure. It only flies one type of airplane and it wants to stay in high-density markets and has been highly efficient.

Differentiation focus

- In the differentiation focus strategy, a business aims to differentiate within **just one or a small number of target market segments.**
- The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers.
- The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.
- Differentiation focus is the classic niche marketing strategy.
- Many small businesses are able to establish themselves in a niche market segment using this strategy, achieving

higher prices than un- differentiated products through specialist expertise or other ways to add value for customers.

- Examples on Product differentiation- Harpic, Hit

Criticisms of Porter's Generic Strategy Framework

- A business can employ a hybrid strategy without being struck in the middle. Nissan, for instance.
- Cost leadership does not sell products itself.
- Differentiation can be used to increase sales volume rather than charging a premium price.
- Price can sometimes be used to differentiate.
- The competence based strategy framework supersede the generic strategy framework.

Despite these criticisms, porter's model can constitute the basis of a useful framework for categorizing and understanding sources of competitive advantage.

Internal Analysis

- It is the only way to identify the Organisation's strengths and weaknesses
- Its needed for making good strategic decisions.
- It identifies and evaluates resources, capabilities and core competencies.
- Looks at the Organisation's
  - -Current vision
  - -Mission
  - -strategic objectives
  - -strategies

Dynamics of Internal Environment

- Organisational Resources
- Organisational Behaviour
- Strengths and Weaknesses
- Synergy effects
- Competencies
- Organisational capabilities
- Strategic Advantage

Resources

- 1. Tangible resources- Relatively easy to identify and include physical and financial assets to create value for the customers
  - -Financial Resources, Ex: Firm's capacity to raise equity, Firm's borrowing capacity
  - -Physical resources. Ex: Modern Plant and facilities, state-of-the art Machineries etc.,

Tangible resources

- Technological resources –Ex:Trade secrets, innovative production process etc.,
- Organisational resources –Ex: Effective strategic planning process, excellent evaluation and control systems.

Intangible resources

- Difficult for the competitors (and the firm itself)to account for or imitate typical practices that have evolved over time like,
  -Innovation and creativity – Ex: in Technical and scientific skills
  - Reputation or goodwill
  -Human-Ex: Experience and capabilities, Trust, Managerial Skills etc.,

Organisational Capabilities

- Competencies or skills that a firm employs to transform inputs into outputs, and capability to combine tangible and intangible resources to attain desired end
  Ex: -Outstanding customer service
  -Excellent product development capabilities
  -Ability to hire, train and retain human capital etc.,

Core competencies

- To be a core competency it must be
  -Rare
  -inimitable
  -valuable
  -No substitutable

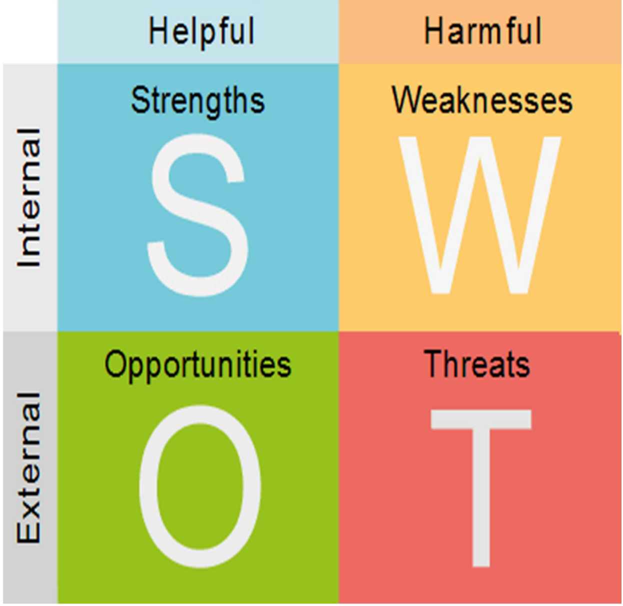
SWOT Analysis

- **Swot analysis** – an analysis of an organization's strengths and weaknesses alongside the opportunities and threats present in the external environment."
- "**Swot analysis** involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business."

SWOT Analysis

- **S**trengths: factors that give an edge for the company over its competitors.
  - **W**eaknesses: factors that can be harmful if against the firm by its comp
- **O**pportunities: favorable situations which can bring a competitive advantage.
- **T**hreats: unfavorable situations which can negatively affect the business.

SWOT MATRIX



Benefits of SWOT analysis

Swot tool has 5 key benefits:

- Simple to do and practical to use;
- Clear to understand;
- Focuses on the key internal and external factors affecting the company;
- Helps to identify future goals;
- Initiates further analysis.

Limitations

- Many managers and academics heavily criticize or don't even recognize it as a serious tool.
- According to many, it is a 'low-grade' analysis. Here are the main flaws identified by a research:
- Excessive lists of strengths, weaknesses, opportunities and threats;
- No prioritization of factors;
- Factors are described too broadly;
- Factors are often opinions not facts;
- No recognized method to distinguish between strengths and weaknesses, opportunities and threats.

Stakeholders expectations

- Primary stakeholders: they are directly related to the firm and include
  -customers
  -employees
  -suppliers
  -shareholders
  -creditors

Stakeholders expectations

- **Secondary stakeholders**: Those who have only indirect stake in the corporation but are also affected by the corporations' activities and include:
  -non-governmental organisations (NGO)
  -local communities
  -trade associations
  -competitors and
  -governments.

Scenario Planning

- **Scenario planning**, also called **scenario thinking** or **scenario analysis**, is a strategic planning method that some organizations use to make flexible long-term plans. It is in large part an adaptation and generalization of classic methods used by military intelligence.
- The original method was that a group of analysts would generate simulation games for policy makers. The games combine known facts about the future, such as demographics, geography, military, political, industrial information, and mineral reserves

Scenario planning

- Sometimes it's helpful to involve stakeholders in thinking laterally about your shared future: five, 10 or maybe 15 years from now.
- Scenario planning is a tool to help stimulate new thinking and explore uncertainties.
- Instead of focusing on what you know, you invest time on what you don't know.
- Scenario planning is used to help assess uncertainties in your external environment before you begin to open up choices for the future.

Scenario Planning

- Focus of Scenario Planning:
  -Environmental

  -Social

  -Economic

  -Institutional

What is Scenario Planning for:

- Policy Development
- Planning
- Investment decisions

Dynamic Scenarios

- In cases when scenario planning is integrated with a systems thinking approach to scenario development, it is sometimes referred to as DYNAMIC SCENARIOS.
- Scenario planning may involve aspects of systems thinking, specifically the recognition that many factors may combine in complex ways to create sometime surprising futures.

Scenario Planning Process

- Specify the scope of planning and its timeframe.
- For the present situation develop a clear understanding for each of the scenario

- Identify elements that are certain to occur and that will be driving forces.
- Identify the uncertainties in the environment.
- Identify the more important drivers.
- Create scenarios (like creating scenes/stories) using the extreme variables.
- Quantify the impact of each scenario on the firm and formulate appropriate strategies.

Benefits of Scenario Planning

- Managers are forced to break out of their standard world view and overlooking certain uncertainties in the general forecast.
- Decision-makers are better able to recognize
scenario in its early stages
- Managers are better able to understand the source of differences between scenarios when they are envisioning different scenarios

What is an outsourcing strategy?

An outsourcing strategy is a plan that describes how a company hires third-party companies or individuals to perform tasks. As an alternative to relying solely on internal employees, this approach can reduce expenses, increase productivity and improve the overall quality of the final product.

UNIT 4

Porter's Generic Strategies:

Porter's Generic Strategies consist of three main approaches: Cost Leadership, Differentiation, and Focus.

Cost Leadership

The cost leadership strategy is based on offering the lowest possible price for a product or service while maintaining a reasonable level of quality. This strategy works by achieving economies of scale, reducing overhead costs, and streamlining operations. Businesses that implement this strategy typically target a broad market with a high demand for low-priced products or services.

Differentiation

The differentiation strategy focuses on creating a unique product or service that sets a business apart from its competitors. This can be accomplished through product design, customer service, marketing, or any other factor that makes the business stand out. Businesses that implement this strategy typically target a broad market with a high demand for unique or premium products or services.

Focus

The focus strategy is based on targeting a specific niche or segment of the market. This strategy can be implemented using either a cost leadership or differentiation approach. Businesses that implement this strategy typically have a deep understanding of the needs and preferences of their target market and can tailor their products or services accordingly.

Implementing Porter's Generic Strategies

Implementing Porter's Generic Strategies requires a deep understanding of the competitive landscape and the resources available to a business. Here are some key steps to consider when implementing these strategies:

What is an outsourcing strategy?

An outsourcing strategy is a plan that describes how a company hires third-party companies or individuals to perform tasks. As an alternative to relying solely on internal employees, this approach can reduce expenses, increase productivity and improve the overall quality of the final product.

Choosing the Right Strategy

The first step in implementing Porter's Generic Strategies is choosing the right approach for a business. This requires analyzing the market, understanding the competition, and identifying the unique strengths and weaknesses of the business.

Analyzing the Competitive Landscape

To successfully implement Porter's Generic Strategies, a business must have a deep understanding of the competitive landscape. This includes analyzing the strengths and weaknesses of competitors, identifying potential threats, and understanding the key success factors in the market.

Creating a Value Chain Analysis

A value chain analysis is a tool for understanding the various activities involved in creating a product or service. This can help businesses identify areas where they can reduce costs, improve efficiency, or add value to the customer.

Understanding Resource Allocation

Implementing Porter's Generic Strategies requires careful resource allocation. Businesses must allocate resources in a way that supports their chosen strategy while still maintaining a reasonable level of profitability.

Examples of Porter's Generic Strategies in Action

To better understand how Porter's Generic Strategies can be implemented in real-world scenarios, let's take a look at some examples of businesses that have successfully used these approaches:

Walmart: Cost Leadership

Walmart is a prime example of a business that has implemented the cost leadership strategy. By leveraging economies of scale, reducing overhead costs, and streamlining operations, Walmart has been able to offer low-priced products to a broad market. Their focus on cost leadership has allowed them to dominate the retail industry and maintain a competitive advantage.

What is an outsourcing strategy?

An outsourcing strategy is a plan that describes how a company hires third-party companies or individuals to perform tasks. As an alternative to relying solely on internal employees, this approach can reduce expenses, increase productivity and improve the overall quality of the final product.

Apple: Differentiation

Apple is another example of a business that has successfully implemented Porter's Generic Strategies. By creating a unique product that is both visually appealing and easy to use, Apple has been able to differentiate itself from competitors. Their focus on differentiation has allowed them to maintain a premium brand image and a loyal customer base.

Southwest Airlines: Focus

Southwest Airlines is a great example of a business that has implemented the focus strategy. By targeting a specific niche market, Southwest has been able to tailor its products and services to meet the unique needs and preferences of its customers. Their focus on providing affordable, convenient, and reliable air travel has allowed them to dominate the domestic airline industry.

Advantages and Disadvantages of Porter's Generic Strategies

While Porter's Generic Strategies have been proven to be effective in many scenarios, they are not without their drawbacks. Here are some advantages and disadvantages to consider:

Advantages

- Provides a clear framework for businesses to understand how to gain and sustain a competitive advantage
- Offers flexibility in choosing the right approach for a business based on its unique strengths and weaknesses
- Helps businesses identify areas for improvement and efficiency gains

Disadvantages

- Can be difficult to implement in highly competitive markets
- May not be suitable for businesses that do not have the resources to achieve economies of scale or invest in product differentiation
- Requires careful resource allocation, which can be challenging for businesses with limited resources

Porter's Generic Strategies are a powerful tool for businesses looking to gain a competitive advantage in their respective markets. By understanding the three main approaches (cost leadership, differentiation, and focus) and implementing them effectively, businesses can achieve long-term success. However, it's important to carefully consider the competitive landscape, resources, and potential drawbacks before deciding which approach to take.

What is an outsourcing strategy?

An outsourcing strategy is a plan that describes how a company hires third-party companies or individuals to perform tasks. As an alternative to relying solely on internal employees, this approach can reduce expenses, increase productivity and improve the overall quality of the final product.

3 types of generic strategies

1. Cost leadership

2. Differentiation

3. Focus

1. Cost leadership:

A business that wants to gain a market advantage by controlling costs. There are two types of cost leadership: low-cost strategy and best-value strategy. One aims to increase profits by reducing costs while maintaining industry-average prices. The other aims to increase market share by charging lower prices and reducing costs.

2. Differentiation:

Adapting to a differentiation strategy means that your company must find something about its products that is special or different from your competitor's. You could do this by rebranding or developing new specialized products to offer under your existing brand and marketing strategy. By being attentive and responsive to customers' needs and wants, you encourage them to pay prices that may be higher than your competitors.

3. Focus

The focus strategy provides the option to use either cost leadership or differentiation within a niche market. This doesn't mean that the market will be smaller because your company might be small, but rather that your company wants to build product value and generate a loyal, yet specific client base for future profits and sales.

