MGT 521, DIPLOMA IN BUSINESS ADMINISTRATION, DBM

KINGS UNIVERSITY, HAWAII, HONOLULU, UNITED STATES OF AMERICA

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Learning Outcomes

Upon successful completion of this course, the student should understand the definition and concepts of Strategy, Factors involved in creating Strategies, Corporate Governance, Competitive Advantage and Corporate Strategy.

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STRATEGY AND PURPOSE

Strategic Management is the discipline of Management studies that concentrate on the various strategies deployed by Managers to achieve Organizational goals to enhance the performance of the Organization. The process of Strategic Management is a continuous process and can also be defined as *"choosing the optimum strategies needed to calibrate an Organization's results"*.

The Strategic Management process involves analyzing cross-functional business decisions prior to implementing them. Strategic management typically involves:

- Identifying and establishing precise Goals of an Organization.
- Analyzing internal and external strengths and weaknesses of the Organization.
- Formulating action plans for the goals.
- Executing action plans.
- Evaluating the success rate of the action plans and making changes when desired results are not being produced.

Strategic Management can also be defined as a bundle of decisions and acts which a manager undertakes to improve the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats facing the results of the Organization.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

The Concept of Strategy

The word "strategy" is derived from the Greek word "stratçgos"; stratus (meaning army) and "ago" (meaning leading/moving).

Strategy-definition

Strategy is defined as an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as *"A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process"*. An equivalent definition given is the selection of actions that will make an organization to have superior performance compared to industry. An action means allocating resources.

A Strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Features of Strategy

1.Strategy is significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

Strategy is a well defined roadmap or a goal post to be achieved of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization 's strengths and to minimize the strengths of the competitors.

We will now look at formulating Strategies in a step by step process.

StrategyFormation Process

Corporations must develop strategic flexibility, the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behavior to reflect new knowledge and insights. Learning Organizations avoid stability through continuous self-examinations and experimentations.

Setting Organizations' Objectives

The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there.

Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

Evaluating the Organizational Environment

The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitor's strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitor's moves and actions so as to discover probable opportunities of threats to its market or supply sources.

Setting Quantitative Targets

In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

Performance Analysis

Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

Choice of Strategy

This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Mission Statement

Mission statement is the statement of the role by which an organization intends to serve its stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., —about where we are).For instance, let us look at

Microsoft's mission is 'To help people and businesses throughout the world to realize their full potential'. Wal-Mart's mission is — 'To give ordinary folk the chance to buy the same thing as rich people'.

Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous withorganizational growth and innovations. In today's dynamic and competitive environment mission may have to be redefined. However, the redefined mission statement should have original fundamentals/components.

Mission statement has three main components

- a statement of mission or vision of the company,
- a statement of the core values that shape the acts and behavior of the employees, and
- a statement of the goals and objectives.

Features of a Mission

The various features of Mission are exemplified here. They are

- Mission must be feasible and attainable. It should be possible to achieve it.
- Mission should be clear enough so that any action can be taken.
- It should be inspiring for the management, staff and society at large.
- It should be precise enough, i.e., it should be neither too broad nor too narrow.
- It should be unique and distinctive to leave an impact in everyone's mind.
- It should be analytical, i.e., it should analyze the key components of the strategy.
- It should be credible, i.e., all stakeholders should be able to believe it.

Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, Microsoft's vision is to empower people through great software, any time, any place, or any device.Wal-Mart's vision is to become worldwide leader in retailing.

A vision is the potential to view things ahead of themselves. It answers the question —*"where we want to be"*. It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be.

An effective vision statement must have following features-

a. It must be unambiguous.

b. It must be clear.

c. It must harmonize with organization's culture and values.

d. he dreams and aspirations must be rational/realistic.

e. Vision statements should be shorter so that they are easier to memorize.

Goals and Objectives

A Goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have the following features-

- They are precise and measurable.
- They look after critical and significant issues.
- They are realistic and challenging.
- They must be achieved within a specific time frame.
- They include both financial as well as non-financial components.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

- These are not single for an organization, but multiple.
- Objectives should be both short-term as well as long-term.
- Objectives must respond and react to changes in environment, i.e., they must be flexible.
- These must be feasible, realistic and operational.

Tactics

Tactics are concerned with the short to medium term co-ordination of activities and the deployment of resources needed to reach a particular strategic goal. Some typical questions one might ask at this level are: "What do we need to do to reach our growth / size / profitability goals?" "What are our competitors doing?" "What machines should we use?" The decisions are taken more at the lower levels to implement the strategies based on ground realities.

How is a Strategy initiated?

A triggering event is something that stimulates a change in strategy.Some of the possible triggering events are

New CEO: By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

Intervention by an external institution: The firm's bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

Threat of a change in ownership: Another firm may initiate a takeover by buying the company's common stock.

Management's recognition of a performance gap: A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling. Innovation of a new product that threatens the existence of the present status quo.

Basic model of Strategic Management

Strategic management consists of four basic elements

1. Environmental scanning

2. Strategy Formulation

3. Strategy Implementation and

4. Evaluation and control

Environmental Scanning

Management scans both the external environment for opportunities and threats and the internal environmental for strengths and weakness. The following factors that are most important to the corporation's future are called strategic factors: strengths, weakness, opportunities and threats (SWOT)

Strategy Formulation

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

Mission: An organization's mission is its purpose, or the reason for its existence. It states what it is providing to society. A well conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its types and identifies the scope of the company s operation in terms of products offered and markets served

Objectives: Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation's mission.

Strategies: A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

*Policies:*A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporation's mission, its objectives and its strategies.

Strategic decision making

Strategic deals with the long-run future of the entire organization and have three characteristic

1. Rare- Strategic decisions are unusual and typically have no precedent to follow.

2. Consequential-Strategic decisions commit substantial resources and demand a great deal of commitment

3. Directive- strategic decisions set precedents for lesser decisions and future actions throughout the organization.

Mintzberg's modes of strategic decision making

According to Henry Mintzberg, the most typical approaches or modes of strategic decision making are entrepreneurial, adaptive and planning.

Stake holders in Business: Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm's performance. Stake holders can support the effective strategic management of an organization.

Stake holders can be divided into:

1. Internal Stakeholders
- Shareholders
- Employees
- Managers
- Directors

2. External Stakeholders

- Customers
- Suppliers
- Government
- Banks/creditors
- Trade unions
- Mass Media

Stake holder's Analysis:

- Identify the stake holders.
- Identify the stake holder's expectations interests and concerns
- Identify the claims stakeholders are likely to make on the organization
- Identify the stakeholders who are most important from the organizations perspective.
- Identify the strategic challenges involved in managing the stakeholder relationship.

Making better strategic decisions

He gives seven steps for strategic decisions

1. Evaluate current performance results
2. Review corporate governance
3. Scan the external environment
4. Analyze strategic factors (SWOT)
5. Generate, evaluate and select the best alternative strategy
6. Implement selected strategies
7. Evaluate implemented strategies

SBU or Strategic Business Unit

An autonomous division or organizational unit, small enough to be flexible and large have independent missions and objectives), they allow the owning conglomerate to respond quickly to changing economic or market situations.

Corporate Governance

Corporate governance is a mechanism established to allow different parties to contribute capital, expertise and labour for their mutual benefit the investor or shareholder participates in the profits of the enterprise without taking responsibility for the operations. Management runs the company without being personally responsible for providing the funds. So as representatives of the shareholders, directors have both the

authority and the responsibility to establish basic corporate policies and to ensure they are followed. The board of directors has, therefore, an obligation to approve all decisions that might affect the long run performance of the corporation. The term corporate governance refers to the relationship among these three groups (board of directors, management and shareholders) in determining the direction and performance of the corporation

Responsibilities of the board

Specific requirements of board members of board members vary, depending on the state in which the corporate charter is issued. The following five responsibilities of board of directors listed in order of importance

1. Setting corporate strategy,overall direction, mission and vision

2. Succession: hiring and firing the CEO and top management

3. Controlling, monitoring or supervising top management

4. Reviewing and approving the use of resources

5. Caring for stock holder's interests

Role of board in strategic management

The role of board of directors is to carry out three basic tasks

1. Monitor

2. Evaluate and influence

3. Initiate and determine

The three tasks are inevitable to a successful board of an Organization and various tools and reports are used by Managers these days for the ideal functioning of an Organization.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an important and essential activity for businesses. As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe

What is Corporate Social Responsibility?

The term is often used interchangeably for other terms such as Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL) that is people, planet and profits., which is used as a framework for measuring an organization's performance against economic, social and environmental parameters. It is about building sustainable businesses, which need healthy economies, markets and communities.

The key drivers for CSR are

- Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together. Sustainability You need to understand sustainability. It is being used mostly in organizational forums and a basic understanding is needed for you. The discussion on sustainability is only for your understanding.
- Sustainability means "meeting present needs without compromising the ability of future generations to meet their needs". These well-established definitions set an ideal premise, but do not clarify specific human and environmental parameters for modelling and measuring sustainable developments. The following definitions are more specific:

  "Sustainable means using methods, systems and materials that won't deplete resources or harm natural cycles".

  Sustainability "identifies a concept and attitude in development that looks at a site's natural land, water, and energy resources as integral aspects of the development".

  "Sustainability integrates natural systems with human patterns and celebrates

continuity, uniqueness and place making".

Combining all these definitions, *“Sustainable developments are those which fulfil present and future needs while using and not harming renewable resources and unique human-environmental systems of a site[air, water, land, energy, and human ecology and/or those of other [off-site] sustainable systems”* (Rosenbaum 1993 and Vieria 1993).

- Social investment contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.
- Transparency and trustBusiness has low ratings of trust in public perception

Corporate social responsibility is represented by the contributions undertaken by companies to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy. In recent years CSR has become a fundamental business practice and has gained much attention from chief executives, chairmen, boards of directors and executive management teams of larger international companies.

They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities. According to the results of a global survey in 2002 by Ernst & Young, 94 per cent of companies believe the development of a Corporate Social Responsibility (CSR) strategy can deliver real business benefits, however only 11 per cent have made significant progress in implementing the strategy in their organization. Senior executives from 147 companies in a range of industry sectors across Europe, North America and Australasia were interviewed for the survey.

Environmental Scanning and Industry Analysis

Environmental Scanning

Environmental scanning is the monitoring, evaluating and disseminating of information

from the external and internal environments to keep people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long-term health.