Types of Integration Strategies

Business-integration strategy has two major types and sub-types; horizontal integration and vertical integration. They're as follows;

Horizontal Integration

Businesses use horizontal strategy when they're facing competition. A horizontal integration strategy is when a company acquires the supply chain system of the different/same industries that are operating at the same level.

In other words, horizontal integration in similar businesses is when a fast-food brand merges with the chain of the related **business** in the other country and foreign market.

What is an outsourcing strategy?

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Strategic Management Reasons

As we know that horizontal integration is when a business acquires and merges with a similar/dissimilar company. Businesses do it for various reasons like entering into the newer markets, expand the market, lower the risks, develop a unique product, achieve economies of scale, and increasing the company's size and capabilities.

Standard Oil bought 40 refineries is a very good example of horizontal integration.

Horizontal integration usually has long-term benefits on the strategy and planning of the business. Therefore, the company has to make the right choice. The acquired and merging business should be suitable to market and customers' expectations. The company needs to perform a comprehensive analysis before of its resources before the integration.

When Horizontal Integration is Attractive

A business should follow the horizontal integration in terms of merging and acquisition when

- the business could handle the operations of the bigger company
- integration could provide the economies of scale advantage
- competitors don't have the experience and experience that the company has already attained
- the business is expanding its operation

Advantages of Horizontal Integration

Some of the main advantages of horizontal integration are as follows;

- **Enter into New Market**. If the business acquires/merges with a foreign company, it makes it easier for the acquiring business to enter into the new market.
- **Market Power.** When a business acquires and merges with another foreign company, the customers' market of the acquired company also comes along with it during the acquisition. It would help the company to access the bigger for the distribution of its products.
- **Differentiation.** Acquisition and merging provide an opportunity for both companies to share their expertise and develop something new. It results in the form of a new differentiating product.
- **Economies of Scale.** When two businesses and companies integrate their experiences and expertise for mass production, it reduces the overall manufacturing cost.

Disadvantages of Horizontal Integration

The acquiring business should be able to handle the bigger company in order to achieve the advantages of horizontal integration. If it doesn't, the following disadvantages would happen;

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- **No Benefits**. The merging companies expect certain benefits from the horizontal integration, but the hardware and software of either of the companies don't match up. The expected synergies turned out to be nonexistent from the integration.
- **Rigidness.** Sometimes horizontal integration brings a lot of benefits in many ways. But it becomes bigger and loses its management and operational flexibility. The functionality of the company becomes so rigid that it would become very difficult to change it.
- **Legal Issues.** The acquiring and merging companies should keep in mind the legal issues. If the alliance of two firms becomes a monopoly and it threatens to end the business of competitors permanently, then it would result in serious legal issues.

Vertical Integration

Businesses also use vertical integration when they're facing competition. Vertical integration allows the company to have control over various stages of supply, distribution, and production.

Companies choose vertically-integrated strategy to make sure that they have complete control over the raw material, supply chain, and manufacturing processes. Most importantly, the purpose of vertical integration is to take charge of the distribution channels of the company's products.

For instance, Carnegie Steele Company acquires the iron mines to guarantee the consistent supply of raw material. Next, the company controls the railroads to support the distribution of raw material and final products. That's how Carnegie Steele Company manufactures cheap steel and controls the steel **market**.

Types of Vertical Integration

Forward Integration. When a business takes over the distribution system and sells its products/services directly to the customers. For instance, an automotive and mobile brand opens up its retail showrooms to sell vehicles and mobile phones directly to the end consumers.

Backward Integration. When a business takes control over the supply of the raw material, it's backward integration. For instance, a supermarket and a fruit seller buy the vegetable and fruit farm to control the supply of its products. An automotive company buys the electronic parts and tire manufacturing companies to ensure the availability of material.

Balanced Integration

As the name implies, balanced integration is a combination of forward integration and backward integration. Here the business acquires both raw material supply chain and **distribution channels** to control everything.

When Vertical Integration is Attractive

Vertical integration is suitable for the company under the following circumstances;

The market and the industry is growing at a significant rate.

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- Suppliers and distributors control a major portion of the business, and the company has the resources to buy either one or both of them.
- The profit margin of suppliers and distributors is high.
- The price range of distribution and suppliers is volatile and inconsistent.
- Distributors and suppliers are unreliable and they delay the delivery of the products and material and it's costing the company.

Advantages of Vertical Integration

- **Effectiveness.** When a company buys either one of the channels or both, its productivity and core effectiveness would increase.
- **Cost & Profit.** The most important benefit of vertical integration that it helps the company to lower the cost and the business makes more profit as a result.
- **Efficient.** When a company takes over the distribution channels, it allows the company to carefully deliver the final products.
- **Smooth Supply.** It allows the company to have a smooth supply of raw material without inconsistency.

Disadvantages of Vertical Integration

- **Management Issues.** When a company integrates with either one of the channels, it changes the company's focus on the supply chain or the distribution channels. The company's core products suffer resultantly.
- **Sustainability Problem.** The company increases the supply of raw materials to achieve economies of scale. It loses control over the production of raw material.
- **Low Quality.** When you remove the competition from the market, the quality of the raw material or the finished goods would fall.

Examples of Integration Strategies

Facebook and Instagram

The socal app Facebook is the world's largest social media platform and Instagram is also a different type of social media platform. **Facebook horizontally integrated with Instagram** and increased the customer's market share and competitive advantage.

Apple

Apple is one of the five world's top tech companies. The company uses the balance vertical integration of manufacturing the parts of its iPhones and Apple laptops. The brand also owns the retail stores to sell its finished products.

Netflix

Netflix is one of the world's largest paid online video streaming companies. The company follows the forward vertical integration by controlling the distribution of its video content.

Outsourcing strategies consist of the standards, procedures and regulations that dictate factors like who an organization hires and how much it pays them. A company may outsource to a single individual, a small business or a large corporation, depending on its needs.

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Examples of outsourced work

- Content and blog writing
- Graphic design
- Branding services
- Reputation management
- Customer service
- Marketing
- Supply chain management
- Human resource management
- Accounting, financial consulting and tax compliance
- Engineering
- Computer programming and other IT services
- Research and design
- Onboarding and training new employees

Benefits of outsourcing strategies

A significant benefit of an outsourcing strategy is that it can save money, as outside labor or supplies may be cheaper than in-house options. A company might also outsource duties to experts with more experience and specialized knowledge than its team

Other benefits of outsourcing include:

- Enhanced efficiency
- Less rigid capacity limits
- More time and resources for the company's primary duties
- Ability to access different skill sets and resources
- More flexibility to update processes and respond to market changes
- Reduced time to get products to market
- Increased collaboration and innovation

What is Offensive Strategy?

An offensive strategy is when a business takes certain steps against the market leader to get competitive in order to secure its market position.

Businesses and companies gain competitive advantages by differentiating their product, offering it at a lower price, or having a resource advantage. The thing to keep in mind while following the offensive strategy is that the competitors shouldn’t counter it.

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An effective offensive strategy provides you a competitive edge for a long time. Strickland and Thompson have divided the competitive edge time into three categories;

- Build-up Period
- Benefit Period
- Erosion Period
- **The build-up period** can be short and long depending upon the availability of resources. If resources are readily available, then it'll be short. Otherwise, it would be longer.
- **The benefit period** is a time when a business enjoys the benefits of the competition. It could be short or long depending upon your creative offer.
- **The erosion period** is when the competitor has found a way to counter your offer. It means the end of your competitive edge.

Types of Offensive Strategies with Examples
Some of the main types of offensive strategy are as follows;

Frontal Attack
A **frontal attack** is when you attack the competitor face to face by offering the same product, price, and quality. It's a very risky strategy and the attacker should only do it if he has a competitive advantage.
Example:
Coca-Cola and Pepsi both are the market leader in the soft drink beverage industry. They both have got capital and resource. They've got a long history of frontal attacks. When Coca Cola launched diet coke, then Pepsi offered diet Pepsi.

Flank Attack
A flank attack is when a challenging company attacks the blind and weak points of the competitor. Companies do it to secure their market leadership position.

Example:
LG attacked the other colored TV manufacturers in the rural market of India. That's how LG became the first brand in India to target the rural market. LG found out that the village market isn't only price-conscious, but they're also quality-conscious. They're willing to pay more for a product if it fixes their problems.

Encirclement Attack
Enrichment attack is when you attack the competitor based on its strengths and weaknesses and don't leave any margin of error.

Example:

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E-commerce platforms usually follow the enrichment attack and they attack all the strengths and weaknesses of the competitor platform. They want to win the market share and beat the competitor.

Bypass Attack
A bypass attack is when the smart company attacks the competitor through innovation. When a challenging company launches an innovative product, then it creates a separate segment. Other companies would soon copy your innovation, but the impact of the attack would last for a long time.

Example:
Masaru Ibuka, the co-founder of Sony, used to listen to music during his business tours. He didn't like the big cassette deck TC-D5. One day he requested his developer to design a smaller recorder and cassette player. Then he developed "walkman." The price of the "walkman" device hit 150 dollars on July 01, 1979.

First, Sony gave the name to the device "Soundabout" and then changed it to "walkman" later. The walkman became so successful that the company sold 400 million devices. Today, many people listen to music with headphones on their smartphones. It's the transformation of the walkman.

Guerrilla Marketing
Guerrilla marketing is when a company makes useful small changes. The repeated changes make a huge impact on the market. A new small business first achieves popularity, then it should provide trade and price discounts.

Example:
McDonald's painted the zebra crossing lines as yellow to symbolize French fries along with the brand image like a package. The zebra lines or the French fries are coming out of the package.

What is Defensive Strategy?
A defensive strategy is a marketing tool that management uses to defend their business from potential competitors. In other words, it's a battleground where you have to fight and protect your market share by keeping your customers happy and stabilizing your profit.

Approaches to Defensive Strategy
The management follows two approaches of defensive strategy and they're as follows;

Active Approach
The purpose of the active approach is to block the competitors that are planning to steal your market share. Here in the active approach, you increase the marketing and promotional

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activities of your product, cut down the price, and provide discounts to reduce the sales of your competitors.

Passive Approach

The goal of passive is to stop the competitor from taking away your customers and market share. But it's a bit relaxed approach. In the passive approach, you take these steps and they're as follows;

- **New Product Innovation**. Your focus is on the development and launching of the new product so that you could win back the customers.
- **Company Expansion**. Here your focus is on enlarging your business and company into the new markets. The market expansion would attract and bring new customers.
- **Reconnect with Old Customers**. You contact and retarget your old customers in order to increase your sale.

Types of Defensive Strategies with examples

Joint Venture

A joint venture is when two businesses and companies formally decide to cooperate in order to achieve certain common goals. The objectives of a joint venture may vary from business to business and market to market.

The purpose of a joint venture in the defensive strategy is to defeat the common competitor that is targeting both similar/dissimilar companies at the same time.

For example, Microsoft and General Electric started a joint venture by the name of "Caradigm" in 2011. Both of these companies shared their resources to develop a better technology; GE health technology and Microsoft healthcare intelligence product.

Retrenchment

Retrenchment is also an aggressive strategy where you take a bold decision of reducing businesses' operations and expenses. The retrenchment strategy helps businesses and companies in the defensive strategy in terms of cutting down the price and offering discounts and incentives to the customers.

For instance, a particular location of the company is closed, and no possibility of its usage in the near future. The management finally decides to sell its assets that don't have any more of its use.

Divestiture

Divestiture is a type of retrenchment strategy where you re-examine the asset of your business and company. If the assets aren't serving anymore, then you sell them off. It helps businesses to reduce their expenses.

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For example, Thomson Reuters, a Canadian multinational company, decided to sell its science and intellectual property division in 2016. The purpose of divestiture is because the company wanted to decrease its leverage on the balance sheet.
The US government decided to break up AT&T in 1982 on the claim that the company was monopolizing the telecom industry. The breakup created 7 different companies and one of them was AT&T.

Liquidation
If a part of a business is going to lose and declining and there's no way to pull it back, then you finally decided to sell them off. It's also a type of retrenchment strategy. **Liquidation** also helps a business in the defensive strategy, especially when they're cutting down the prices.
For instance, a retail shop is running into losses. The retailer to sell off his entire business, but he couldn't find any interested buyer. Finally, he decides to get as much value out of it as possible by selling all the equipment, inventory, fixture, and everything. The purpose is to permanently shut down the entire business.
Advantages of Defensive Strategies
Marketing & Advertisement
The marketing and advertising of products and services increase the market reach of your business. It allows you to target both your old and new customers. The defensive strategy provides you with the real benefits of promoting your business.

Less Risky
The good thing about defensive strategy is that it's not risky. It's even less risky than the offensive strategy. Here you utilize your competitive advantages to secure your market share. You reduce the threats at the cost of taking minimum risks.

Promote Value of your Product
The focus of the defensive strategy is to promote the benefits of your products and services. When you start comparing your product/service with the competitors' by highlighting your key features, it devalues their service. It can turn into a long term business strategy for your business. It also helps you to be more niches focused

Disadvantages of Defensive Strategies
Different Needs of Target Market
One of the biggest disadvantages of the defensive strategy is that the companies and businesses underestimate the needs and wants of the target market. They offer their product/service to all the market without focusing on any particular segment.

For instance, the children's bicycles and children's storybook would only interest the young children market. If you offer children's products to the elderly and young demographic of the

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market, they won't buy your product. That's how businesses make mistakes while applying defensive strategy. You have to know your target market and target them accordingly.

Innovation

The defensive strategy won't work when the target market is looking for an innovative and creative product. That's why smart businesses and companies always look for new ideas and technology by keeping their eyes and ears open. Therefore, businesses should develop a long term strategy by using the defensive strategy along with innovation.

Strategic alliances are when two or more businesses enter into an agreement to work together toward a common goal, while still remaining independent.

This type of partnership enables you to pool resources, leverage your combined expertise, and go further as a team than either of you could go alone. A strategic alliance is a win-win for both sides.

While strategic alliances offer a lot of benefits, they do come with some inherent risks. It's important to understand the basics of the business agreement and what you're getting into when creating a strategic alliance.

In this article, we delve into what strategic alliances are, the three different types of strategic alliances, and how to create an effective strategic alliance that gets results.

What is a strategic alliance?

A strategic alliance is an arrangement between two separate businesses to partner on a mutually beneficial project, while each business still retains independence. These partnerships are usually long-term in nature, with each business bringing its expertise and resources to the table to achieve mutual goals and growth.

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What is a strategic alliance?

Partnership between two businesses

...to achieve mutual goals and growth that each business can't accomplish on its own

Both businesses remain independent entities

...but they are contractually bound to help each other achieve objectives

Usually a long-term partnership

...where each business continues to bring its expertise and resources to the table.

But not all alliances are considered "strategic." There are five accepted criteria to check whether or not a potential partnership is strategic for your business. Meeting even one of these criteria can qualify as a strategic alliance:

1. The partnership is essential to the achievement of the main business objective. In other words, engaging or not-engaging in the alliance strategy will significantly impact whether or not the objective is successfully met.
2. The partnership is indispensable in creating or maintaining any business aspect that functions as a competitive advantage.
3. The partnership cements the ability to overcome competitor threats.
4. The partnership builds, supports, or maintains strategic decision-making.
5. The partnership significantly reduces risk.

Note: Strategic alliances are not the same as mergers. In a merger, two companies agree to become one bigger company; the original two joining companies don't exist independently of each other. In a strategic alliance, both companies maintain their independence.

Why are strategic alliances so popular?

Strategic alliances have become a popular way to grow businesses. In Strategic Partnerships by Robert L. Wallace, he outlines three reasons why this type of partnership works so well:

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The customer is king

Customers today are aware, informed, and discerning. With everything at their fingertips, customers can learn everything about your company and purchase any given product or service in a few clicks.

To compete effectively in the marketplace, businesses have to not just meet, but exceed customer expectations. Businesses can engage customers in a new way through a strategic alliance that enables them to create more competitive offerings and expand into a new audience.

Big doesn't necessarily mean better

Technology has helped bridge the gap between small businesses and corporations, allowing companies of all sizes to form strategic alliances with one another.

For example, a startup can offer expertise that benefits a larger company, while a larger company has the established reach and resources a startup needs. Now more than ever, we've seen a range of successful strategic alliances and the trend will only continue to grow.

Global connectivity

Another effect of technology is that time and distance is now irrelevant. The rise of diversity and shifting population across countries has encouraged businesses to enter strategic alliances as a way to reach new audiences and gain insight into global markets and operations.

And with so many new software platforms, it's become easier to work with remote teams and expand your business to new markets.

3 different types of strategic alliances

There are three main types of strategic alliances: a joint venture, an equity strategic alliance, and a non-equity strategic alliance.

1. Joint ventures (JV)

In a joint venture, two companies come together to form a third distinct legal business entity – a "child company" – by means of a binding contract.

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One example is Tata Starbucks, a JC between Starbucks Corporation and Tata Global Beverages, the world's second largest tea producer. In 2012, the two beverage giants partnered together with 50-50 ownership to leverage their individual brands of coffee and high-quality tea and coffee.

2. Equity strategic alliances

In an equity strategic alliance, one partner purchases equity in another company. Alternatively, both partners can also purchase equity in each other's companies.

Panasonic's $30 million investment in Tesla is a good example of an equity strategic alliance. Along with the purchase of Tesla stock, Panasonic also brought its cutting edge battery cell technology to the partnership.
While Tesla was already using Panasonic batteries on its vehicles, the equity strategic alliance further helped Panasonic in its mission to be the number one green innovation company in the electronics industry, and increased Panasonic's market share.

3. Non-equity strategic alliances

In a non-equity strategic alliance, partners pool resources toward a mutual business objective in a more informal agreement. There are no child entities or shared equity. For this reason, non-equity strategic alliances are one of the most common.

Popular non-equity strategic alliances are distribution partnerships. For example, FedEx teamed up with BigCommerce to provide quick and convenient delivery for ecommerce customers.
Business owners who use BigCommerce have access to FedEx ecommerce solutions, which include four months of free shipping service and significantly reduced shipping pricing afterward. In exchange, Fedex enjoys brand presence on the growing network of BigCommerce stores.

Advantages of strategic alliances

Strategic alliances offer the core advantages of increasing resources, accessing new markets, growing brand awareness, and more. Below are some of the top strategic alliance advantages:

Increased resources

Strategic alliances enable businesses to gain access to supplementary resources in the form of knowledge, products, or other assets without changing their core functions.

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Every business has its own expertise and most prefer to stick to their core competencies. Being able to share the best of what each one has to offer and turn them into something greater than the sum of its parts can take business relationships to exponentially greater heights.

Plus, what you learn from another company's expertise can often be adapted and applied to your own business.

Access to new markets

One of the most popular reasons to enter into strategic alliances is to gain access to another market. This is especially common when a new product, event, or campaign is being launched.

Offering something new together with a partner creates a sense of excitement and exclusivity, which can help with market penetration for both businesses.

Expanded customer base

In a strategic alliance, it's typical for businesses to be publicly mentioned by their partner. In fact, businesses often choose partners based on their local presence or position in another market.

The added exposure brought by a strategic alliance offers both businesses a larger customer base they may not have been able to reach alone.

Greater brand awareness

With an expanded customer base and growth into new markets, strategic alliances have the added advantage of building brand awareness. Partnering with a business that has a positive reputation can also enhance your own through association.

Agile growth

A strategic alliance brings the benefit of having double the manpower, skillset, knowledge, and more. Reaching your strategic objectives can instantly be done much quicker and more efficiently, leading to economies of scale (cost savings as a result of this efficiency).

However, since the costs and risks are also shared, the informal nature of a strategic alliance makes it a good way to explore an idea in a shorter time frame, at significantly lower costs. (See more agile marketing ideas here.)

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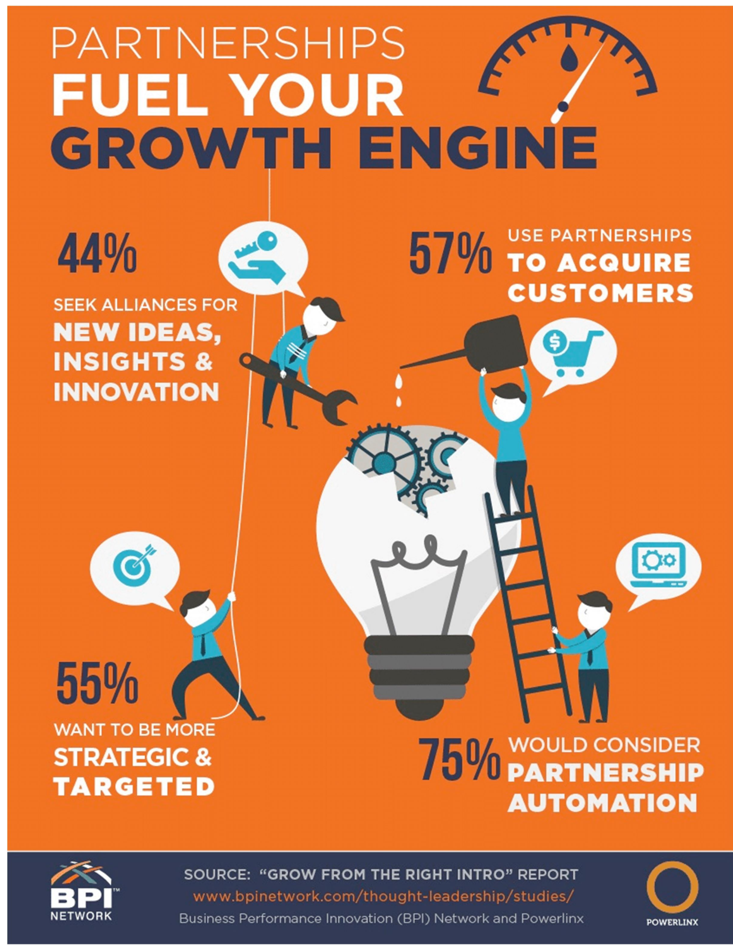

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Disadvantages of strategic alliances

On the surface, a strategic alliance looks like a great business strategy to scale quickly with minimal risk.

However, this isn't always the case. Strategic alliances come with their own set of challenges, which you should be aware of when considering this type of partnership:

Finding the right partner is crucial

Most of the work involved in setting up a strategic partnership is in engaging with the right partner. Take your time to choose a partner with the same values, vision, and most importantly, the commitment to making the best of the relationship.

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A lack of transparency will compromise the partnership

Strategic alliances require both parties to share certain amounts of information and resources. To do this, establishing a foundation of mutual trust and faith is essential.

Sometimes, a business may not represent itself accurately and deliberately hide or misrepresent aspects that could have considerable bearing on the partnership. Or a partner may start out with a high level of enthusiasm, but isn't able to maintain that level of dedication throughout the partnership.

In cases like these, the other partner may feel misled and no longer see value in the relationship.

You could end up with an increase in liability

Strategic alliances can increase the level of liability for all stakeholders. If one business mismanages its resources, lands in financial trouble, or fails to hold up their end of the bargain, its partner can also suffer as a result.

Even if a business experiences difficulty outside the parameters of the strategic alliance, if it affects the strategic alliance in any way, the partner may also be responsible for sharing the burden of any liability.

How do you create a strategic alliance?

Strategic alliances are a great way for businesses to pool resources together and experiment in new markets. If you've been thinking of entering into a strategic alliance, it's important to take the proper steps that will set you up for success.

Here are some general steps to guide you in setting up a successful strategic alliance from the get-go.

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How to form a strategic alliance?

Step 1: Assess the market and validate your idea

What do you want to offer to meet market needs? What do you need from a partner to provide this?

Step 2: Choose the right partner

Find a partner who aligns with your values and goals, and can help you achieve objectives you can't accomplish alone.

Step 3: Meet with the potential strategic partner

Connect and make sure you can both get value out of a future partnership. Propose grounds for the partnership and listen to each other's suggestions.

Step 4: Formalize the strategic alliance

If you've decided to move forward, establish the terms of the partnership in a written contract. Have both parties sign to make it official.

Step 1: Assess the market and validate your idea

Before even looking for a strategic partner, it’s important to do an initial assessment of the business environment, target market, and validate your idea.

Start by coming up with the best possible product or solution that can be provided, the best possible product or solution you can offer, and what you need to bridge any gaps between the two.

What you identify in the gap between both solutions (what can be provided and what you can offer) is essentially what your partner should be able to help you with.

Step 2: Choose the right partner

The next step is identifying the right strategic partner. For a successful partnership, you must both have synergy: you must be able to combine and leverage your and your partner’s strengths, resources and values to achieve goals you can’t accomplish on your own.
Here are some questions to ask to narrow down your best choices:

- What are the key traits you’re looking for in a partner?

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- What value do you expect from the potential partner? (The more you can quantify this, the better.)
- How much risk do you see coming from the potential partner?
- Do you share the same values, vision, and goals? Are your corporate/management structures compatible with each other?
- Does the partner have previous experience in partnerships? If so, have you reviewed their track record and performance?
- Have you thoroughly researched the potential partner's reputation, profitability, and expertise? (You can do this through referrals, your own due diligence, and advice from experts in the industry.)
- How long do you see the engagement lasting?
- Can the partner connect you to other potentially beneficial organizations in their network?

Step 3: Meet with the potential strategic partner

Once you've done the groundwork, and have a solid understanding of your partner's business model and how you can work together, it's time to connect.

In general, a kickoff meeting should cover:

- Your market assessment, validation process, and the results and insights
- A detailed roadmap and implementation model, based on your market validation
- Revenue/profit objectives, and specific strategies and resources needed to achieve them
- The strengths you bring to the partnership
- What will be expected from each partner throughout the relationship

After your presentation, leave the floor open for any feedback or suggestions from your potential partner. Be open to discussing other potential opportunities they may have in mind.

Based on the meeting, both businesses can assess if there's an opportunity to go forward and close the deal. Sometimes, this requires a little back-and-forth to iron out all the details based on feedback from both businesses.