Scanning of external environmental variables

The social environment includes general forces that do not directly touch on the short-run activities of the organization but those can, and often do, influence its long-run decisions. These forces are

• Economic forces

• Technological forces

• Political-legal forces

• Socio-cultural forces

Scanning of social environment

The social environment contains many possible strategic factors. The number of factors becomes enormous when one realizes that each country in the world can be represented by its own unique set of societal forces, some of which are very similar to neighboring countries and some of which are very different.

Monitoring of social trends

Large corporations categorized the social environment in any one geographic region into four areas and focus their scanning in each area on trends with corporate- wide relevance. Trends in any area may be very important to the firms in other industries.

International society consideration

For each countries or group of countries in which a company operates, management must face a whole new societal environment having different economic, technological, political-legal, and Socio cultural variables. This is especially an issue for a multinational corporation, a company having significant manufacturing and marketing operations in multiple countries. International society environments vary so widely that a corporation’s internal environment and strategic management process must be very flexible.

Scanning of the task environment

A corporation's scanning of the environment should include analysis of all the relevant elements in the task environment. These analyses take the form of individual reports written by various people in different parts of the firms. These and other reports are then summarized and transmitted up the corporate hierarchy for top management to use in strategic decision making. If a new development is reported regarding a particular product category, top management may then send memos to people throughout the organization.

Identification of external strategic factors: One way to identify and analyze developments in the external environment is to use the issues priority matrix as follows.

1. Identify a number of likely trends emerging in the societal and task environment.

2. Assess the probability of these trends actually occurring.

3. Attempt to ascertain the likely impact of each of these trends of these corporations.

COMPETITIVE ADVANTAGE

Porter's Five Forces

Porter's Five Forces is used to assess the Balance of Power in a Business Situation

The Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps you understand both the strength of your current competitive position, and the strength of a position you're looking to move into.

With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of your planning toolkit.

Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However it can be very illuminating when used to understand the balance of power in other situations.

How to use the tool:

Five Forces Analysis assumes that there are five important forces that determine competitive power in a situation. These are:

- Supplier Power: Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are.

- Buyer Power: Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, they are often able to dictate terms to you.

- Competitive Rivalry: What is important here is the number and capability of your competitors – if you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation. If suppliers and buyers don't get a good deal from you, they'll go elsewhere. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

- Threat of Substitution: This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.

- Threat of New Entry: Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it

To use the tool to understand your situation, look at each of these forces one-by-one.

Brainstorm the relevant factors for your market or situation, and then check against the factors listed for the force in the diagram above, then mark the key factors on a diagram like the one above, and summarize the size and scale of the force on the diagram. An easy way of doing this is to use, for example, a single "+" sign for a force moderately in your favor, or "--" for a force strongly against you.

Then look at the situation you find using this analysis and think through how it affects you. Bear in mind that few situations are perfect, however use this as a framework for thinking through what you could change to increase your power with respect to each force.

- The threat of new entry is quite high: if anyone looks as if they're making a sustained profit, new competitors can come into the industry easily, reducing profits;

- Competitive rivalry is extremely high: if someone raises prices, they'll be quickly undercut. Intense competition puts strong downward pressure on prices;

- Buyer Power is strong, again implying strong downward pressure on prices; and

- There is some threat of substitution.

Unless he is able to find some way of changing this situation, this looks like a very tough industry to survive in. Maybe he'll need to specialize in a sector of the market that's protected from some of these forces, or find a related business that's in a stronger position.

Key points:
Porter's Five Forces Analysis is an important tool for assessing the potential for profitability in an industry. With a little adaptation, it is also useful as a way of assessing the balance of power in more general situations.

It works by looking at the strength of five important forces that affect competition:

- Supplier Power: The power of suppliers to drive up the prices of your inputs;
- Buyer Power: The power of your customers to drive down your prices;
- Competitive Rivalry: The strength of competition in the industry;
- The Threat of Substitution: The extent to which different products and services can be used in place of your own; and
- The Threat of New Entry: The ease with which new competitors can enter the market if they see that you are making good profits (and then drive your prices down).

By thinking through how each force affects you, and by identifying the strength and direction of each force, you can quickly assess the strength of the position and your ability to make a sustained profit in the industry.

Strategic Groups Competitive Changes during Industry Evolution

Strategic Groups
The first step in structural analysis within industries is to characterize the strategies of all significant competitors along these dimensions. This activity then allows for the

mapping of the industry into strategic groups. A strategic group is the group of firms in an industry following the same or a similar strategy along the strategic dimensions. An industry could have only one strategic group if all the firms followed essentially the same strategy. At the other extreme, each firm could be a different strategic group.

Strategic groups often differ in their product or marketing approach, but not always. Sometimes, as in corn milling and the manufacture of chemicals or sugar, groups' products are identical but manufacturing, logistics, and vertical integration approaches differ. Or firms might be following strategies but have differing relationships to parent companies or host governments that affect their objectives. Strategic groups are not equivalent to market segments or segmentation strategies but are defined on the basis of a broader conception of strategic posture.

STRATEGIC GROUPS AND MOBILITY BARRIERS

Entry barriers have been viewed so far as industry characteristics that deter new firms from coming into the industry. The major sources of entry barriers that have been identified are economies of scale, product differentiation, switching costs, and cost advantages, access to distribution channels, capital requirements, and government policy. Yet although some of the sources of entry barriers will protect all firms in the industry, it is clear that overall entry barriers depend on the particular strategic group that the entrant seeks to join.

Differences in firms' relations to their parents may affect entry barriers as well. The strategic group, those firms that have a vertical relationship to their parents, for example, may enjoy superior access to raw materials or larger financial resources with which to retaliate against potential entrants than a strategic group consisting of independent competitors. Or firms who share distribution channels with another division of their parent company may reap economies of scale that their competitors cannot match, thereby deterring entry

MOBILITY BARRIERS AND GROUP FORMATION

Strategic groups form and change in an industry for a variety of reasons. First, firms often begin with or later develop differences in skills or resources, and thus select different strategies. The well-situated firms outdistance others in the race toward the strategic groups protected by high mobility barriers as the industry develops. Secondly firms differ in their goals or risk posture. Some firms may be more prone to making risky investments in building mobility barriers than others. Business units that differ in their relationship to a parent company (e.g., being vertically related, unrelated, or a free-standing firm) may differ in goals in ways that will lead to differences in strategy,

as may international competitors with different situations in their other markets than domestic firms.

STRATEGIC GROUPS AND BARGAINING POWER

Strategic groups will have differing amounts of power vis-a-vis suppliers and buyers for two categories of reasons, both illustrated in the examples above: Their strategies may yield them differing degrees of vulnerability to common suppliers or buyers; or their strategies may involve dealing with different suppliers or buyers with correspondingly different levels of bargaining power. The extent to which relative power can vary depends on the industry; in some industries all strategic groups could be in essentially the same position with respect to suppliers and buyers.

STRATEGIC GROUPS AND THE THREAT OF SUBSTITUTES

Strategic groups may also face differing levels of exposure to competition from substitute products if they are focusing on different parts of the product line, serving different customers, operating at different levels of quality or technological sophistication, have different cost positions, and so on. Such differences may make them more or less vulnerable to substitutes even though the strategic groups are all in the same industry.

STRATEGIC GROUPS AND RIVALRY AMONG FIRMS

The presence of more than one strategic group in an industry has implications for industry rivalry, or competition in price, advertising, service, and other variables. Some of the structural features that determine the strength of competitive rivalry may apply to all firms in the industry and thus provide the context in which the strategic groups interact. Broadly speaking, however, the existence of multiple strategic groups usually means that the forces of competitive rivalry are not faced equally by all firms in the industry.

Some firms are more exposed to damaging price cutting and other forms of rivalry from other strategic groups than others. Four factors determine how strongly the strategic groups in an industry will interact in competing for customers:

- The market interdependence among groups, or the extent to which their customer targets overlap;
- The product differentiation achieved by the groups;
- The number of strategic groups and their relative sizes;

- The strategic distance among groups, or the extent to which strategies diverge.

The most important influence on rivalry among strategic groups is their market interdependence, or the degree to which different strategic groups are competing for the same customers or competing for customers in distinctly different market segments. When strategic groups have high market interdependence, differences in strategy will lead to the most vigorous rivalry, for example, in fertilizer where the customer (the farmer) is the same for all groups. When strategic groups are targeting very different segments, their interest in and effect on each other is much less severe. As the customers they are selling to become more distinguished, the rivalry becomes more (but not the same) as if the groups were in different industries.

CHARACTERISTICS OF STRATEGIC GROUP

- The height of mobility barriers protecting the firm's strategic group.
- The bargaining power of the firm's strategic group with customers and suppliers
- The vulnerability of the firm's strategic group to substitute products.
- The exposure of the firm's strategic group to rivalry from other groups

FIRM'S POSITION WITHIN ITS STRATEGIC GROUP

- The degree of competition within the strategic group.
- The scale of the firm relative to others in its group.
- Costs of entry into the group
- The ability of the firm to execute or implement its chosen strategy in an operational sense.

Strategic Opportunities

The strategic opportunities facing the firm in its industry can also be made more concrete by using these concepts. Opportunities can be divided into a number of categories:

- create a new strategic group;
- shift to a more favorably situated strategic group;
- strengthen the structural position of the existing group or the firm's position in the group;
- Shift to a new group and strengthen that group's structural position.

A final principle is that an industry can be mapped several times, using various combinations of strategic dimensions, to help the analyst see the key competitive issues. Mapping is a tool to help diagnose competitive relationships, and there is no necessarily right approach.

Having constructed a strategic group map of an industry, a number of analytical steps can be illuminating:

- Identifying Mobility Barriers
- Identifying Marginal Groups
- Charting Directions of Strategic Movement
- Analyzing Trends
- Predicting Reactions

Basic Concepts in Industry Evolution

The starting point for analyzing industry evolution is the framework of structural analysis. Industry changes will carry strategic significance if they promise to affect the underlying sources of the five competitive forces; otherwise changes are important only in a tactical sense. The simplest approach to analyzing evolution is to ask the following question: Are there any changes occurring in the industry that will affect each element of structure? For example, do any of the industry trends imply an increase or decrease in mobility barriers? An increase or decrease in the relative power of buyers or suppliers? If this question is asked in a disciplined way for each competitive force and the economic causes underlying it, a profile of the significant issues in the evolution of an industry will result

Although this industry-specific approach is the place to start, it may not be sufficient, because it is not always clear what industry changes are occurring currently, much less which changes might occur in the future. Given the importance of being able to predict

evolution, it is desirable to have some analytical techniques which will aid in anticipating the pattern of industry changes that we might expect to occur

PRODUCT Life Cycle

The grandfather of concepts for predicting the probable course of industry evolution is the familiar product life cycle. The hypothesis is that an industry' passes through a number of phases or stages introduction, growth, maturity, and decline-illustrated in Figure 3.1. These stages are defined by inflection points in the rate of growth of industry sales. Industry growth follows an S-shaped curve because of the process of innovation and diffusion of a new product. The flat introductory phase of industry growth reflects the difficulty of overcoming buyer inertia and stimulating trials of the new product. Rapid growth occurs as many buyers rush into the market once the product has proven itself successful. Penetration of the product's potential buyers is eventually reached, causing the rapid growth to stop and to level off to the underlying rate of growth of the relevant buyer group. Finally, growth will eventually taper off as new substitute products appear.