Step 4: Formalize the strategic alliance

Once both parties are aligned and agree to move forward, it's time to formalize your strategic alliance. Draw up an agreement to should cover the following:

- A detailed roadmap and duration of the partnership

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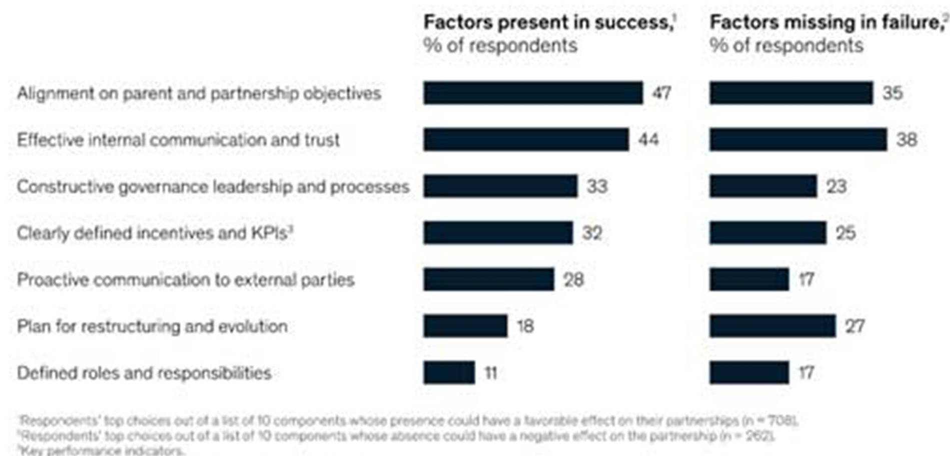
- Key points of contact from each party
- Expectations and resources required from either party (include any proprietary information, confidentiality clauses, or non-disclosure agreements)
- Metrics and accountability measures
- Management protocol and structure of the relationship
- Key milestones and meeting schedules
- Any cases in which the partnership can be ended
- Other rules of engagement (see below)

It's best to have all documents reviewed by your legal team and key stakeholders.

Bonus strategic alliance tips: Rules of engagement

Strategic alliances are all about creating a win-win relationship for both parties. You need to nurture the relationship, keep track of how it's doing, and adjust and realign when needed.

The chart below, based on a survey by McKinsey & Company, provides insight into the factors present in successful strategic alliances, as well as the factors missing in failed ones:



Source

From here, we drew some general rules of engagement to help you get the best out of your strategic alliance:

What is an outsourcing strategy?

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- If you're just stepping into the world of strategic partnerships, it makes sense to use a measured approach and start on a smaller scale first.
- Establish a strong foundation based on trust, transparency, and recognition of each partner's value. This should begin from the very beginning of engagement, even before formalizing the agreement.
- Establish shared metrics that will ensure both partners stay accountable. Also, establish the "who-will-do-whats" to ensure a strong governance structure at the helm.
- Engage regularly to keep the channels of communication open, and deal with challenges when they arise from a win-win perspective.
- The nature of the relationship can change over a period of time. It is good practice to plan for this and decide how you will handle the evolution. In fact, partners should meet regularly to decide if changes need to be made and how these will be managed.

Examples of strategic alliances

As we've seen, strategic alliances are formed to drive growth and profit for both companies. But the way these results are achieved depend on what each strategic partner brings to the table. Let's take a look at some high-level examples:

Example 1: Company A, a health care business, enters into a strategic alliance with company B, a research laboratory, to create a new commercially viable product. Through this partnership, Company A gains access to innovation, while Company B gains access to funding and a new market.
Example 2: Company X, a bookseller, enters into a strategic alliance with company Y, a musical records company. Both alliance partners gain access to each other's markets and are able to increase their product offerings in the process

Merger & Acquisition (M&A) Strategies
Merger and acquisition (M&A) strategies refer to companies' approaches and methods to combine with or acquire other businesses. M&A strategy can be used to achieve a range of objectives, including expanding market share, increasing profitability, diversifying product lines, entering new markets, and acquiring new technologies or expertise.
Types of Merger & Acquisition Strategies:

1. Vertical M&A Strategy

A vertical M&A strategy occurs when two or more businesses that operate within different stages of the supply chain come together to create an integrated good or service.
Example of a vertical M&A strategy: eBay acquiring PayPal — if you purchase something from eBay but pay via PayPal, you're technically experiencing the result of a vertical merger.
Benefits & Challenges of a Vertical M&A Strategy

Benefits:

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- Increased operational efficiency
- Lower operating costs
- Higher profits
- Better quality control

Challenges:

- Contrasting company cultures
- Potential to lose key team members as roles are combined
- Increased bureaucratic costs

Common benefits of vertical mergers include increased operational efficiency and lower operating costs, as these responsibilities are now shared by two entities rather than one. That means higher profits — but only if you're able to successfully navigate contrasting company cultures and increased bureaucratic costs.

Plus, there's also the potential to lose key team members, as now you have double the workforce under one roof.

2. Horizontal M&A Strategy

A horizontal M&A strategy can be defined as two businesses that operate in the same industry joining forces to eliminate competition.

Example of a horizontal M&A strategy: the integration of Disney and Pixar.

Benefits & Challenges of a Horizontal M&A Strategy

Benefits:

- Increased revenue
- Diversification of products and services
- Larger market reach
- Less competition

Challenges:

- Increased regulatory scrutiny
- Less business mobility
- Less control over decision making
- Providing less value to your customers compared to before

Aside from less competition, horizontal mergers often result in a spike in revenue due to the diversification of products and services and access to a new portion of the market.

Depending on who you choose to partner with, you may find yourself facing an increase in regulatory scrutiny, which leads to a reduction in business mobility and control over decision making.

Unfortunately, there's also the potential that your pre-merger products and services were more valuable to your customers than your new offerings – that's why conducting adequate testing and research before you go to market is so important.

3. Conglomerate M&A Strategy

A conglomerate M&A strategy involves merging two companies that have entirely separate business activities.

There are two forms: pure, in which each company continues to do business solely in their own market, and mixed, in which product and market extensions are conducted.

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Example of a conglomerate M&A strategy: Amazon's acquisition of Whole Foods.
Benefits & Challenges of a Conglomerate M&A Strategy
Benefits:

- Larger market share
- Business diversification
- Higher revenue

Challenges:

- Less efficiency
- Opposing workplace cultures
- A change in core business values, which can cause friction with customers and stakeholders

Benefits of conglomerate mergers include an increase in market share, business diversification, and a spike in revenue, as you are now able to cross sell your products and services.
However, you may also experience a reduction in efficiency and a clash of workplace culture. This type of merger can also cause you to shift away from your core business values, resulting in friction with your customers and stakeholders.

4. Market Extension M&A Strategy

Market extension M&A strategy is when two entities that produce the same type of product to different markets come together under one roof.
Example of a market extension M&A strategy: When the Royal Bank of Canada, RBC Centura, Inc., acquired American-based Eagle Bancshares, Inc., resulting in RBC gaining access to over $1.1 billion in assets.
Benefits & Challenges of a Market Extension M&A Strategy
Benefits:

- Larger client base
- Extended market reach, potentially international

Challenges:

- More business responsibility
- Higher capital requirements
- Potential for debt to accrue

A market extension merger provides access to a larger client base and an increase in market reach – potentially worldwide, in fact.
However, more growth results in more responsibility, as you now have to manager bigger capital requirements and the potential for debt to accrue – which you'll have to navigate even if it's not stemming from your end.
Example of a market extension: NetSuite's acquisition of Oracle.

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5. Product Extension M&A Strategy

A product extension M&A strategy involves two companies within the same market provide different types of products or services that are designed to be consumed together. This differs from market extensions in that instead of trying to reach new markets, you're looking to diversify your products and services.

Example of a product extension M&A strategy: Pepsi Co.'s acquisition of Pizza Hut.

Benefits & Challenges of a Product Extension M&A Strategy

Benefits:

- Extended customer base
- Shared resources
- Lower operational costs

Challenges:

- Market clutter or confusion
- Less efficiency for production and marketing

The main benefit is the creation of a singular "mega product" that grants access to an extended customer base.

In addition, since you're sharing resources and costs with another company, you'll often see a reduction in the money you spend on operational processes.

However, the downside is the potential to over-clutter the market and experience a decline in the efficiency of your production process.

What is a diversification strategy?

A diversification strategy is a technique you can use to expand a business. This strategy helps encourage company growth by adding new products and services to the company's offerings. With these new offerings, the company can pursue business opportunities outside of its regular practices and markets. Businesses often use a diversification strategy to establish themselves in new markets or to target a new demographic.

What are the types of diversification strategies?

Here are the four types of diversification strategies that a company may use based on its goals and resources:

Horizontal diversification

Horizontal diversification refers to the diversification practice a company uses when expanding existing products or services. A company may add new products that resemble or

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relate to current products while also adding expanded options for the customer. This can often mean simply adding more options and variety to an established product.

Vertical diversification

Vertical diversification, or vertical integration, refers to the diversification process that allows a company to expand into other areas of its manufacturing process. For example, a manufacturing company may expand to create one of the key parts or materials for its finished products. Like horizontal diversification, this practice allows a business to stay in the same market in which it has already established itself.

Conglomerate diversification

Conglomerate diversification allows a company to launch a service or product that's completely new to the company and has no relation to its current market. A company may often do this by acquiring a company in an unrelated market. This strategy can allow companies to expand across industries and appeal to a new consumer demographic.

Concentric diversification

Concentric diversification strategies utilize a company's existing resources to make a new, improved or updated product that relates to current products. This is often a cost-effective way to expand a business. It can help a company reach new customers while appealing to pre-established ones.

What are the benefits of using a diversification strategy?

Diversification strategies can help a company in a variety of ways, including:

Expands the target audience

Launching new products or services can help a company appeal to a new demographic of consumers. For example, if a hair salon that usually only cuts men's hair starts to serve all potential customers as well, it can greatly increase its revenue. By expanding existing services or products with new or updated options, companies can appeal to both new and current customers.

Minimizes risk

Expanding a business can help ensure the company has more than one means of earning revenue. This can help minimize financial risk if the core market a company caters to slows down or becomes irrelevant. For example, if a clothing company only sells clothes for cold weather and winter, it may not make as much money in the summer months. Using a

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diversification strategy to expand the type of clothing the company sells can ensure that it earns a profit throughout the seasons.

Maximizes profit

Diversification strategies can also help maximize a company's chance for profit. When a company sells more products and services, it often can have a higher earning potential than one that focuses on a single product or service. For example, an auto repair shop that only fixes tire-related issues may not have the potential to earn as much profit as a repair shop that can troubleshoot any issue with a vehicle.

Offers opportunity for growth

Diversification strategies can give companies an opportunity for growth. In ambitious uses of diversification marketing, a company can even expand to reach other industries. This allows companies to adjust their goals and focuses to evolve as their consumers and their employees do the same.

Strategies to Fit Industry Situation
Strategic Avenues for Competing in an Emerging Industry

1. Try to win the early race employing broad or focused differentiation strategy.
2. Push to perfect the technology, improve the product and quality.
3. Adopt dominant technology quickly.
4. Form strategic alliances with suppliers
5. Acquire or form alliances with companies that have related or complementary technological expertise.
6. Try to capture first mover advantages
7. Pursue new customer groups, new user applications and entry into new geographical areas.
8. Begin to shift advertising to increase the frequency of use and building brand loyalty.
9. Use price reductions to attract the next layer of price-sensitive buyers into the market.

Strategies for Competing in Turbulent, High-Velocity Markets

1. Invest aggressively in R&D
2. Develop quick response capability.
3. Develop tie-in.
4. Initiate fresh actions every few months - Create change proactively
5. Keep the company's products and services fresh.

Strategic Moves in Mature Industries

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1. Pruning marginal products and models.
2. More emphasis on value chain innovation
3. Trimming costs
4. Increasing sales to present customers
5. Acquiring rival firms at bargain prices
6. Expanding internationally
7. Building new or more flexible capabilities

Strategies for Firms in Stagnant or Declining Industries

1. Pursue fastest growing market segments in the industry.
2. Stress differentiation based on quality improvement and product innovation
3. Strive to drive cost down.

Strategies for Competing in Fragmented Industries

1. Constructing and operating formula facilities
2. Becoming a low cost operator
3. Specializing by product type
4. Specializing by customer type
5. Focusing on limited geographical area

Strategies to Fit Company Situation

Rapid Growth Company

These companies have to craft a portfolio of strategic initiatives covering three horizons.
Short-term horizon: Strategies typically include adding new items to the company's present product line, expanding into new geographic areas, and launching offensives to take market share away from competitors.

Medium-term horizon: Entering new businesses
Long-term horizon: Pumping funds into R&D to create new businesses

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Strategies for Industry Leaders

1. Stay-on-the-offensive strategy
2. Fortify and defend strategy
3. Muscle flexing strategy

Strategies for Runner-up Firms

1.Strategies to build market share
2.Acquisition opportunities
3.Vacant niches
4.Specialist firm strategy
5.Superior product strategy
6.Distinctive image strategy
7.Content follower strategy

Strategies for Weak and Crisis-Ridden Businesses

1.Selling off assets
2.Cutting costs
3.Liquidation

Building Resource Strengths and Organizational Capabilities -
Implementing and executing strategy involves technology organization, resource acquisition, people organization, staffing, management of people and business processes. The managerial emphasis is on converting strategic plans into actions and good results.

The starting point for managers to start in implementing and executing a new or different strategy is a list of activities which the organization has to do differently from now onwards to achieve the strategic goals in the time frame envisaged. Then, the necessary steps to make the internal changes have to be instituted as early as possible.

Thompson and Strickland described eight managerial tasks as cropping up repeatedly in company efforts to execute strategy:

1. Building an organization with the competencies, capabilities, and resource strengths to execute strategy successfully.
2. Marshaling people behind the drive for strategy execution.
3. Instituting policies and procedures that facilitate rather than impede strategy execution.
4. Adopting best practices and pushing for continuous improvement in both marketing and operations activities.
5. Installing information and operating systems that enable company personnel to carry out their strategic roles proficiently.
6. Tying rewards directly to the achievement of strategic and financial targets.
7. Shaping the work environment and corporate culture to fit the strategy.
8. Exercising management control to drive execution forward, keep improving on the details of execution, and achieve operating and marketing excellence as rapidly as feasible.

Building a Capable Organization
Building an organization capable of good strategy execution involves three dimensions:

(1) Acquiring adequate Resources and Staff: Appropriate infrastructure, adequate equipment and a talented, can-do team with the needed experience, technical skills, and intellectual capital;
(2) Building core competencies and competitive capabilities
(3)Structuring the organization and work effort - Organizing value chain activities and business processes and developing communication and authority delegation lines that complete the tasks assigned to them after required operational planning with effectiveness and efficiency.

Staffing the Organization
Assembling a capable senior management team is a cornerstone of the organisation - building task. The personal chemistry among the members of the team needs to be right, and the competencies of the need to be appropriate for the chosen strategy. People of the senior management team have to be persons who can be counted on to get things done. Sometimes the existing management team is suitable; at other times it may requires changes.

Building Core Competencies and Competitive Capabilities

Building core competencies and competitive capabilities is a time-consuming development activity that involves three stages:

(1) Developing the ability to do something as novice act as a team.
(2) Learning from the initial performances, and developing methods to perform the activity consistently well at marketable and profitable costs, setting the stage to transform the ability into a tried-and-true business getting competence or capability; and

(3) Continuing to polish and refine the organization's know-how and otherwise sharpen performance such that it becomes better than competitors at performing the activity, and make efforts to raise it to the core competence level (or capability) or to the rank of a distinctive competence (or competitively superior capability) thus opening an avenue to competitive advantage. Many companies manage to get through stages 1 and 2 but comparatively few achieve sufficient proficiency to qualify for the third stage. The idea of top three in any industry illustrates this idea of many not being able to develop that superiority in competitive scenario.

Four ideas regarding the process of developing core competencies or capabilities

1. Core competencies grow out of combined efforts of many in the department. Core capabilities grow out of the combined efforts of cross-functional work groups.

2. A core competence and capability emerges incrementally out of company efforts to strengthen skills that contributed to successful customer related outcomes.

3. Only by concentrating more effort and talent than rivals in deepening the knowledge and skills that a company develops core competence and capability.

4. Evolving changes in customer needs and competitor successes demand changes in competencies and the organization has to recognize the change in the environment and determine the new competencies required and start taking steps to put into motion the three steps - Do as novice - Make it market acceptable - Develop it into competency and then into core competency.

Competitive Advantage
While competitors can readily duplicate some strategy features, core competencies and capabilities are very difficult or costly for imitations and they give durable competitive edge. They become difficult to imitate when they are based on research and development inside an organization.

Developing Organization Structure Matched to Strategy

Outsourcing of Value Chain Activities

Partnering for Value Chain Activities

Pure functional departments are impeding strategy execution.

Determining the Degree of Authority and Independence to Give Each Unit and Each Employee

Contingency theory of management is applicable here.

Providing for Internal Cross-Unit Coordination

Supply Chain Development based Partnership Model

Organizational Structures of the Future

Five new ideas are being emphasized in organization:

1. Empowered managers and workers.
2. Reengineering of work processes.
3. Self directed work teams
4. Rapid incorporation of internet.
5. Networking with outsiders to improve existing organization capabilities.

Resources, Competencies and Capabilities

Competence

Competence is the quality or state of being functionally adequate or having sufficient knowledge, strength and skill. Competence is another word for an individual's knowhow or skill. When we are asking whether we have the right competencies aren't we really asking, "Who knows how?" and "How well do they know?" Booz, Allen and Hamilton (one of the first management consulting firms) used competence as an essential principle when they recognized that management and leadership are all about getting the right people in the right place at the right time.

Capability

Capability is a collaborative process that can be deployed and through which individual competences can be applied and exploited. The relevant question for capability is not "who knows how?" but "How can we get done what we need to get done?" and "How easily is it to access, deploy or apply the competencies we need?"

Capacity

Capacity is really about "amount" or "volume." of competencies or capabilities. The relevant question related to capacity is "Do we have enough?" and the related question, "How much is needed?" Framework defines projects as those activities put in place alongside regular operations to achieve specific goals. Everything a business does, whether it is developing new products, services, channels, and markets, comes from project-based work. Grouped together, closely related projects are called a program. In turn, the overall set of programs is your company's portfolio, the strategies in which your company is choosing to invest. Successful strategic execution requires tightly aligning the project portfolio to the corporate strategy.

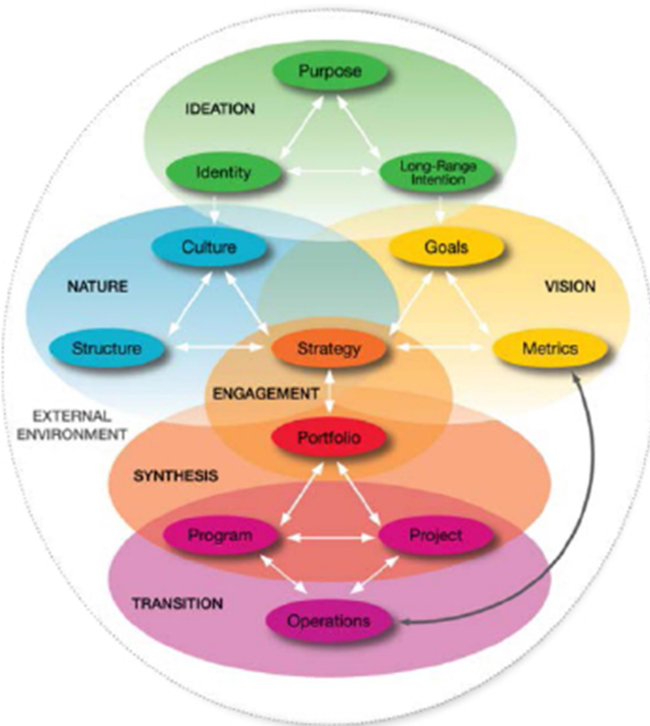


Exhibit 1 –Strategic Execution Framework (SEF).

Reaching a point of alignment and maximizing project performance is critical to successfully executing the strategies your company has identified to deliver on key initiatives. Even if you have invested in training to ensure managers have the skills to balance scope, time, cost, quality and risk, why do barriers to successful execution still exist? The missing link lies in a bigger picture that examines project-based work within the context of the overall business.

Linking strategy to execution through innovative techniques, the Strategic Execution Framework helps organizations ensure they stay focused on the initiatives essential to accelerating innovation, increasing performance, managing change, as well as scaling the business. When applied correctly, it creates an environment that transforms the way organizations think, lead, and execute. In turn, it drives increased revenues, profitability, and market share.

The Strategic Execution Framework

The framework consists of six domains easily remembered by the mnemonic: **INVEST.** It assists companies in retooling their approach so that they select the most advantageous strategic projects and execute them effectively.

The domains include:

Ideation: Where passion and drive originate, Ideation is your company's understanding of what it is and how it appears in the world, expressed through its purpose, identity, and long-range intention.

Nature: Creating the conditions for strategic execution, Nature embodies the culture and structure; in other words, the environment and context within which you operate.

Vision: The ultimate destination and route, Vision includes the goals, metrics, and strategy that form the foundation for your business.

Engagement: Connecting strategy to project portfolio investments, Engagement is a clear demonstration that your company is funding the right projects that will further the strategy.

Synthesis: Carrying out projects mapped to priorities, Synthesis is where Engagement meets execution, ensuring you're successfully executing projects and programs in alignment with the portfolio.

Transition: Turning outputs into operations, Transition is the ultimate measure of success, where you move the results of project-based work into the mainstream of your company's operations.

Ideation: The Origin for Passion and Drive

Ideation is based on the concept of three fundamental life questions:

- Who are you?
- Why are you here?
- Where are you going?

Corporate life is no exception. The way in which a company answers these questions about identity, purpose, and long-range intention creates central organizing principles that are critical to driving cohesive and consistent action.

Building Strong Ideation

Ideation consists of three components: identity, purpose, and long-range intention.

Identity is the character, image, brand, and values of a company. It is what sets the company apart from the rest and determines its ability to compete. **Purpose** is the fundamental reason the company exists at all. It gives people a compelling reason to come to work every day and to commit to the success of the business. **Long-range intention** defines the company's long-term commitment. The seed of the desired future strategy, it is the first step in identifying strategic goals and the project investments that will be necessary to realizing them.

The ability of employees to adapt to change is also influenced by the strength of your company's Ideation. Mergers and acquisitions, strategic partnerships, or a significant shift in the competitive landscape can challenge a company's Ideation. As your company and the market evolve, ask yourself: Is our Ideation still relevant? Does it need to be clarified? Is it being communicated effectively? Maintaining and communicating a strong Ideation can be a lighthouse for employees in times of change.

Bottom Line: Strong versus Weak Ideation

Companies with strong ideation become "iconic." They're admired not only for their innovative products, ultimate user experience or customer-focused services, but also for who

they are. Organizations with weak Ideation send an uncompelling or confusing message to the market that impedes their performance.

Ideation is seminal to the ability to identify and align strategies with ultimate objectives. One of the most valuable assets an organization can build, Ideation links strongly to two related domains—Vision and Nature. Long-range intention drives the Vision, while purpose and identity have an overwhelmingly strong impact on the components of the next domain we'll examine: Nature.

Nature: Developing the Framework for Strategic Execution

The Nature domain focuses on an organization's internal environment, linking culture, structure, and strategy. Nature requires that culture and structure be aligned with a company's purpose and identity and support a viable strategy to move the company forward. Any kind of misalignment can create conditions that stymie effective and timely execution.

Getting Back to Nature

Nature is made up of three parts: culture, structure, and strategy.

Culture is comprised of the artifacts, core values, and behavior of the organization. It's how a company gets stuff done. **Structure** is the way in which an organization designs relationships between areas or functions and can be defined anywhere along the spectrum from a strong matrix structure to a weak matrix, or siloed, structure. **Strategy** is the roadmap for an organization to achieve its purpose and goals. The optimal route depends on the company's approach and how it is organized.

Bottom Line: Aligned versus Misaligned Nature

Your company's ability to align these three components is critical. Leaders need to continuously look for misalignment in their environment and quickly identify what they can do to support their team and enable strategic execution, either through aligning with the organization at large or creating their own eco-system if needed. With strong alignment employees enjoy a constructive work environment that lets them get projects done with minimal roadblocks. In a misaligned environment, they spend more time and energy working against the natural order of things rather than helping move the company forward.

Creating a more aligned environment is important, but some components are more difficult to shift than others. Culture can be the most difficult and slowest to change, but must be addressed if it is misaligned with your company's purpose and identity. A change in leadership or a significant shift in the marketplace can create this misalignment. In turn, structure must reflect your company's culture and identity. If it doesn't and a wholesale change across the organization isn't feasible, then incremental modifications, such as building cross-functional coalitions to overcome functional silos, can achieve the needed alignment.

Vision: Reaching the Finish Line through Measureable Results

In the Vision domain, a company's long-range intention becomes reality by translating it into near-term strategy with specific goals and metrics. While Vision is a familiar concept to most organizations, many can stumble in this domain because they fail to recognize the importance of discipline, communication, and agility in defining and executing their Vision.

Turning Vision into Reality

Vision has three components: Goals, metrics, and strategy.

Goals determine articulated, desired results. Without the discipline to choose goals that are tied to metrics and supported by strategy, goals are simply empty promises. **Metrics** are the measuring stick to evaluate progress toward those goals. Identifying the right metrics requires understanding which behaviors to reinforce to drive performance. **Strategy** is an organization's roadmap to achieving its purpose and goals. The optimal path is strongly influenced by a company's structure and culture, which are part of the Nature domain.

In Executing Your Strategy, Morgan, Levitt, and Malek state, "Organizations must set clear, well-communicated goals and then choose the best way to apply available resources to reaching those goals. Setting goals, setting standards for meeting them (metrics), and devising ways to get to the goals (strategy) are all part of the creative process. Approaching these decisions effectively requires forward-looking, positive, active choice."