The product life cycle has attracted some legitimate criticism:

1. The duration of the stages varies widely from industry to industry, and it is often not clear what stage of the life cycle an industry is in. This problem diminishes the usefulness of the concept as a planning tool.
2. Industry growth does not always go through the S-shaped pattern at all. Sometimes industries skip maturity, passing straight from growth to decline. Sometimes industry growth revitalizes after a period of decline, as has occurred in the motorcycle and bicycle industries and recently in the radio broadcasting industry. Some industries seem to skip the slow takeoff of the introductory phase altogether.

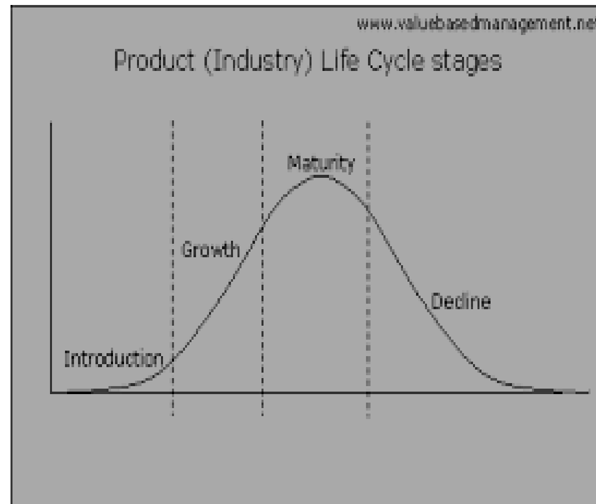


Figure 3.1

3. Companies can affect the shape of the growth curve through product innovation and repositioning, extending it in a variety of ways.' If a company takes the life cycle as given, it becomes an undesirable self-fulfilling prophesy.

4. The nature of competitions associated with each stage of the life cycle is different for different industries. For example, some industries start out highly concentrated and stay that way. Others, like bank cash dispensers, are concentrated for a significant period and then become less so. Still others begin highly fragmented; of these some consolidate (automobiles) and some do not (electronic component distribution). The same divergent patterns apply to advertising, R&D expenditures, degree of price competition, and most other industry characteristics. Divergent patterns such as these call into serious question the strategic implications ascribed to the life cycle.

A FRAMEWORK FOR FORECASTING EVOLUTION

Instead of attempting to describe industry evolution, it will prove more fruitful to look underneath the process to see what really drives it. Like any evolution, industries evolve because some forces are in motion that creates incentives or pressures for change. These can be called evolutionary processes.

Every industry begins with an initial structure-the entry barriers, buyer and supplier power, and so on which exist when the industry comes into existence. This structure is usually (though not always) a far cry from the configuration the industry will take later in its development. The initial structure results from a combination of underlying economic and technical characteristics of the industry, the initial constraints of small industry size, and the skills and resources of the companies that are early entrants. For example, even an industry like automobiles with enormous possibilities for economies

of scale started out with labor-intensive, job-shop production operations because of the small volumes of cars produced during the early years.

The evolutionary processes work to push the industry toward its potential structure, which is rarely known completely as an industry evolves. Imbedded in the underlying technology, product characteristics, and nature of present and potential buyers, however, there is a range of structures the industry might possibly achieve, depending on the direction and success of research and development, marketing innovations, and the like.

Evolutionary Processes

Although initial structure, structural potential, and particular firms' investment decisions will be industry-specific, we can generalize about what are the important evolutionary processes. There are some predictable (and interacting) dynamic processes that occur in every industry in one form or another, though their speed and direction will differ from industry to industry:

Long-run changes in growth;

- changes in buyer segments served; buyers' learning;
- reduction of uncertainty;
- diffusion of proprietary knowledge;
- accumulation of experience;
- expansion (or contraction) in scale;
- changes in input and currency costs; product innovation; marketing innovation;
- process innovation;
- structural change in adjacent industries;
- government policy change;
- Entries and exits.

LONG-RUN CHANGES IN GROWTH

Perhaps the most ubiquitous force leading to structural change is a change in the long-run industry growth rate. Industry growth is a key variable in determining the intensity of rivalry in the industry, and it sets the pace of expansion required to maintain share, thereby influencing the supply and demand balance and the inducement the industry offers to new entrants.

There are five important external reasons why long-run industry growth changes:

- DEMOGRAPHICS
- TRENDS IN NEEDS
- CHANGE IN THE RELATIVE POSITION OF SUBSTITUTES
- CHANGES IN THE POSITION OF COMPLEMENTARY PRODUCTS
- PENETRATION OF THE CUSTOMER GROUP
- PRODUCT CHANGE

CHANGES IN INPUT COSTS AND EXCHANGE RATES

Every industry uses a variety of inputs to its manufacturing, distribution, and marketing process. Changes in the cost or quality of these inputs can affect industry structure. The important classes of input costs subject to change are the following:

- wage rates (encompassing the full costs of labor);
- material costs;
- cost of capital;
- communication costs (including media);
- Transportation costs.

The most straightforward effect is in increasing or decreasing the cost (and price) of the product, thereby affecting demand. For example, the cost of producing movies has risen quite markedly in recent years. This rise is squeezing independent producers relative to well-financed movie companies, particularly since movie tax shelters have been circumscribed by 1976 tax legislation. This development has cut a major avenue of financing for independent producers.

Exchange rate fluctuations can also have a profound effect on industry competition. The devaluation of the dollar against the yen and many European currencies, for example, has triggered significant shifts in position in many industries since 1971.

PRODUCT INNOVATION

A major source of industry structural change is technological innovations of various types and origins. Innovation in product is one important type. Product innovation can widen the market and hence promote industry growth and/or it can enhance product differentiation. Product innovation also can have indirect effects. The process of rapid product introduction, and associated needs for high marketing costs, may itself create mobility barriers. Innovations may require new marketing, distribution, or manufacturing methods that change economies of scale or other mobility barriers.

Significant product change can also nullify buyer experience and hence impact purchasing behavior.

MARKETING INNOVATION

Like innovations in product, those in marketing can influence industry structure directly through increasing demand. Breakthroughs in the use of advertising media, new marketing themes or channels, and so forth can allow reaching new consumers or reducing price sensitivity (raising product differentiation). For example, movie companies have boosted demand by advertising movies on television. The discovery of new channels of distribution can similarly widen demand or raise product differentiation; innovations in marketing that make it more efficient can lower the cost of the product.

PROCESS INNOVATION

The final class of innovation that can change industry structure is that in the manufacturing process or methods. Innovations can make the process more or less capital intensive, increase or decrease economies of scale, change the proportion of fixed costs, increase or decrease vertical integration, affect the process of accumulating experience, and so on-all of which affect industry structure. Innovations that increase scale economies or extend the experience curve beyond the size of national markets can lead to industry globalization

GLOBALISATION AND INDUSTRY STRUCTURE

The structure of an industry can evolve depending on, among other factors, the dynamics that shape competition in the industry and the role governments play in stimulating or obstructing the globalization process. When industries are relatively fragmented and competitive, national environments (factors of production, domestic market and domestic demand, and so forth) will largely shape the international advantage of domestically headquartered firms and the patterns of trade. A correlate to this proposition is that in emerging industries, country advantages also play a dominant role in determining global competitive advantage.

In other words, in fragmented industries relative cost is a key determinant of global success, and since countries differ in terms of their factor costs, as long as entry barriers remain low, production will gravitate to the lowest cost, highest efficiency manufacturing location. Another way of saying this is that the presence of

multinational firms, by itself, should not influence the pattern of international trade in globally competitive, fragmented industries; other things being equal, country factors determine the location of production and the direction of exports.

The important dimensions for classifying globalizing industries according to the nature of the strategic challenge they represent: *the degree of global concentration and the extent to which governments intervene*. In industries with a relatively low degree of concentration and little government intervention, the classical economic laws of *comparative advantage* are the primary drivers of international competition. Here, factor costs are a primary determinant of global competitiveness. It would seem natural, therefore, to focus on a global strategy aimed at minimizing costs. But this can be extremely difficult in a fast-changing world.

A related implication is that in global oligopolies, companies cannot allow their competitors to have uncontested home markets in which profit sanctuaries can be used to subsidize global competitive moves. This explains Kodak's extraordinary efforts to pry open the Japanese market—it knew Fuji would be at a considerable advantage if it remained dominant in Japan. Finally, the use of alliances can make such global moves more affordable, flexible, and effective. Alliances can be powerful vehicles for rapidly entering new countries, acquiring new technologies, or otherwise supporting a global strategy at a relatively low cost.

Dealing effectively with governments is a prerequisite for global success in oligopolistic industries such as telecommunications, where extensive government intervention creates a global competitive climate known as

- Regulated competition
- Political competition,

Regulated competition: Here, nonmarket dimensions of global strategy may well be as important as market dimensions. Political involvement may be necessary to create, preserve, or enhance global competitive advantage since government regulations—whether in infant or established industries—are critical to success. As a consequence, strategy in global, regulated industries should be focused as much on shaping the global competitive environment as on capitalizing on the opportunities it offers.

Political competition: Characteristic of fragmented industries with significant government intervention, also calls for a judicious mix of market and nonmarket-based strategic thinking. In contrast to regulated competition, in which government policy has

a direct impact on individual companies, however, government intervention in political competition often pits one country or region of the world against another. This encourages a whole range of cooperative strategies between similarly affected players and strategic action at the country-industry level.

National Context and Competitive advantage

Porter's Theory of Competitive Advantage

Michael Porter's theory of the competitive advantage of nations provides a sophisticated tool for analyzing competitiveness with all its implications. Porter's theory contributes to understanding the competitive advantage of nations in international trade and production. Its core, however, focuses upon individual industries, or clusters of industries, in which the principles of competitive advantage are applied. His theory begins from individual industries and builds up to the economy as a whole. Since firms, not nations compete in international markets, understanding the way firms create and sustain competitive advantage is the key to explaining what role the nation plays in the process. Therefore, the essence of his argument is that "the home nation influences the ability of its firms to succeed in particular industries"[1]. Given this interdependence, it appears that in order to draw conclusions on the competitiveness of the particular industry, consideration of the different facets of the competitive diamond of the whole nation is needed. Michael Porter considers the competitiveness of a country as a function of four major determinants:

- *factor conditions*;
- *demand conditions*;
- *related and supporting industries*; and,

- *Firm strategy, structure, and rivalry*.

Even though these determinants influence the existence of competitive advantage of an entire nation, their nature suggests that they are more specific of a particular industry rather than typical of a country. The reason for this is that in Porter's theory the basic unit of analysis for understanding competition is the industry. "The industry is the arena in which the competitive advantage is won or lost."So, seeking to isolate the competitive advantage of a nation means to explain the role played by national attributes such as a nation's economic environment, institutions, and policies for promoting firms' ability to compete in a particular industry.

Factor Conditions:

Factor conditions being the inputs which affect competition in any industry comprise a number of broad categories:

- *Human resources*: the quantity, skills, and cost of personnel (including management);
- *Physical resources*: the abundance, quality, accessibility, and cost of the nation's land, water, mineral, or timber deposits, hydroelectric power sources, fishing grounds, and other physical traits.
- *Knowledge resources*: the accumulated scientific, technical, and market knowledge in a nation in the sphere of goods and services
- *Capital resources*: the stock of capital available in a country and the cost of its deployment;
- *Infrastructure resources*: the characteristics (including type, quality) and the cost of using the infrastructure available.

While analyzing these factors as a prerequisite for building competitive advantage, it is relatively unimportant to emphasize just their quantity or involvement in a particular

industry. What determines their influence on competitiveness is the degree of *efficiency* and *effectiveness* of the way they are deployed within an industry.

This in turn affects directly their potential for influencing the establishment of competitive advantage. Nevertheless, productivity in deployment does not automatically translate into international success. This is achieved only under the condition that the other determinants in the "diamond" are in a position to influence favorably the utilization of production factors. With a view of isolating the factors which are most significant for the creation of competitive advantage in the context of the whole "diamond", a hierarchy among factors has been established.

Demand Conditions

The importance of demand conditions as a factor influencing competitive advantage stems from the fact that in a market economy the direction of production, that is, the kinds of goods which are produced, is determined by the needs of buyers. What this means is that, regardless of the state of the other determinants in the "diamond", competitiveness in an industry is impossible to be achieved unless demand conditions allow for the successful realization of firms' products. Underlying this dependence is the dynamic influence of home demand which shapes the rate and character of improvement and innovation by a nation's firms. The sources of this influence within the context of home demand are divided into three broad attributes: *the composition of home demand*, *the size and pattern of growth of home demand*, and *the mechanisms by which a nation's domestic preferences are transmitted to foreign markets*.

- *Home Demand Composition*: The composition of home demand determines the way firms perceive, interpret, and respond to buyer needs.Three characteristics of the composition of home demand play a particularly significant role for the achievement of competitive advantage. One of them refers to the *segment structure of demand*. It is quite favorable for enhancing competitiveness provided that the relevant segment of the market represents a

highly visible share of home demand but accounts for a less significant share in other nations. An even more important feature of home demand composition is the *level of buyers' sophistication*. Its significance stems from the fact that sophisticated and demanding buyers exert pressure on firms to excel in quality of the product, features, and service and thus help for sustaining the acquired advantage. A final attribute of home demand composition which could spur the establishment of competitive advantage relates to *anticipatory buyer needs*. They give priority of firms over their international competitors by indicating early what will become widespread later.

- *Demand Size and Pattern of Growth*: In order for a clear relationship between this attribute of home demand and competitive advantage to be established, a number of its characteristics should be considered. One of them is the *size of home demand*. Its importance is expressed in the fact that depending on the magnitude of the home market a nation's firms could be encouraged, with a view of reaping economies of scale and learning, to invest aggressively in large-scale facilities, technology development, and productivity improvement.[2]. Another important factor which could spur activities intended to create or upgrade competitive advantage is the *rate growth of home demand*. The latter could lead firms to adopt new technologies faster and to make changes for increased efficiency without fearing that there would be no response on the part of consumers. The effect of these two factors is further enhanced provided that home demand is characterized by *early saturation* as well. The underlying logic is that early saturation, like early penetration,

directs a nation's firms to products and product features that are desired abroad.

- *Internalization of Domestic Demand*: While the source for creating national advantage is rooted in the composition of home demand, its sustainability is accounted for by the size and pattern of growth of home demand, the transfer of a nation's products and services abroad relates to a third attribute of home demand – its *capacity of becoming internalized*. This attribute refers to the existence of mobile or multinational local buyers which could create an advantage for a nation's firms since domestic buyers are also foreign buyers. It hints on the other aspect of this attribute: the influence exerted on foreign needs. The latter presents another way through which domestic demand conditions can pull through foreign sales and relates to the cases when domestic needs and desires get transmitted to or inculcated in foreign buyers.

Related and Supporting Industries

When trying to determine the sources of competitive advantage in an industry, the latter should not be considered separately but rather in the context of the whole economy. Special account should be taken of the industries which are directly related or support the one whose competitiveness is a subject of investigation. The reason for this requirement is that, provided supplier industries possess an international advantage, downstream industries could benefit from it in several ways. One of them refers to the access that competitive supplier industries provide access to cost-effective inputs. Given the increasingly significant globalization process, which makes inputs available on global markets, emphasis should be put not on the availability of the inputs but on their effective utilization. Therefore, a more important aspect in which the presence of competitive advantage in supplier industries could influence the creation of one in the downstream industries is the provision of coordination on the part of the former in terms of linkages with the value chains of the latter.

Firm Strategy, Structure, and Rivalry

Closing the circle of factors which determine the existence of competitive advantage it is necessary to consider the context in which firms are created, organized and managed as well as the nature of domestic rivalry. The goals, strategies, and ways of organizing firms in industries are widely influenced by national circumstances. The achievement of national advantage depends on the degree to which these choices correspond to the sources of competitive advantage in an industry. Firm strategy and structure are reflective of company goals and individual goals as well as national prestige and national priority. Company goals are most strongly determined by ownership structure, the motivation of owners and holders of debt, the nature of the corporate governance, and the incentive processes that shape the motivation of senior managers.

Provided that the goals of owners and managers match the needs of the industry, the opportunities for success are greatly enhanced. As far as the goals of individuals who work in firms are concerned, they also have a significant role for creating and upgrading competitive advantage. The achievement of the latter depends on the motivation of people to develop their skills as well as to expend the necessary effort needed for the company's success. Another source of powerful influence on the way firms are organized is national prestige or national priorities. These factors affect the process of attracting qualified human resources to particular industries as well as the strength of individuals' and shareholders' motivation. Provided that the latter is quite pronounced it also turns into an important conductor of corporate success. The reason for it is that it assures sustained commitment of capital and human resources to an industry, to a firm, and for employees, to a profession. This in turn enhances productivity and effectiveness.

The stimuli for increased productivity and effectiveness should also be traced at a higher level which encompasses not only the manner of a firm's organization but also

its performance as influenced by the behavior of its competitors. In this respect, an important correlation based on empirical findings has been established. It concerns the association between vigorous domestic rivalry and the creation and persistence of competitive advantage in an industry. The underlying logic is that competition at home pressures firms to improve and innovate. Having once established the manner for constant upgrading of their competitive edge at home, companies easily transfer their strategy for success on a worldwide scene.

Vigorous local rivalry can also stimulate competitiveness through bringing forth the need for enlarging the firms' markets and selling abroad in order to grow. This is particularly likely in the presence of economies of scale when local competitors force each other to direct their activities abroad in the pursuit of greater efficiency and higher profitability. Domestic rivalry not only creates pressures to innovate but to innovate in ways that upgrade the competitive advantages of a nation's firms. The presence of rivals lowers the significance of advantages created through little effort and investment (e. g. those which stem simply from being in a nation). It, therefore, forces a nation's firms to seek higher and ultimately more sustainable sources of competitive advantage. So, contrary to the wrongly perceived notion of "national champions" reaping economies of scale in the home market, the existence of strong domestic rivalry keeps from reliance on factor advantages as well as conditions their more efficient deployment.

Apart from the major determinants Porter considers two additional variables which are not as important as the determinants in influencing the creation of a competitive advantage but are significant in shaping the direction of the influence. These are *chance* and *government*. Chance events are developments beyond the control of firms, such as pure inventions, breakthroughs in basic technologies, etc. They can play an important role in shifting competitive advantage in many industries. Government, being the other variable, is important to the extent to which its policies can influence

the entire system of determinants either in the direction of undermining or enhancing competitive advantage.

Important in understanding the determinants' power to foster competitiveness in an industry is the condition for their being interrelated. What this means is that the determinants should form a *mutually reinforcing system*, referred to as a "*diamond*", and the effect of one of them should be contingent on the state of others. This implies not only the inadequacy of one favorable national attribute to induce competitive advantage itself but also the possibility that an advantage in one determinant can create or upgrade advantages in others.

THE CORE CONCEPT

The resource-based view focuses primarily on the resources and capabilities that a company has and only secondarily on the industries/markets in which it operates. This reflects the fact that all organizations develop unique resources and capabilities and that it is these which are the ultimate source of competitive advantage. All types of competitive advantage require uniqueness in one form or another. If a company wishes to become *the* lowest cost provider in its industry/market, it must develop a unique way of achieving this (otherwise others would share the same position). If a company seeks to be a high-price, low-volume producer, then it must differentiate itself and develop its own unique way of satisfying its customers' wants and needs.

However, while uniqueness may be a necessary condition for achieving competitive advantage, it is not, of itself, sufficient. Simply possessing *different, unique* capabilities and resources do not provide any certainty that competitive advantage can be achieved because, as resource-based theory argues, all companies are *already* uniquely different. The best that these differing resources and capabilities can therefore achieve is to give the company the *potential* for competitive advantage.

Competitive advantage, and particularly *sustainable* competitive advantage, depends on the nature and type of resources and capabilities that a company has, how they have

been amassed and how they are used and deployed. Management, especially top management, plays the critical role in all of this and carries the burden of responsibility for achieving success.

THE STARTING POINT

To understand the underlying logic of the argument it is essential to go back to basics.