With the right goals, metrics, and strategy you have a solid foundation for success in the Vision domain. It is essential, however, that these components be widely articulated throughout the organization and be clearly defined in meaningful terms for various levels and functional areas to work cohesively. Continuous review and realignment with dynamic, external environmental factors, such as new regulations or changes in the competitive landscape, ensure your Vision remains relevant.

Bottom Line: Creating Clarity versus Confusion

High-performing organizations understand that to realize their Vision they need to focus on the future with creative and integrative thinking. They motivate employees with clear goals for which they are accountable with specific metrics. By identifying specific metrics around product functionality, quality assurance, sales and customer usage, you align various departments with this common goal. This positive pattern is repeatable and helps move the company forward in lockstep with its long-range intention or what it wants to be.

In contrast, many companies have trouble charting the path between where they are and where they want to be. Vision can't be defined in a vacuum, but must be considered within the context of the company's environment and long-range intention. Failure to recognize and address this misalignment can result in competing goals and metrics that work against each other, confusing customers and employees. For a company that wants customers to view it as a provider of comprehensive technology solutions, establishing some higher-level shared goals and metrics creates better alignment and a clear path that everyone can follow.

In the Strategic Execution Framework, the Vision domain focuses on reaching your company's ultimate destination, charting the course with clarity and accountability. Heavily influenced by Ideation and Nature, Vision makes these strategic domains more real with tangible goals and metrics.

Engagement: Connecting Strategy to Project Portfolio Investments

The Engagement domain is central to strategic execution. It's where strategy turns into action by engaging in a portfolio of project-based work that will move the business forward. The

ability to choose and fund the right projects and programs is based on clarity around goals, metrics, and strategy.

Bringing the Components of Engagement into Alignment

Engagement consists of two components: strategy and the portfolio.

Strategy is the organization's roadmap to achieving its purpose and goals. The optimal route depends on how the company is organized and how it gets things done. The **Portfolio** is the set of projects and programs a company plans to execute, reconciled with the resources required to accomplish them.

Engagement drives innovation by enabling the organization to prioritize innovation projects and allocate the necessary resources. It optimizes performance by focusing time, energy, and attention on projects that directly link to the strategy and desired outcomes. Engagement also has a direct impact on growth and scalability.

Bottom Line: Identifying What to Do and What NOT to Do

All organizations have limited resources. The key is to direct those resources for maximum advantage. Companies that excel have done the groundwork to design the right strategy for their organization, as well as the hard work to focus their investments on a portfolio of projects and programs that will bring that strategy to life. Organizations that fail to face the harsh reality of scarce resources can get caught in that all too familiar trap of trying to be all things to all people and being mediocre at best.

Synthesis: Executing Priority-Focused Project-Based Work

The Synthesis domain is where plans turn into reality — where companies ensure their planned portfolio of project-based work maps to the actual projects and programs that are being executed. It is the true test of an organization's commitment to its strategy and ability to execute against it. Any gap between planned and actual reflects a lack of consistency and threatens an organization's ability to achieve its goals.

Bringing the Components of Synthesis into Alignment

Synthesis consists of three components: the portfolio, programs, and projects.

The **Portfolio** is the set of projects and programs a company plans to execute, reconciled with the resources required to accomplish them. **Programs** are multiple, interdependent projects managed as a single unit. **Projects** are unique, temporary efforts defined by deliverables, schedule, and resources.

Success depends on:

- 1. Coherent and transparent translation of strategy into executable work
- 2. Consistency across planned and actual work driven by a common language and process methodology agreed upon at a high level
- 3. Active executive sponsorship to help overcome obstacles and ensure investment in the right opportunities so that day-to-day project and program leaders have the support they need to maintain smooth operations

The ability to bridge discipline with agility is critical. Managers and sponsors must be able to lead in a fluid environment. Processes must adapt to remain relevant in light of changing business conditions. The planned portfolio itself must evolve transparently to support shifts in strategy. And, ultimately, programs and projects must change to reflect a new reality.

Synthesis is where planning meets execution. It drives innovation by enabling the organization to invest in and act on innovation projects and overcome obstacles that may get in the way, optimizing performance by defining and managing the scope, deliverables, schedules, and resources of individual projects. Synthesis is also linked to growth and scalability; when project-based work is aligned with strategic objectives, program and project leaders have a direct impact on the company's growth.

Bottom Line: Planning and Executing with Purpose

Companies that excel at Synthesis are disciplined yet nimble, focused yet aware. They continuously monitor and align project-based work with external indicators of strategic relevance as well as internally to make sure that the portfolio of projects and programs is being executed correctly. Having a well-defined, coordinated and transparent process to initiate new projects as strategic opportunities emerge, inject extra resources into critical but lagging projects and cancel ongoing projects that are no longer relevant are all signs that your organization has successfully synthesized planning and execution.

Organizations that don't continuously monitor and align projects with internal and external factors threaten their own success.

In the Strategic Execution Framework, the Synthesis domain is where companies map project and program execution to priorities. When the actual work being done is aligned with the planned portfolio, you're well on your way to successful strategic execution.

Transition: Turning Outputs into Operations

The Transition domain is the ultimate measure of success — moving the results of project-based work into the mainstream of operations. It is where an organization delivers on its goals or not, completing the cycle from strategy through execution.

Aligning the Components of Transition

Transition consists of three components: projects, programs, and operations.

Projects are unique, temporary efforts defined by deliverables, schedule, and resources. **Programs** are multiple, interdependent projects managed as a single unit. **Operations** are the ongoing processes of the enterprise that deliver value to the customer.

Alignment in the Transition domain is defined by how well an organization hands off its programs and projects to operations. A KPMG report on risk management for the project life cycle concurs stating, "The biggest challenges faced by organizations in maximizing the value of their projects are often derived from poor execution of change management plans during transition to business as usual state."

Success hinges on managing two critical factors:

- 1. **Organizational implications:** By its very Nature, project-based work creates change and with change can come challenges. Project leaders and operations leaders must collaborate to minimize any disruptions that transition can create. To realize the full benefits of any project, smooth, thoughtful, and coordinated transfer of the work output to the end users or customers is essential. This requires engaging operations early and often to gain their input and support throughout the process of planning and executing the project even if they aren't directly responsible for the project output until after the hand off.
- 2. **Metrics consistency:** The metrics established at the outset, when the organization defines its goals and strategy in the Vision domain, must map to the metrics used in actual practice when the project is operationalized. Conflicting or unclear metrics hamper performance and ultimate success. Collaboration between project and operations leaders is also important here to help ensure desired outcomes.

Transition is where project outputs are implemented, enabling companies to reap the strategic benefits that projects and programs were designed to achieve and, ultimately, realize key business initiatives including innovation, performance, and scalability. Transition makes innovation a reality by delivering innovation projects into the mainstream. It optimizes performance with a feedback loop that aligns goals and metrics from strategy creation to strategy execution. Enabling companies to bring process improvements and breakthroughs to fruition, transition is essential to reaching growth and scalability goals.

Bottom Line: Declaring Project Success

Whether a project involves adopting a new operational system or launching a new product or service, companies that excel at transition engage in collaboration from the start. They implement organization-wide processes for continually collecting and sharing lessons learned throughout the life cycle of the project-based work — not just at the end — and adjust the work as needed. Successful transitions include having the right tools and processes in place to ensure the entire company is aware of the new product, the logistics are in place to get the product to market, and the marketing program is timed to make prospects aware of the product as it comes to market. By addressing pivotal processes in advance, you ensure that a new product project successfully transitions to a newly available product in the marketplace.

In the Strategic Execution Framework the Transition domain is where companies operationalize projects and programs. With an approach to anticipate and close gaps encountered during the transfer of project-based work to operations, you can safely — and proudly — claim strategic execution success.

Encouraging Transformation

The Strategic Execution Framework goes beyond a typical checklist to address a more holistic and, therefore, more effective approach to moving the business forward with an eye on the big picture.

Each of the domains presents opportunities for improvement. The framework helps you identify disconnects and barriers to successful strategic execution and can be adapted depending on your company's strengths and weaknesses. Some companies know exactly who they are and what they want to be, but they might not have the structure to support it. Others may tend to focus on the tactical and veer away from the portfolio to engage in fire-fighting

projects. And still others may have particular difficulty making the final step to embracing and institutionalizing the results of the project.

What Is Strategy Execution?

Strategy execution is the process of making a company's strategic plan happen. This helps the company achieve what it wants to do. It means making sure everyone and everything works together to turn a company's vision and **strategic objectives** into reality.

Strategy Execution

6 Steps To Successful Strategy Execution

What Is Strategy Execution?

Strategy execution is the process of making a company's strategic plan happen. This helps the company achieve what it wants to do. It means making sure everyone and everything works together to turn a company's vision and **strategic objectives** into reality.

This guide will show you the key steps to follow when you develop a successful strategy **execution plan**. At a high level, the execution journey encompasses the following:

6-Step Strategy Execution Framework diagram

You'll notice two key things about this strategy execution diagram:

It's circular

Strategy isn't a process. It's a way of running your organization. It never ends and is **100% iterative**.

It's holistic

Few organizations have tangible connections between their strategic plan and their processes for **reporting**, performance management, and rewarding employees. All your business processes need to work in harmony and be coherent if you're to be truly successful.

So, how do you successfully execute a strategy? Let's break down the individual phases of this diagram so you understand how to develop a business strategy execution plan:

6-Step Strategy Execution Framework

1. Strategic planning

Effective planning is crucial to the success of any strategy, as haphazard plans often lead to failure. Data suggests that as much as **83% of strategies fail** due to faulty assumptions in the strategy formulation process.

To successfully execute a strategy, the **planning process** is the first and most important step. We've written extensively about how to **write good strategic plans**.

2. Communication

Two-way communication is crucial, with guidelines and policies flowing from the top while feedback and ideas come from the bottom. To achieve this, it's important to improve **internal communication processes** and establish mechanisms for feedback and input.

Here are some ways to facilitate this constructive communication:

- Hold regular team meetings to discuss progress and align goals with the strategic plan.
- **Develop organizational transparency** by sharing information with employees.
- Foster an open and **collaborative culture** where feedback is encouraged.
- Create regular formal and informal surveys and questionnaires to gather insights

3. Goal setting and alignment

To achieve this, it's important to link every activity of your team to the strategic plan. It seems obvious, but many organizations create a plan, communicate it, and expect the rest to happen by magic. By ensuring that everyone in the team has ownership of their goals, you're moving the plan towards fruition.

Goal management becomes the bedrock for your ongoing tracking, reporting, and performance management. Each of these is a key element in a successful strategy execution.

4. Tracking and reporting

Tracking and reporting on strategic goals is crucial to establishing **strategic control** and driving progress, but it's easier said than done.

There are two key components to effective tracking and reporting.

Firstly, you need to ensure that everyone in your organization is regularly updating the progress on their own individual goals. This doesn't have to be arduous or time-consuming—a few minutes per month is usually enough. For example, in **Cascade**, you can set a cadence for people to update their goals before the review meeting. This helps you ensure that progress is consistently monitored and reported throughout the execution phase.

Secondly, updates should include a quantitative measure of progress against the goal (**KPIs**), as well as a short comment for context. Within Cascade, each team member can post progress updates and add comments in a text or video format so everyone involved understands the context

5. Performance management

According to Gartner, **58% of businesses** believe their performance management systems are not sufficient in monitoring the success of their strategies. When it comes to performance management, the majority of strategy implementation approaches start to unravel.

Here's how a performance management process can help you execute your plan:

- *Individual goals and KPIs relate directly to the organization's strategic plan*
- *It helps you review and reward people for their contributions to the overall strategy*
- *The system is simple to use and as close to "fun" as possible*
- *It's social, transparent, fair, and well understood*

6. Rewarding

The natural conclusion of performance management is rewarding employees.

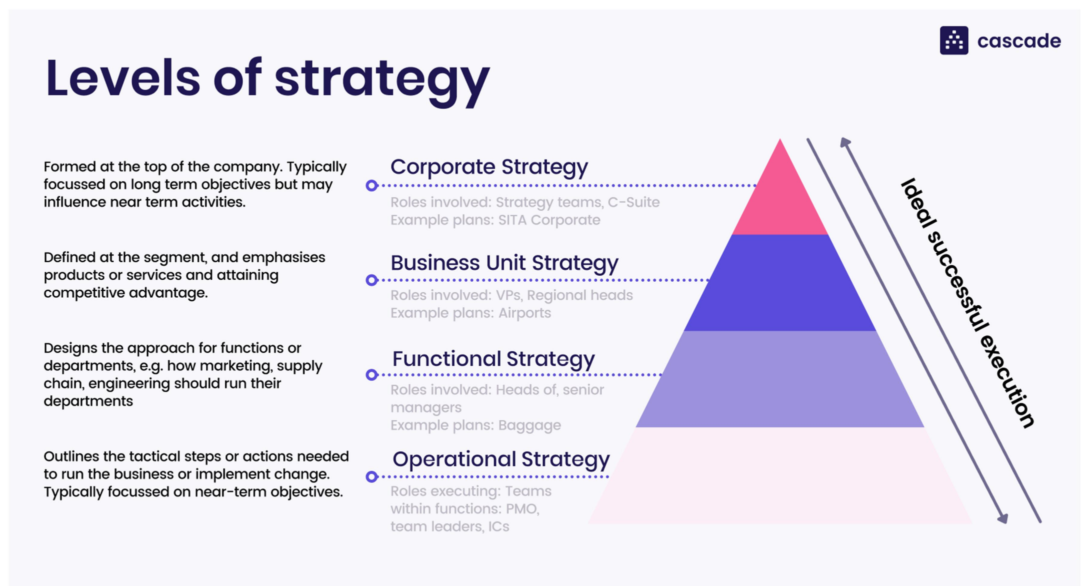
You've put so much effort into planning, communicating, and **goal-setting**—but don't forget that the one thing that, ultimately, we all (almost all) work for is money.