The Nature of Organisations

All companies, or their constituent parts, begin life endowed with just an entrepreneur's ideas, an explorer's discovery or an inventor's creation (there being few other reasons for risking money in a business enterprise). In many instances, this immediately makes them different. However, even organisations with similar starting points quickly begin to diverge as different management decisions and choices are made. As each company develops, it takes on its own special characteristics and becomes, as Philip Selznick describes it, "peculiarly competent (or incompetent) to do a particular kind of work". This process is self-reinforcing because managers concentrate on what they and their company already know, and can do, best. In the process, the different resources and capabilities that organisations acquire or accumulate then increasingly predetermine what alternatives are open for the future.

In the end, directly contrary to the formal economic 'theory of the firm', companies within the same industry compete with substantially different bundles of resources and capabilities, using significantly different approaches to try to achieve individual competitive success.

The Nature of resources

The most obvious resources are physical assets such as plant and equipment, factories, R&D laboratories, office buildings, natural resources, raw materials, work-in-progress and so on. Some of these resources are used up rapidly, some give continuing service over many years, some are acquired, some produced, some leased.

A company’s human resources comprise the many individuals, all with differing degrees of skill, who undertake the vast range of activities, tasks and functions within an organisation. Some are on short term, others on long term, contracts. Some have little experience, others have a great deal. Many may represent substantial investment by the company and, as Edith Penrose pointed out, "the firm can suffer something akin to capital loss when employees, at the height of their attributes, leave the firm. Such employees, while not owned, are effectively ‘part of the firm’."

Financial capital is another obvious form of resource. Less tangible but by no means less important are resources such as brand names, reputation, customer or consumer trust and dealer loyalty, as well as intellectual property rights such as copyrights and patents.

The value of resources

While all these resources have their own intrinsic value, they nevertheless remain ‘inputs’. Their real value lies in the way that they are*used* – the ‘outputs’ that they can yield. Thus exactly the same resources, when used differently or in different combinations, provide their own distinct outputs.

The sheer variety of potential resources and the inherent variability within each resource (no two office blocks, individuals or patents are the same) combine with this wide range of different outputs to create the essential *uniqueness* of each company. Given that uniqueness is a necessary but not sufficient condition required to achieve competitive advantage, resources, and above all the way they are deployed, are an essential part of achieving it.

Resources and capabilities

However, to make the best use of their available resources, organisations require capabilities. Such capabilities also come in many different forms. They may, for example, be the command of a particular material technology, high-level marketing skills, effective product development processes, an able treasury function or an aptitude

in introducing new production processes. They also, critically, include management capabilities.

But capabilities are also much more than this. They are in themselves unique resources, available to managers, to be deployed in different ways.

<u>The Nature of Capabilities</u>

while many resources that organizations have are tangible assets, capabilities are, by their very nature, intangible. They are to be found in organisational structures and ways of doing things, in routines and managerial processes. They represent organisational capital in the form of the experience, skills and know-how that enable people to do things well, and can even been seen in the way that team members work together in a particular company environment. Such capital does not, of course, appear on the balance sheet.

Competitive Advantage

If it is these resources and capabilities, in all their various forms, that create the potential for competitive advantage, the question about how they can actually create it remains. The initial answer is that they must be developed, co-ordinated and then deployed in such a way that the company can provide goods or services more *economically* than others or be able to satisfy customers' needs and wants*better* than rivals.

Whether such competitive advantage yields good profit streams, however, depends on a second set of judgements and decisions: the actual products/services to be provided, the nature and size of the customer market chosen and the competitive nature of that marketplace. The ability to repeatedly get this right is, of course, yet another set of capabilities.

Regrettably, however, even if all this is achieved, the ensuing competitive advantage (and its profit stream) may not be sustainable. Competitors, anxious to share in the

profitable opportunity the company has uncovered will seek to follow suit. They have two basic ways of doing this: by directly imitating the product/service or by providing a good/better alternative. In the product/market arena there are myriad ways of achieving this. Products may be reverse-engineered to discover their component parts and how they were made. Service delivery can be sampled repeatedly until the key elements are identified, and then replicated. Marketing expenditure can be matched, alternative distribution channels found.

Even in-company resources and capabilities can be readily emulated or copied. Good competitor analysis can rapidly identify anything from newly installed IT systems to specialist machine tools that have provided a competitive edge. It can uncover new sales or marketing techniques, component sourcing arrangements, specialised service training, supplier partnerships, outsourcing deals and even which alliances or joint ventures are providing new knowledge.

Widespread recognition of this has led many companies to despair of achieving sustainable competitive advantage. For example, during the 1980s, many financial institutions spent billions on IT systems that would give them a market edge, only to watch rivals buy better, newer, faster equipment that negated any brief advantage they had. In the 1990s, retailers launched credit and loyalty cards to build marketing databases, only to watch rivals do the same. Each apparent advantage quickly turns into just another entry ticket to play in the game.

Sustainable Competitive Advantage

It is here that the resource-base view has important insights to offer. If all companies are different, and uniqueness ultimately stems from internal resources and capabilities, then how can they be used to create *sustainable* competitive advantage?

The fundamental argument is that competitive advantage does not lie in the products or services themselves, but in the resources and capabilities that produce them. A company’s own resources and capabilities must therefore be:

- as difficult to imitate as possible
- not easily substituted by other resources or capabilities
- incapable of being rapidly developed elsewhere
- firmly attached to the company that deploys or uses them

Only then, with the right mix of resources and capabilities, used and combined to provide the right products or services, in the right market, at the right time, can a company hope to achieve sustainable competitive advantage and the profits that flow from it. The question is, therefore, what types of resources and capabilities might they be?

THE RIGHT TYPE OF RESOURCE

Resource-based theorists have invested a good deal of time and effort in identifying the types of resource and capability that match these critical conditions. They fall, it is suggested, into a number of categories that offer varying degrees of protection:

UNIQUE PHYSICAL RESOURCES

Clearly, there are a range of physical resources that are, by definition, unique. These may vary from a vast oil field to a small, highly specialized piece of production equipment that has been designed and built in-house. However, while actual imitation is difficult, if not impossible, other oil companies will discover alternative (substitute) fields, and competitors can often emulate the way even specialized equipment works.

PROPERTY RIGHTS

These may take the form of intellectual property, including patents, copyright and trademarks such as ownership of well-known names and other quasi-property rights. Legally protected to prevent direct imitation, these properties are; nevertheless, open to varying degrees of substitution. Pharmaceutical companies constantly vie with each other for better drugs to cure the same ailments.

INTANGIBLEVALUES

Important attributes such as reputation, a good image or the trust of consumers represent intangible values that cannot be 'owned', because they are in the eye of the beholder, but do 'attach' to companies. Rolls-Royce, Chanel or Apple may be brand names, but their power and strength lies in their intangible brand values developed over time. Valuable reputations come in many forms: from a reputation for fair dealing with suppliers or distributors to a very different reputation for rapid and aggressive response to competitors.

INTANGIBLE INTERNAL RESOURCES

Apart from physical resources, companies also possess valuable intangible resources. Some of the most valuable represent knowledge and information compiled over time – for example, long term, intimate knowledge of customers or experiential knowledge about particular technological processes that builds up within an R&D department. Such private information and knowledge comes in many forms. Other internal resources are even more intangible. For instance, the particular structures and ways of doing things that create corporate cultures able to perpetuate important, company-specific attributes. Examples of such cultures can be seen in companies like Hewlett-Packard and ABB. These resources are practically impossible to imitate and take years to substitute. They are also, by definition, integral to the company.

INTANGIBLECAPABILITIES

But, lying behind all these important resources is something even more fundamental: the past and present capabilities from which these resources are derived in the first place. The capabilities to explore, discover and develop an oil field; to invent patentable products or processes; to create a powerful brand; to build a strong reputation; to understand markets, garner knowledge and maintain relationships. The product of skills and abilities, knowledge, learning and experience, these capabilities are to be found at the individual and organizational level, on the shop floor,

in the R&D labs and in the executive suite. From production skills to management ability, from teamwork to individual flair, such capabilities are the most idiosyncratic, and therefore the most difficult to imitate, resources available to a company. While competitors will use their own capabilities as substitutes, so complex are most organizations that particularly successful mixtures of capability are often hard to isolate and identify.

SomeConclusions

By looking at resources and capabilities in this way, it becomes apparent that the more physical and more visible they are, the greater the likelihood that they can be imitated or at least reasonably emulated. Conversely, the more intangible the resource or capability, the more difficult that becomes. But what also appears to be the case is that imitation is most difficult when the resource is one that can only be developed over time, or when success stems from a mix of capabilities that are difficult for competitors to identify.

Barriers to Imitation

These conclusions have led resource-based theorists to look for barriers to imitation. In doing so they have developed the following concepts:

LEVELS OF UNCERTAINITY

The greater the uncertainty or ambiguity about the causes of a company's success, the less likely others are to compete. Firstly, because they do not know exactly what to imitate nor how to go about it, and secondly because such uncertainty often puts competitive investment at too much risk. However, the difficulty in identifying what attributes are currently creating success may not be confined to competitors. The complexity of many organizations denies easy analysis even to the company itself. Just as Michael Polanyi, describing tacit knowledge, suggested that as individuals "we can know more than we can tell", the same can apply to organisations. This presents managers with the problem of identifying what they most need to protect.

Unique, Complex Combinations

This inability to identify the causes of success stems from the complex combinations of resources and capabilities that companies develop. While each element may theoretically be scrutinised, from marketing expenditure to the make-up of an R&D team, from back-office technology to channel management, it is the way resources and capabilities can be made to work together that proves difficult to replicate. Just as products may be reverse-engineered but process technology cannot (because it is not visible to the outside world), so visible facets of an organisation can be studied but its management and other internal processes cannot.

Tacit Knowledge

These unique combinations also tend to develop around themselves a rich layer of tacit knowledge. Many companies have faced the frustration of trying to transfer new methods of operating even within their own organisational structure – from one plant or office to another – with little success. If self-replication runs up against this barrier, then external imitation is likely to be even more difficult. However, it needs to be remembered that internal technology transfer is concerned with adapting the technology to the least capable internal user, whereas the threat of imitation is posed by the most capable external competitors

Creative Capabilities

Benchmarking and the use of consulting companies to acquire particular methodologies appear to have the capacity to break down some of these barriers. However, importing and inserting particular techniques can prove disappointing. This is often because they are introduced in isolation – separated from other capabilities or routines that make them truly effective. But beyond this, putting already developed techniques in place is fundamentally different from having the creative capability to develop such new techniques in the first place.

First-mover advantage

Last, but by no means least, is the value of time. Many critical resources and capabilities take time to develop. Advantage therefore goes to those who started first. This is not the same as first-mover advantage in the marketplace, where the first company to launch a new product may reach critical mass, or dominate a niche before its rivals – although the concept is similar.