Strategy Execution Best Practices

1. Form a strategy execution team

2. Ensure organization-wide strategic alignment

In the realm of strategy, aligning corporate, business, functional, and operational levels is indispensable.



- **Corporate strategy** sets the vision. Ensure business-level strategies within units align directly, creating a clear link from corporate vision to daily operations.
- **Business strategies** refine the overarching vision. Alignment is key, ensuring actions in business units contribute directly to corporate objectives and maintain organizational focus.
- **Functional strategies** within business units, whether in marketing or finance, must align with business-level themes. Each function should enhance the overall corporate strategy, ensuring a unified approach.
- **Operational strategies**, the backbone of daily activities, must align with overarching goals, ensuring effective execution within business units.

3. Make adjustments when necessary
Don't be afraid to change. The business environment is constantly evolving, so what worked before may not work now. **Regularly reviewing** and adjusting the strategy ensures you remain aligned with the company's goals and current market conditions. This is the only way to ensure you are going in the right direction and not wasting resources on dead-end strategies.
4. Use strategy execution software
Many companies still rely on spreadsheets and multiple disconnected tools to monitor their strategy execution. Unfortunately, this approach can lead to more problems than solutions.

Understanding Organizational Structures

Organizational structure aligns and relates parts of an organization, so it can achieve its maximum performance. The structure chosen affects an organization's success in carrying out its strategy and objectives. Leadership should understand the characteristics, benefits and limitations of various organizational structures to assist in this strategic alignment.

THE IMPORTANCE OF ALIGNING THE STRUCTURE WITH THE BUSINESS STRATEGY

The key to profitable performance is the extent to which four business elements are aligned:

Leadership. The individuals responsible for developing and deploying the strategy and monitoring results.

Organization. The structure, processes and operations by which the strategy is deployed.

Jobs. The necessary roles and responsibilities.

People. The experience, skills and competencies needed to execute the strategy.

An understanding of the interdependencies of these business elements and the need for them to adapt to change quickly and strategically are essential for success in the high-performance organization. When these four elements are in sync, outstanding performance is more likely.

Achieving alignment and sustaining organizational capacity requires time and critical thinking. Organizations must identify outcomes the new structure or process is intended to produce. This typically requires recalibrating the following:

- Which work is mission-critical, can be scaled back or should be eliminated.
- Existing role requirements, while identifying necessary new or modified roles.
- Key metrics and accountabilities.
- Critical information flows.
- Decision-making authority by organization level.

See Meeting the Challenges of Developing Collaborative Teams for Future Success.

Key Elements of Organizational Structures

Five elements create an organizational structure: job design, departmentation, delegation, span of control and chain of command. These elements comprise an organizational chart and create the organizational structure itself. "Departmentation" refers to the way an organization structures its jobs to coordinate work. "Span of control" means the number of individuals who report to a manager. "Chain of command" refers to a line of authority.

The company's strategy of managerial centralization or decentralization also influences organizational structures. "Centralization," the degree to which decision-making authority is restricted to higher levels of management, typically leads to a pyramid structure. Centralization is generally recommended when conflicting goals and strategies among operating units create a need for a uniform policy. "Decentralization," the degree to which lower levels of the hierarchy have decision-making authority, typically leads to a leaner, flatter organization. Decentralization is recommended when conflicting strategies, uncertainty or complexity require local adaptability and decision-making.

Types of Organizational Structures

Organizational structures have evolved from rigid, vertically integrated, hierarchical, autocratic structures to relatively boundary-less, empowered, networked organizations designed to respond quickly to customer needs with customized products and services.

Today, organizations are usually structured vertically, vertically and horizontally, or with open boundaries. Specific types of structures within each of these categories are the following:

- Vertical—functional and divisional.
- Vertical and horizontal—matrix.
- Boundary-less (also referred to as "open boundary")—modular, virtual and cellular.

See What are commonly-used organization structures?

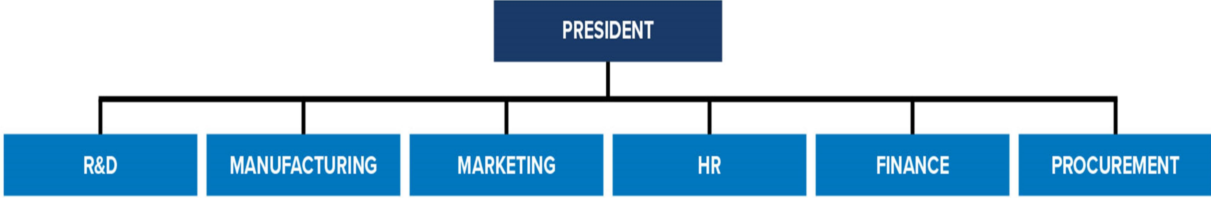
VERTICAL STRUCTURES (FUNCTIONAL AND DIVISIONAL)

Two main types of vertical structure exist, functional and divisional. The functional structure divides work and employees by specialization. It is a hierarchical, usually vertically integrated, structure. It emphasizes standardization in organization and processes for specialized employees in relatively narrow jobs.

This traditional type of organization forms departments such as production, sales, research and development, accounting, HR, and marketing. Each department has a separate function and specializes in that area. For example, all HR professionals are part of the same function and report to a senior leader of HR. The same reporting process would be true for other functions, such as finance or operations.

In functional structures, employees report directly to managers within their functional areas who in turn report to a chief officer of the organization. Management from above must centrally coordinate the specialized departments.

A functional organizational chart might look something like this:



Advantages of a functional structure include the following:

- The organization develops experts in its respective areas.
- Individuals perform only tasks in which they are most proficient.
- This form is logical and easy to understand.

Disadvantages center on coordination or lack thereof:

- People are in specialized "silos" and often fail to coordinate or communicate with other departments.
- Cross-functional activity is more difficult to promote.
- The structure tends to be resistant to change.

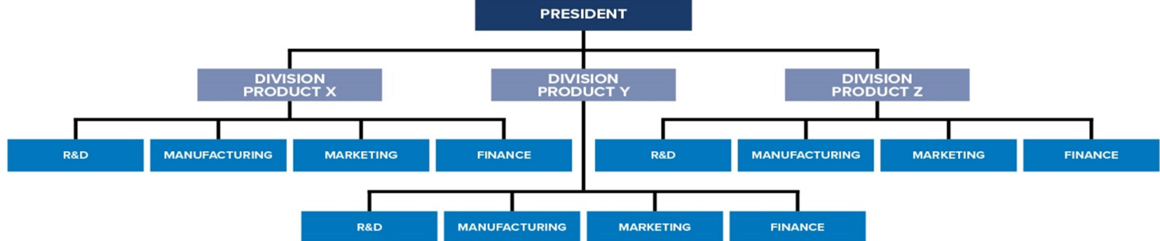
This structure works best for organizations that remain centralized (i.e., a majority of the decision-making occurs at higher levels of the organization) because there are few shared concerns or objectives between functional areas (e.g., marketing, production, purchasing, IT). Given the centralized decision-making, the organization can take advantage of economies of scale in that there are likely centralized purchasing functions.

An appropriate management system to coordinate the departments is essential. The management system may be a special leader, like a vice president, a computer system or some other format.

Also a vertical arrangement, a divisional structure most often divides work and employees by output, although a divisional structure could be divided by another variable such as market or region. For example, a business that sells men's, women's and children's clothing through retail, e-commerce and catalog sales in the Northeast, Southeast and Southwest could be using a divisional structure in one of three ways:

- Product—men's wear, women's wear and children's clothing.
- Market—retail store, e-commerce and catalog.
- Region—Northeast, Southeast and Southwest.

A divisional organizational structure might look like this:



The advantages of this type of structure are the following:

- It provides more focus and flexibility on each division's core competency.
- It allows the divisions to focus on producing specialized products while also using knowledge gained from related divisions.
- It allows for more coordination than the functional structure.
- Decision-making authority pushed to lower levels of the organization enables faster, customized decisions.

The disadvantages of this structure include the following:

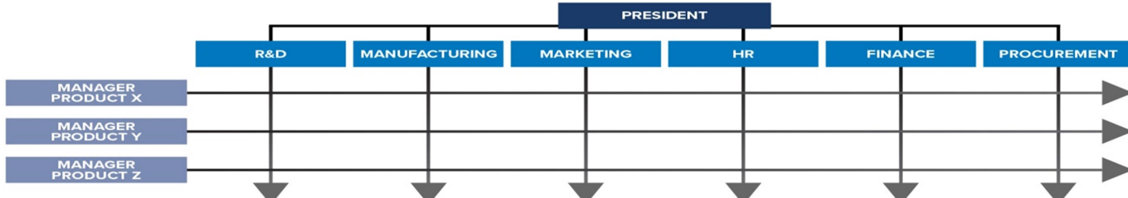
- It can result in a loss of efficiency and a duplication of effort because each division needs to acquire the same resources.
- Each division often has its own research and development, marketing, and other units that could otherwise be helping each other.
- Employees with similar technical career paths have less interaction.
- Divisions may be competing for the same customers.
- Each division often buys similar supplies in smaller quantities and may pay more per item.

This type of structure is helpful when the product base expands in quantity or complexity. But when competition among divisions becomes significant, the organization is not adapting quickly enough, or when economies of scale are lacking, the organization may require a more sophisticated matrix structure.

MATRIX ORGANIZATIONAL STRUCTURES

A matrix structure combines the functional and divisional structures to create a dual-command situation. In a matrix structure, an employee reports to two managers who are jointly responsible for the employee's performance. Typically, one manager works in an administrative function, such as finance, HR, information technology, sales or marketing, and the other works in a business unit related to a product, service, customer or geography.

A typical matrix organizational structure might look like this:



Advantages of the matrix structure include the following:

- It creates a functional and divisional partnership and focuses on the work more than on the people.
- It minimizes costs by sharing key people.
- It creates a better balance between time of completion and cost.
- It provides a better overview of a product that is manufactured in several areas or sold by various subsidiaries in different markets.

Disadvantages of matrix organizations include the following:

- Responsibilities may be unclear, thus complicating governance and control.
- Reporting to more than one manager at a time can be confusing for the employee and supervisors.
- The dual chain of command requires cooperation between two direct supervisors to determine an employee's work priorities, work assignments and performance standards.
- When the function leader and the product leader make conflicting demands on the employee, the employee's stress level increases, and performance may decrease.
- Employees spend more time in meetings and coordinating with other employees.

These disadvantages can be exacerbated if the matrix goes beyond two-dimensional (e.g., employees report to two managers) to multidimensional (e.g., employees report to three or more managers).

Matrix structures are common in heavily project-driven organizations, such as construction companies. These structures have grown out of project structures in which employees from different functions formed teams until completing a project, and then reverted to their own functions. In a matrix organization, each project manager reports directly to the vice president and the general manager. Each project is, in essence, a mini profit center, and therefore, general managers usually make business decisions.

The matrix-structured organization also provides greater visibility, stronger governance and more control in large, complex companies. It is also well suited for development of business areas and coordination of complex processes with strong dependencies.

Matrix structures pose difficult challenges for professionals charged with ensuring equity and fairness across the organization. Managers working in matrix structures should be prepared to

intervene via communication and training if the structure compromises these objectives. Furthermore, leadership should monitor relationships between managers who share direct reports. These relationships between an employee's managers are crucial to the success of a matrix structure.

OPEN BOUNDARY STRUCTURES (HOLLOW, MODULAR VIRTUAL AND LEARNING)

More recent trends in structural forms remove the traditional boundaries of an organization. Typical internal and external barriers and organizational boxes are eliminated, and all organizational units are effectively and flexibly connected. Teams replace departments, and the organization and suppliers work as closely together as parts of one company. The hierarchy is flat; status and rank are minimal. Everyone—including top management, managers and employees—participates in the decision-making process. The use of 360-degree feedback performance appraisals is common as well.

Advantages of boundary-less organizations include the following:

- Ability to leverage all employees' talents.
- Faster response to market changes.
- Enhanced cooperation and information sharing among functions, divisions and staff.

Disadvantages include the following:

- Difficulty in overcoming silos inside the organization.
- Lack of strong leadership and common vision.
- Time-consuming processes.
- The possibility of employees being adversely affected by efficiency efforts.
- The possibility of organizations abandoning change if restructuring does not improve effectiveness quickly.