ANOTHER CONDITION

As if all this were not difficult enough, there is another, further consideration that has to be taken into account: the cost of amassing the required resources or capabilities to achieve a chosen strategy. If 'above average profits' are the aim of sustainable competitive advantage, the process of amassing resources to fulfill a strategy must not outweigh the profit potential of that strategy.

Reputations, brand names, patentable products or processes do not come cheap. But if they cost more than they are worth, or are deployed badly once possessed, then future profitability or intrinsic value are destroyed. When companies seek to buy resources by, for instance, licensing a new technology, buying prime site locations, co-venturing to build knowledge or even acquiring another company, they are likely to find that the expected level of future profits are already, at least partly, reflected in the price they have to pay. Because, in the end, it is the cost of the necessary resources that directly affects profitability, there are strong arguments for creating them internally rather than acquiring scarce resources in open competition in the marketplace.

UNEXPECTED EVENTS

To acquire or build resources and capabilities at the lowest cost, competition for them – in whatever form – must remain limited. If competitors recognise the value of developing a brand name in the same market at the same time, the stakes are automatically raised. If rivals decide that the same technology is the key to the future, the value of specialists in the field, whether as individuals or corporate entities, rises as competitors outbid each other to recruit or buy them.

Again, first-mover advantage is likely to apply. The first to seek out important scarce resources will tend to pay less for them than the last to do so. The first mover also tends to get the ‘pick of the crop’. However, for this to apply, the need for a particular resource must, by definition, be largely unexpected. If it were widely anticipated, then everyone would move at once.

First movers, therefore, have to be better informed, so that they can accumulate resources before competitors recognise the value of the strategy for which they are being obtained. This is difficult for two reasons: the same methodologies for analysing the business environment are now widely practised, and more and more information is constantly becoming available. This means managers need special insights, unusual foresight or sheer good fortune.

Because barriers to imitation often protect the first successful mover, speed, even when there are high levels of uncertainty, may be critical. As Richard Rumelt points out, good strategy is not necessarily enacted with a high degree of initial confidence, even if managers might appear confident. Unless there is a difference between the subsequent value of a strategy and the prior cost of acquiring the necessary resources, there will be no above-average profits. Counter-intuitively, uncertainty is the strategic opportunity to get it right – if companies wait until the best entry or production method is fully understood, it will normally be too late to take advantage of that opportunity. Unfortunately, as Harold Demetz points out: "It is not until the experiments are

actually tried that we learn which succeed and which fail."

ACCUMULATING RESOURCES

Because uncertainty carries with it the greatest profit potential, sudden opportunities can easily seduce managers into the rapid acquisition of, and heavy investment in, the resources and capabilities that appear necessary to take advantage of them. If the opportunity appears attractive enough, other temptations arise. One is to ignore the cost implications of competing for desirable resources, another is to overlook the fact that any resources that can be acquired quickly also tend to be relatively easy to imitate. Furthermore, as Richard Nelson and Sidney Winter point out, just as individuals cannot know their job just by mastering the required routines, no more can organisations become capable of high performance just by acquiring all the ingredients – even if they have the recipe. Few capabilities are easily and quickly acquired.

Generally, such sudden bursts of enthusiasm and investment do not adequately compensate for failures in consistency over time. Important resources have to be developed over long periods. The loyalty of a company's dealers must be cultivated, the trust of its customers earned, brand strength built. Capabilities are the product of organisational skills, experience and learning and are themselves dependent on previous accumulations of learning, investment and development. Other intangible resources, such as patented products and processes, are similarly the result of protracted internal R&D activity.

Again, time is a critical factor. 'Crash' R&D programmes, for example, are typically less effective than consistent, lower outlays over time. Consistent first movers, provided they move in the right direction, have the advantage. Steady accumulators have other advantages because success often breeds success. Companies who have already developed important technological or production know-how are more likely to make further advances or breakthroughs. The same applies in other areas, for instance strong brand awareness can accelerate new product take-up, making it very difficult for competitors to catch up, particularly in a market where achieving 'critical mass' or market dominance matters (for example in the video games market).

Without constantly being topped up, all capabilities and resources decay over time. Flows (like advertising expenditures), which can be turned on or off at will, are much less powerful than stocks (brand loyalty) accumulated and maintained over time.

Low Cost Leadership Strategies

Low leadership strategies are based on a firm's ability to provide a product or service at a lower cost than its rivals. The basic operating assumption behind a low-cost leadership strategy is to acquire a substantial cost advantage over other competitors that can be passed on to consumers to gain a large market share. A low-cost strategy then produces competitive advantage when the firm can earn a higher profit margin than results from selling products at current market prices. In many cases, firms attempting to execute low-cost strategies aim to sell a product that appeal to an "average" customer in a broad target market. Often, these products or services are highly standardized and not customized to an individual customer's tastes, needs, or desires. A central premise of the low-cost leadership strategy is the following: By making products with as few modifications as possible, the firm can exploit the cost reduction benefits that accrue from economies of scale and experience effects. Low-cost leadership strategies can also flourish in service businesses as well. In these arenas, firms attempt to capture economies of scale in information systems, procurement, logistics and even marketing.

Examples of firms that successfully used a low-cost leadership strategy to build competitive advantage include Whirlpool in washers and dryers, Black and Decker in power tools, BIC in ball point pens, Wal-Mart in retailing, Gillette in razor blades, Texas Instruments and Intel in semiconductors, Samsung in color television sets, Sharp in flat-panel screens and LCD technology, Citigroup in credit card services, Emerson Electric in power drives and tolls, and DuPont in nylon and other synthetic fibers.

Building a Low-Cost Advantage

The low-cost strategy is based on locating and leveraging every possible source of cost advantage in a firm's value chain of activities. Once a firm pursuing a low cost leadership strategy has discovered an important source of cost improvement and reduction, however, it must then seek new ways to lower its activity costs even further

over time. In other words, the sources of low-cost advantage are not enduring or sustainable without continuous improvement and ongoing searches for improved process yields, streamlined product design, or more efficient means of delivering a service.

Building a cost-based advantage thus requires the firm to find and exploit all the potential cost drivers that allow for greater efficiency in each value-adding activity. A cost driver is an economic or technological factor that determines the cost of performing some activity. Important cost drivers that shape the low-cost leadership strategy include

(1) Economies of scale,

(2) Experience or learning curve effects,

(3) Degree of vertical integration, and even

(4) Location of activity performance.

Firms can tailor their use of these cost drivers to build low-cost leadership across different value-adding activities.

In pursuing a cost-based advantage, no firm can obviously ignore such product attributes as quality, service, and reliability. If it does, its offering may become so unacceptable that consumers will refuse to buy it or will buy it only if the price is reduced to a level below what is needed to sustain profitability. A firm pursuing a cost-based advantage must therefore strive to achieve some degree of quality parity or proximity with other firms that have defined the standards of product quality valued by customers.

Differentiation Strategies

Differentiation strategies come into play whenever buyers' needs and preferences are too diverse to be satisfied by a standardized product. A successful differentia tor studies buyers' needs and behavior carefully to learn what they consider important and valuable. Then the differentiator incorporates one or several of those features into its

product offering to encourage buyer preferences for its brand over the brands of rivals. Competitive advantage results when enough buyers become strongly attached to the attributes of a differentiator 's product offering. Successful differentiation allows a firm to

- command a premium price for its product, and/or
- sell more units {because additional buyers are won over by the differentiating features), and/or
- gain greater buyer loyalty to its brand (because some buyers are strongly attracted to the differentiating features).

Differentiation enhances profitability whenever the extra price the product commands outweighs the added costs of achieving differentiation. Differentiation is unsuccessful when buyers don't value the additional features highly enough to buy the product in profitable quantities. And differentiation is unprofitable when the price premium buyers are willing to pay won't cover the extra costs of achieving brand distinctiveness.

The approaches to differentiating a product take many forms: a different taste (Dr Pepper and Listerine), special features (Jenn Air's indoor cooking tops with a vented built-in grill for barbecuing), superior service (Federal Express in overnight package delivery), spare parts availability (Caterpillar guarantees 48-hour spare parts delivery to any customer anywhere in the world or else the part is furnished free), overall value to the customer (McDonald's), engineering design and performance (Mercedes), prestige and distinctiveness (Rolex), product reliability (Johnson & Johnson baby products), quality manufacture (Honda), technological leadership (3M in bonding and coating products), a full range of services (Merrill Lynch), a complete line of products (Campbell soups), and top-of-the-line image and reputation (Brooks Brothers and Ralph Lauren in menswear, Kitchen Aid in dishwashers, and Cross in writing instruments).

Achieving Differentiation Anything a firm can do to create buyer value representsa potential basis for differentiation. Once a firm finds good sources of buyer value,it must build the value-creating attributes into its product at an acceptable cost. A differentia tor can incorporate attributes that raise the product's performance or make it more economical to use. Or a firm can incorporate features that enhance buyer satisfaction in tangible or intangible ways during use. Differentiation possibilities can grow out of activities performed anywhere in the activity-cost chain. McDonald's gets high ratings on its french fries partly because it has very strict specifications on the potatoes it purchases from its supplier.

The quality of Japanese cars stems primarily from Japanese auto-makers' skills in manufacturing and quality control. IBM boosts buyer value by providing its customers with an extensive array of services and technical support. L. L. Bean makes its mail-order customers feel secure by providing an unconditional guarantee with no time limit: 'All of our products are guar-anteed to give 100 percent satisfaction in every way. Return anything pur-chased from us at anytime if it proves otherwise. We will replace it, refund your pure hase price, or credit your credit card, as you wish." Commercial air-lines use their empty seats during off-peak travel periods (i.e., their excess capacity) as the basis for awarding free travel to frequent flyers.

What Makes Differentiation Attractive Differentiation provides some buffer agains.L~~vals' strategies because buyers become loyal to the brand or modelthey "like best and often are willing to pay a little (perhaps a lot!) more for it. In addition, successful differentiation (1) erects entry barriers in the form of customer loyalty and uniqueness that newcomers find hard to overcome,

(2) mitigates the bargaining power of large buyers since rivals' products are less attractive to them, and (3) helps a firm fend off threats from substitutes. If differentiation allows a firm to charge a higher price and boost profit margins, it will be in a stronger position to withstand powerful suppliers' efforts to raise their prices. Thus, as with cost leadership, successful differentiation creates lines of defense for dealing with the five competitive forces.

As a rule, differentiation strategies work best in situations where

(1) there are many ways to differentiate the product or service and many buyers perceive these differences as valuable,

(2) buyer needs and uses of the item are diverse, and

(3) few rival firms are following a similar differentiation approach.

Keeping the Cost of Differentiation in line Attempts to achieve differentiation usually raise costs. The trick to profitable differentiation is either to keep the costs of achieving differentiation below the price premium the differentiating attributes can command in the marketplace (thus increasing the profit margin per unit sold) or to offset thinner profit margins with enough added volume to increase total profits (larger volume can make up for smaller mar-gins provided differentiation adds enough extra sales). In pursuing differentiation, a firm must be careful not to get its overall unit costs so far out of line with competitors that it has to charge a higher price than buyers are willing to pay.

There may also be good reason to add extra differentiating features that are not costly but add to buyer satisfaction-fine restaurants typically provide such extras as a slice of lemon in the water glass, valet parking, and complimentary after-dinner mints. The Risks of a Differentiation Strategy There are, of course, no guarantees that

differentiation will produce a meaningful competitive advantage. If buyers see little value in uniqueness (i.e., a standard item meets their needs), a low-cost strategy can easily defeat a differentiation strategy. In addition, differentiation can be defeated from the outset if competitors can quickly copy the attempt at differentiating. Rapid imitation means that firms never achieve real differentiation because competing brands keep changing in like ways despite continued efforts to create uniqueness. Thus, to be successful at differentiation, a firm must search out durable sources of uniqueness that cannot be quickly or cheaply imitated. Aside from these considerations, other common pitfalls include:

- Trying to differentiate on the basis of something that does not lower a buyer's cost or enhance a buyer's well-being (as perceived by the buyer).
- Over differentiating so that price is too high relative to competitors or product quality or service levels exceed buyers' needs.
- Trying to charge too high a price premium (the bigger the premium, the more buyers can be lured away by lower-priced competitors).
- Ignoring the need to signal value and depending only on tangible product attributes to achieve differentiation.
- Not understanding or identifying what buyers consider as value.

Focus and Specialization Strategies

Focusing starts by choosing a market niche where buyers have distinctive preferences or requirements. The niche can be defined by geographic uniqueness, by specialized requirements in using the product, or by special product attributes that appeal only to niche members.

A focuser 's basis for competitive advantage is either lower costs than competitors in serving the market niche or an ability to offer niche members something different from other competitors.

A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy compared to the rest of the market. A focus strategy based on differentiation depends on there being a buyer segment that demands unique product attributes.

Examples of firms employing a focus strategy include Tandem Computers (a specialist in "nonstop" computers for customers who need a "fail-safe" sys-tem), Rolls Royce (in super luxury automobiles), Apple Computer in desktop publishing (Apple computers produce typeset-quality reports and graphics), Fort Howard Paper (specializing in paper products for industrial and commer-cial enterprises only), commuter airlines like Skywest and Atlantic Southeast (specializing in low-traffic, short-haul flights linking major airports with smaller cities 50 to 250 miles away), and Bandag (a specialist in truck tire recap-ping that promotes its recaps aggressively at over 1,000 truck stops).

Using a focus strategy to achieve a cost breakthrough is a fairly common technique. Budget-priced motel chains like Days Inn, Motel 6, and LaQuinta have lowered their investment and operating cost per room by using a no-frills approach and catering to price-conscious travelers. Discount stock brokerage houses have lowered costs by focusing on customers mainly inter-ested in buy-sell transactions who are willing to forgo the investment research, investment advice, and financial services offered by full-service firms like Merrill Lynch. Pursuing a cost advantage via focusing works well when a firm can find ways to lower costs by limiting its customer base to a well-defined buyer segment.

When Focusing is Attractive: A focus strategy becomes increasingly attractive as more of the following conditions are met:

- The segment is big enough to be profitable.
- The segment has good growth potential.
- The segment is not crucial to the success of major competitors.
- The focusing firm has the skills and resources to serve the segment effectively.

- The focuser can defend itself against challengers based on the customer goodwill it has built up and its superior ability to serve buyers in the segment.

Focusing works best

(1) When it is costly or difficult for multi segment competitors to meet the specialized needs of the niche,

(2) When no other rival is attempting to *specialize* in the same target segment;

(3) When a firm doesn't have enough resources to pursue a wider part of the total market; and

(4) When the industry has many different segments, thereby allowing a focuser to pick an attractive segment suited to its strengths and capabilities.

Tile Risks of a Focus Strategy Focusing carries several risks. One is the chance that competitors will find ways to match the focused firm in serving the narrow target market. Second is the potential for the niche buyer's preferences and needs to shift toward the product attributes desired by the market as a whole; such erosion opens the way for rivals with broad market appeal. Third is the chance that the segment will become so attractive that it becomes inundated with competitors, causing profits to be splintered.

USING OFFENSIVE STRATEGIES TO SECURE COMPETITIVE ADVANTAGE

An offensive strategy, if successful, can open up a competitive advantage over rivals

How long this process takes depends on the industry 's competitive characteristics. The *buildup period,* can be short as in service businesses which need little in the way of equipment and distribution support to implement a new offensive move. Or the buildup can take much longer, as in capital intensive and technologically sophisticated industries where firms may need several years to debug a new technology, bring new capacity on line, and win consumer acceptance of a new product. Ideally, an offensive move builds competitive advantage quickly; the longer it takes the more likely rivals will spot the move, see its potential, and begin responding.

There are two good reasons to go head-to-head against rivals, pitting one's own strengths against theirs, price for price, model for model promotion tactic for promotion tactic, and geographic area by geographic area. The first is to try to gain market share by overpowering weaker rivals; challenging weaker rivals where they are strongest is attractive whenever a firm can win a decisive market victory and a commanding edge over struggling competitors. The other reason is to whittle away at a strong rival's competitive advantage; here success is measured by how much

the competitive gap is narrowed. The merits of a strength-against-strength offensive challenge, of course, depend on how much the offensive costs compared to its benefits. To succeed, the initiator needs enough competitive strength and resources to take at least some market share from the targeted rivals.

All-out attacks on competitor strengths can involve initiatives on any of several fronts-price-cutting, comparison ads, new features that appeal to a rival's customers, new plant capacity in a rival's backyard, or new models that match rivals'. One of the best ploys is for the aggressor to attack with an equally good product offering and a lower price. This can produce market share gains if the targeted rival has strong reasons for not cutting its prices and if the challenger convinces buyers that its product is just as good. However, such a strategy will increase profits only if volume gains offset the impact of thinner margins per unit sold.

Attacking Competitor Weaknesses

In this offensive approach, firms concentrate their competitive attention directly on the weaknesses of rivals. There are a number of weaknesses which can prove fruitful to challenge:

- Attack geographic regions where a rival has a weak market share or is exerting less competitive effort.
- Attack buyer segments that a rival is neglecting or is weakly equipped to serve.
- Attack rivals that lag on quality, features, or product performance; in such cases, a challenger with a better product can often convince the most performance-conscious customers of lagging rivals to switch to its brand.
- Attack rivals that have done a poor job of servicing customers; in such cases, a service-oriented challenger can win a rival's disenchanted customers.
- Attack rivals with weak advertising and brand recognition; challenger with strong marketing skills and a good image can often move in on lesser-known rivals.
- Attack market leaders that have gaps in their product line; challengers can exploit opportunities to develop these gaps into strong, new market segments
- Attack market leaders who are ignoring certain buyer needs by introducing product versions that satisfy these needs.

As a rule, attacks on competitor weaknesses have a better chance of succeeding than attacks on competitor strengths, provided the weaknesses represent important vulnerabilities and the rival is caught by surprise with no ready defense.

Preemptive Strategies

Preemptive strategies involve moving first to secure an advantageous position that rivals are foreclosed or discouraged from duplicating. There are several ways to win a prime strategic position with preemptive moves:

- Expand production capacity ahead of market demand in hopes of discouraging rivals from following suit. When rivals are "bluffed" out of adding capacity by a fear of creating long-term excess supply and underutilized plants, the preemptor can win a bigger market share if market demand grows and its own plant capacity fills.
- Tie up the best (or the most) raw material sources and/or the most reliable, high-quality suppliers via long-term contracts or backward vertical integration. This move can relegate rivals to struggling for second-best supply positions.
- Secure the best geographic locations. An attractive first-mover advantage can often be locked up by moving to obtain the most favorable site along a heavily traveled thoroughfare, at a new interchange or intersection, in a new shopping mall, in a natural beauty spot, close to cheap transportation or raw material supplies or market outlets, and so on.
  - Obtain the business of prestigious customers.
  - Build a "psychological" image in the minds of consumers that is unique and hard to copy and that establishes a compelling appeal and rallying cry. Examples include Avis's well-known "We try harder" theme, Frito-Lay's guarantee to retailers of "99.5% service," Holiday Inn's assurance of "no surprises," and Prudential's "piece of the rock" image of safety and permanence.
- Secure exclusive or dominant access to the best distributors in an area.

Preemption has been used successfully by a number of companies. General Mills' Red Lobster restaurant chain has gained a prime position in the restaurant business by establishing strong relationships with very dependable sea-food suppliers. DeBeers became the dominant world distributor of diamonds by buying the production of most of the important diamond mines. Du Pont's aggressive capacity expansions in titanium dioxide, while not blocking all competitors from expanding, did discourage enough to give it a leadership position in the titanium dioxide industry.

To be successful, a preemptive move doesn't have to totally block rivals from following or copying; it merely needs to give a firm a "prime" position. A prime position is one that puts rivals at a competitive disadvantage and is not easily circumvented.

Choosing Who to Attack

Aggressor firms need to analyze which of their rivals to attack as well as how to attack them. There are basically three types of firms that can be attacked offensively:

1. *Market leader(s).* Waging an offensive against strong leader(s) risks squandering valuable resources in a futile effort and even precipitating a fierce and profitless industry wide battle for market share. Offensive attacks on a major competitor make the best sense when the leader in terms of size and market share is not the "true leader" in terms of serving the market well. Signs of leader vulnerability include unhappy buyers, sliding profits, strong emotional commitment to a technology the leader has pioneered, outdated plants and equipment, a preoccupation with diversification into other industries, a product line that is clearly not superior to rivals', and a competitive strategy that lacks real strength based on low-cost leadership or differentiation
2. *Runner-up firms.* Offensives against weaker, vulnerable runner-up firms entail relatively low risk. Attacking a runner-up is ill especially attractive option when a challenger's competitive strengths match the runner-up's weaknesses.
3. *Struggling enterprises that are on the verge of going under.* Challenging a hard-pressed rival in ways that further sap its financial strength and competitive position can weaken its resolve enough to prompt its exit from the market.
4. *Small local and regional firms.* Because these firms typically have limited expertise, a challenger with broader capabilities is well-positioned to raid their biggest and best customers-particularly those who are growing rapidly; have increasingly sophisticated needs, and may already be thinking about switching to a supplier with more full-service capability.