Boundary-less organizational structures can be created in varied forms, including hollow, modular and virtual organizations.

Hollow organizations. Hollow structures divide work and employees by core and noncore competencies. Hollow structures are an outsourcing model in which the organization maintains its core processes internally but outsources noncore processes. Hollow structures are most effective when the industry is price competitive and choices for outsourcing exist. An example of a hollow structure is a sports organization that has its HR functions (e.g., payroll and benefits) handled by outside organizations.

Advantages of this type of structure include the following:

- Minimizing overhead.
- Enabling the organization to focus on its core product and eliminating the need to develop expertise in noncore functions.

Disadvantages include:

- Loss of control over functions that affect employees regularly.
- Restriction by certain industries (e.g., health care) on the extent of outsourcing.
- Lack of competitive outsourcing options.

Modular organizations. Modular structures differ from hollow organizations in that components of a product are outsourced. Modular structures may keep a core part of the product in-house and outsource noncore portions of the product. Networks are added or subtracted as needs change. For a modular structure to be an option, the product must be able to be broken into chunks. For example, computer manufacturer Dell buys parts from various suppliers and assembles them at one central location. Suppliers at one end and customers at the other become part of the organization; the organization shares information and innovations with all. Customization of products and services results from flexibility, creativity, teamwork and responsiveness. Business decisions are made at corporate, divisional, project and individual team member levels.

Advantages include the following:

- Minimizing the specialization and specialists needed.
- Minimizing overhead.
- Enabling the company to outsource parts supply and coordinate the assembly of quality products.

Disadvantages include concerns about the actions of suppliers outside the control of the core management company. Risk occurs if the partner organization removes itself form the quality check on the end product or if the outsourced organization uses a second outsourced organization. Examples of supplier concerns include the following:

- Suppliers, or subcontractors, must have access to—and safeguard—most, if not all, of the core company's data and trade secrets.
- Suppliers could suddenly raise prices on or cease production of key parts.
- Knowing where one organization ends and another begins may become difficult.

Virtual organizations. A virtual organization (sometimes called a network structure) is cooperation among companies, institutions or individuals delivering a product or service under a common business understanding. Organizations form partnerships with others—often competitors—that complement each other. The collaborating units present themselves as a unified organization.

The advantages of virtual structures include the following:

- Contributions from each part of the unit.
- Elimination of physical boundaries.
- Responsiveness to a rapidly changing environment.
- Lower or nonexistent organizational overhead.
- Allows companies to be more flexible and agile.
- Give more power to all employees to collaborate, take initiative, and make decisions.
- Helps employees and stakeholders understand workflows and processes.

The disadvantages of virtual organizations include the following:

- Potential lack of trust between organizations.
- Potential lack of organizational identification among employees.
- Need for increased communication.
- Can quickly become overly complex when dealing with lots of offsite processes.
- Can make it more difficult for employees to know who has final say.

Virtual structures are collaborative and created to respond to an exceptional and often temporary marketing opportunity. An example of a virtual structure is an environmental conservancy in which multiple organizations supply a virtual organization with employees to save, for example, a historic site, possibly with the intent of economic gain for the partners.

Understanding the organizational environment is crucial in open boundary models. For example, some industries cannot outsource noncore processes due to government regulation. (For example, health insurance organizations may be unable to outsource Medicare processes). Or, in some cases, outsourcing may have to be negotiated with a union.

The key to effective boundary-less organizations is placing adaptable employees at all levels. Management must give up traditional autocratic control to coach employees toward creativity and the achievement of organizational goals. Employees must apply initiative and creativity to benefit the organization, and reward systems should recognize such employees.

Learning organizations. A learning organization is one whose design actively seeks to acquire knowledge and change behavior as a result of the newly acquired knowledge. In learning organizations, experimenting, learning new things, and reflecting on new knowledge are the norms. At the same time, there are many procedures and systems in place that facilitate learning at all organization levels.

The advantages of learning organizations include the following:

- Open communication and information sharing.
- Innovativeness
- Ability to adapt to rapid change.
- Strong organizational performance.
- Competitive advantage.

The disadvantages of learning organizations include the following:

- Power difference is ignored.
- Process of implementing will be complicated and take longer.
- Fear of employee participation in organizational decisions.
- Breaking of existing organizational rules.

See HR Roles in a Market-Oriented Ecosystem (MOE) Organization
The Impact of Growth Stages on Organizational Structure

Organizations typically mature in a consistent and predictable manner. As they move through various stages of growth, they must address various problems. This process creates the need for different structures, management skills and priorities.

The four stages of development in an organization's life cycle include the following:

STARTUP

The beginning stage of development is characterized by an inconsistent growth rate, a simple structure and informal systems. At this stage the organization is typically highly centralized. "Dotcom" companies are a good example of startup companies.

EXPANSION

The expansion stage is evidenced by rapid, positive growth and the emergence of formal systems. Organizations at this stage typically focus on centralization with limited delegation.

CONSOLIDATION

The consolidation stage is characterized by slower growth, departmentalization, formalized systems and moderate centralization.

DIVERSIFICATION

The diversification stage occurs when older, larger organizations experience rapid growth, bureaucracy and decentralization.

As an organization grows or passes from one stage of development to another, carefully planned and well-conceived changes in practices and strategies may be necessary to maximize effectiveness. There are no guarantees that an organization will make it from one stage to the next. In fact, a key opportunity for leadership is to recognize indicators that suggest an organization is in a risky or unhealthy stage and to make appropriate structural adjustments.

Metrics

The art of organizational design is assessing the environment's essential aspects and their meaning for the organization's future. Translating those characteristics into the right structure is critical to increasing efficiency and controlling costs. When selecting the best structure for the organization, company leaders should examine and evaluate current key structural dimensions and contextual factors. *See*How do I determine which HR metrics to measure and report?

STRUCTURAL DIMENSIONS

Leaders can develop an understanding of the organization's internal environment through measurement and analysis of its structural dimensions. Key dimensions, which are usually measured through a survey, include:

Specialization. The extent to which an organization's activities are divided into specialized roles.

Standardization. The degree to which an organization operates under standard rules or procedures.

Formalization. The extent to which instructions and procedures are documented.

Centralization. The degree to which leaders at the top of the management hierarchy have authority to make certain decisions.

Configuration. The shape of the organization's role structure, which includes:

- *Chain of command.* The number of vertical levels or layers on the organizational chart.
- *Span of control.* The number of direct reports per manager or the number of horizontal levels or layers on the organizational chart.

CONTEXTUAL FACTORS

A review of contextual factors will provide a better understanding of the external environment and the relationship between the internal and external environment. Some of the significant contextual factors to consider in this review include:

Origin and history. Was the organization privately founded? What changes have occurred in ownership or location?

Ownership and control. Is the organization private or public? Is control divided among a few individuals or many?

Size. How many employees does the organization have? What are its net assets? What is its market position?

Location. How many operating sites does the organization maintain?

Productsand services. What types of goods and services does the organization manufacture and provide?

Technology. Are the organization's work processes effectively integrated?

Interdependence. What is the degree to which the organization depends on customers, suppliers, trade unions or other related entities?

After examining the structural dimensions and contextual factors and developing an understanding of the connection between an organization's structure and strategy, organization leaders can consider alternative structures. They may use diagnostic models and tools to guide the design process.

Communications and Technology

The last few years have seen an unprecedented expansion and improvement of online communication. Software has pushed the boundaries of workplace communication beyond e-mail into collaborative social media platforms and innovative intranets. The decline in traditional communication methods and the dramatic increase in cyber communication has had a major impact on the workplace and is leading to restructuring.
As organizations continue to restructure to remain competitive, communications can drive the transition to an effective new organizational structure. Research suggests that companies can positively affect their credibility with employees through various organizational communication programs.
In establishing internal communication channels, leadership must be aware of the advantages and shortcomings of communication technologies and match them to the organization's needs, strategic goals and structure.
Global Issues
Organizational structures often need to change as companies expand around the globe. An organization's leaders should plan carefully before opening offices in another country.
Many issues arise when an employer plans to open an international branch, hire international workers and formulate a globalized strategy. Among the questions that must be answered are:

- How do human resource legal requirements and practices vary from country to country?
- Should HR officials at headquarters do the work, or should a company open HR offices in the other country?
- Should an organization hire consultants to handle local hiring and personnel services?

Unless employers have a sound HR strategy ready before leaping into another country, they could fail.
When an organization opens international offices, HR professionals and other business leaders should be able to communicate as effectively with workers across the globe as around

the corner. That can be a challenge. Having a robust intranet and using videoconferencing are alternatives to face-to-face communication.
As rapid changes in technology affect global communication, employees must be aware of linguistic, cultural, religious and social differences among colleagues and business contacts. The organization should train all employees (not just managers and CEOs who travel) in cultural literacy.
Moreover, employers should be aware that language difficulties, time-and-distance challenges, the absence of face-to-face contact, and, above all, the barriers posed by cultural differences and personal communication styles make global virtual work far more complex than local structures. These practices can enhance global virtual team relationships:

- Using online chats, video- and audioconferencing in addition to one-on-one conversations and e-mail.
- Posting profiles of team members that outline their expertise and roles in the organization.
- Being sensitive to the level of engagement team members are likely to deliver if they must meet at inconvenient hours across multiple time zones.

Legal Issues
Regardless of the type of structure, employers must ensure compliance with legal requirements in the countries where their organizations operate. Some of those requirements will be quite extensive (for example, public companies must ensure compliance with the Sarbanes-Oxley Act, and most organizations must ensure compliance with the Fair Labor Standards Act and its related state laws). When organizational structures change, or if the chain of command is weak or fails to keep up-to-date with changes in the business, a company may have compliance problems because the structure has not been evaluated with regard to these laws. Imagine, for example, a restructuring that reduces the number of direct reports for an entire layer of management, which perhaps leads to those individuals no longer being exempt.

KEY SUCCESS FACTORS OF BUSINESS (WITH EXAMPLES)

As an organization that caters to its consumers, comprehending the needs and values of a business's target demographic is crucial to forming a logical strategy.
Identifying and understanding the five key success factors of business is the best way to establish a foundation of knowledge about a company and its customers.

Key Takeaways

- The five key success factors of business are:
    - Strategic focus
    - People
    - Operations
    - Marketing
    - Finance
- Companies need to implement all five key success factors in order to be successful in the long term.
- Critical success factors are accomplishments businesses must have in order to meet their goals.

definition for each factor:

1. **Strategic focus.** The strategic focus aspect of success means that the company's goals, brand, and actions all move towards a targeted goal. The companies that manage to

last in competitive markets are the ones whose leaders define their values and a realistic mission.

This factor is about sticking to the ultimate business objective and ensuring that every project is an effort toward this. A significant part of the strategic focus is making sure that the target chosen is constructed from the customer's wants and needs.

Strategic Focus Key Success Factor Examples:

- Establishing and sharing core values that align with customers
- Leaders of the business are devoted to upholding the business's core values

Key Takeaways

- The five key success factors of business are:
  - Strategic focus
  - People
  - Operations
  - Marketing
  - Finance
- Companies need to implement all five key success factors in order to be successful in the long term.
- Critical success factors are accomplishments businesses must have in order to meet their goals.

5 KEY SUCCESS FACTORS OF BUSINESS

The key success factors are a series of five overarching aspects that ultimately determine a business's long-term success.

The five larger groups contain ten smaller conditions, which need to be satisfied for the business to (hypothetically) thrive. In each of the world's most profitable companies, the five success factors join together to establish a cohesive unit that's lucrative for the long term.

The 5 Key Success Factors of business is a theory of strategic business management posed by Buck Lawrimore. The concept was derived after the analysis of over 100 popular books and 20 years.

Below is a definition for each factor:

1. **Strategic focus.** The strategic focus aspect of success means that the company's goals, brand, and actions all move towards a targeted goal. The companies that manage to last in competitive markets are the ones whose leaders define their values and a realistic mission.

   This factor is about sticking to the ultimate business objective and ensuring that every project is an effort toward this. A significant part of the strategic focus is making sure that the target chosen is constructed from the customer's wants and needs.

   Strategic Focus Key Success Factor Examples:

   - Establishing and sharing core values that align with customers
   - Leaders of the business are devoted to upholding the business's core values
   - The overall company mission is pursued through realistic goal-setting
2. **People.** The second ingredient for business success is the personnel that makes up the corporation. A company's staff is what expands its development, which means it's crucial to hire a team that's qualified, dependable, and passionate about performing well.
3. **Operations.** The daily and long-term functioning of a company is defined as its operations. The specific operations that a business handles differ depending on the industry it exists in.

4. **Marketing.** Marketing acts as the branch between a company and its customers. There are many facets to good marketing, such as targeting the right audience, forming a recognizable brand, and evaluating consumer satisfaction post-purchase.
5. **Finances.** The final factor of success is often the first one that people's mind jumps to when they consider the term, finances.
6. A company's finances refer to the entirety of its assets, which include things like sums of money, properties, and materials.