As we have said, successful strategies are grounded in competitive advantage. This goes for offensive strategies too. The competitive advantage potentials that offer the strongest basis for a strategic offensive include:

- Developing a lower-cost product design.
- Making changes in production operations that lower costs or enhance differentiation.
- Developing product features that deliver superior performance or lower user costs.
- Giving buyers more responsive after-sale support.
- Escalating the marketing effort in an under marketed industry.
- Pioneering a new distribution channel.
- Bypassing wholesale distributors and selling direct to the end-user.

A strategic offensive *must* be tied to what a firm does best-its competitive strengths and capabilities. As a rule, these strengths take the form of a *key skill*

(cost reduction capabilities, customer service skills, technical expertise) or a uniquely *strong functional competence* (engineering and product design, manufacturing expertise, advertising and promotion, marketing know-how) [17]

USING DEFENSIVE STRATEGIES TO PROTECT COMPETITIVE ADVANTAGE

In a competitive market, all firms are subject to attacks from rivals. Offensive attacks can come both from new entrants and from established firms seeking to improve their market positions. The purpose of defensive strategy is to lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challengers to aim their efforts at other rivals. While defensive strategy usually doesn't enhance a firm's competitive advantage, it should help fortify a firm's competitive position and sustain whatever competitive advantage it has.

There are several basic ways for a firm to protect its competitive position. One approach involves trying to block challengers' avenues for mounting an offensive; the options include:

- Broadening the firm's product line to close off vacant niches and gaps to would-be challengers.
- Introducing models or brands that match the characteristics challengers' models already have or might have.
- Keeping prices low on models that most closely match competitors' offerings.
- Signing exclusive agreements with dealers and distributors to keep competitors from using the same ones.
- Granting dealers and distributors sizable volume discounts to discourage them from experimenting with other suppliers.
- Offering free or low-cost training to buyers' personnel in the use of the firm's product.
- Making it harder for competitors to get buyers to try their brands by (1) giving special price discounts to buyers who are considering trial use of rival brands, (2) resorting to high levels of couponing and sample giveaways to buyers most prone to experiment, and (3) making early announcements about impending new products or price changes so buyers postpone switching.
- Raising the amount of financing provided to dealers and/ or buyers.

o Reducing delivery times for spare parts.

- Increasing warranty coverages.
- Patenting alternative technologies.
- Protecting proprietary know-how in products, production technologies, and other parts of the activity-cost chain.

- Signing exclusive contracts with the best suppliers to block access of aggressive rivals.
- Purchasing natural resource reserves ahead of present needs to keep them from competitors.
- Avoiding suppliers that also serve competitors.
- Challenging rivals' products or practices in regulatory proceedings.

Moves such as this not only buttress a firm’s present position, they also present competitors with a moving target. It is not enough just to try to protect the status quo. A good defense entails adjusting quickly to changing industry conditions and, on occasion, being a first-mover to block or preempt moves by would-be aggressors. A mobile defense is always preferable to a stationary defense.

A second approach to defensive strategy entails signaling strong retaliation if a challenger attacks. The goal is to dissuade challengers from attacking at all (by raising their expectations that the resulting battle will be more costly than it is worth) or divert challengers to options less threatening to the defender.

Another way to dissuade rivals involves trying to lower the profit inducement for challengers to launch an offensive. When a firm's or industry's profitability is enticingly high, challengers are more willing to tackle high defensive barriers and combat strong retaliation. A defender can deflect attacks, especially from new entrants, by deliberately forgoing some short-run profits and by using accounting methods that obscure profitability.

VERTICAL INTEGRATION STRATEGIES

Vertical integration strategies aim at extending a firm's competitive scope within the same industry. Firms can expand their range of activities backward into sources of supply and/or forward toward end-users. A manufacturer that builds a new plant to make component parts rather than purchase them from suppliers remains in essentially the same industry as before. The only change is that it has business units in two stages of production in the industry's total activity-chain. Similarly; if a personal computer manufacturer elects to integrate forward by opening retail stores to market its brands, it remains in the personal computer business even though its competitive scope extends further forward in the industry chain.

Moves to vertically integrate can aim at *full integration* (participating in all stages of the process of getting products in the hands of final-users) or *partial integration* (building positions in just some stages of the industry's total production distribution chain). A firm can accomplish vertical integration by starting its own company in other stages of the industry's activity chain or by acquiring a company already positioned in the stage it wishes to integrate.

THE DURABILITY OF COMPETITIVE ADVANTAGE: Barriers to imitation

- Speed of imitation by competitors in reducing advantage
- Imitation by acquiring similar resources
- Imitation of capabilities (more difficult)

Limits on competitors

- Prior strategic commitments
- Absorptive capacity for change

Industry dynamism

- The rapid innovation shortens product life cycles.

Distinctive competence

*A **distinctive competency** is a **competency** unique to a business organization, a **competency** superior in some aspect than the **competencies** of other organizations, which enables the production of a unique value proposition in the function of the business.*

AVOIDING FAILURE AND SUSTAINING COMPETITIVE ADVANTAGE:

- Focus on the building blocks of competitive advantage.
- Institute continuous improvement and learning.
- Track best industrial practice and use benchmarking

Avoiding failures and sustaining competitive advantage

Building blocks of competitive advantage : The **four** generic **building blocks of competitive advantage** are efficiency, quality, innovation, and responsiveness to customers.

1. Strong research and development capabilities: A business can gain a strong competitive advantage in its industry if it has strong research and development capabilities. Strong research and development reflects in the company's product development processes. Companies with strong research capabilities often lead the market with innovation.

2. Access to intellectual properties: The next source of sustainable competitive advantage a business can exploit is the holding of an intellectual right; which can exist in the form of *trademarks, trade names, copyrights and patents*.

3. Exclusive reselling or distribution rights: Holding exclusive distribution right is another source of sustainable competitive advantage. When a company holds exclusive rights to a product within a given territory; that product can only be sourced from the distributor or holder of such rights.
4. Ownership of capital equipment: This source of competitive advantage is mainly exploited by companies operating in industries where heavy machinery is needed. Example of such industries where ownership of capital equipment is a competitive advantage includes publishing, manufacturing, oil exploration, construction and mining.
5. Superior product or customer support: Any company that has the capacity to quickly respond to customers need and provide subsequent support will have a competitive advantage over competitors.
6. Low cost or high volume production: If your business has the capacity to produce in high volume; then it can gain a sustainable competitive advantage by reducing its profit margin and recoup it through high volume sales and turnover.

7. Economic factors: The seventh source of sustainable competitive advantage is the economic factor of a region within a speculated time frame. A manufacturing company operating from China or India will have competitive advantage over a company manufacturing in the United States because the economic system in China is more favorable with respect to start up overhead and labor cost.

8. Superior database management and data processing capabilities This source of competitive advantage is quite clear and understandable. A company that demonstrates the capacity to process data speedily will have a competitive advantage over other firms with lower processing capacity. This source of competitive advantage usually plays itself out in the banking industry, telecommunication industry and the service industry in general.

9. Strong marketing strategy

In the market place, the company with the best marketing strategy wins. No doubts about it. The competition to gain a stronger competitive advantage in the marketplace is the reason why giant corporations spend millions of dollars on marketing research and advertising annually.

10. Access to working capital

Access to working capital is one of the strongest sustainable competitive advantages a business can have over its competitors. Access to working capital is the difference between a billion dollar company and a million dollar company or a small business and a big business.

11. Excellent management team and operations

Show me a business that is a market leader in its industry and I will show you a business backed by a strong management team. Exploiting other sources of competitive advantage without a strong business team on ground will only be a futile attempt. A business management team is essential to harnessing opportunities that create the needed competitive advantage.

12. Barriers to entry or monopoly

Some businesses have gained competitive advantage because the entry in their industry has been limited by surrounding circumstances. A good example of industry where barriers to entry creates competitive advantage is the oil exploration and mining sector (industries where licenses are needed to gain entry because there is government restriction on entry). Monopoly is also a sustainable competitive advantage and can be gained by having strong ties with the government.

TYPES OF STRATEGY

Strategy king is not just an ask for top executives. Middle and lower level managers too must be involved in the strategic planning process to the extent possible. In a large company / firm actually four level of strategies (corporate level, divisional / business level, functional level and operational level) where as in small farm strategies are actually in three level –

- Company / Corporate,
- Business, and
- Functional or Operational level.

It is important to note that all levels / all persons responsible for strategic planning at the various levels ideally participate and understand the strategies at the other organizational levels to assure coordination, facilitation, and commitment while avoiding in consistency, inefficiency and miscommunication.

Strategy can be broadly classified into three levels (organizational level of Hierarchy) – corporate level, business level and functional level but if we consider in operational or action level there are 12 alternative options under 4 broad categories like

- Intensive
- Integrative,
- diversification
- and defensive.

Forward Integration:

Forward integration involves gaining ownership or increased control over distributors or retailers. Increasing numbers of manufacturers (suppliers) today are perusing of forward integration strategy by establishing the web site to sell products directly to the consumers. This strategy is causing turmoil in some industries.

Six guiding principles for when forward integration may be an effective strategy for the company and they are:

- When the resent distributors are expensive, or unreliable, or incapable of meeting the firm's distribution needs
- When the availability of quality distributors is too limited as to offer a competitive advantages
- When an organization competes in an industry that is growing and is expected to continue to grow markedly: this is a factor because forward integration reduces an organization's ability to diversify if its basic industry falters.

- When an organization has both the capital and human resources needed to manage the new business of distributing its own products.
- When the advantages of stable production are particularly high: this is a consideration because an organization can increase the predictability of the demand for its output through forward integration.
- When present distributors or retailers have high profit margins: this situation suggests that a company profitably could distribute its own products and price them more competitively by integrating forward.

Backward Integration:

Both manufactures and retailers purchase needed materials from suppliers. Backward integration is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's current suppliers are unable, too costly or cannot meet the firm's needs.

Seven guidelines for when backward integration may be an especially effective strategy are:

- When the resent distributors are expensive, or unreliable, or incapable of meeting the firm's needs for parts, components, assembles or raw materials
- When the numbers of suppliers is small and the number of competitors is large.
- When an organization competes in an industry that is growing rapidly: this is a factor because integrative – type strategies (forward – backward – horizontal) reduce an organizations ability to diversify in a declining industry.
- When an organization has both capital and human resources to manage the new business of supplying its own raw materials.
- When the advantages of stable prices are particularly important: this is a factor because an organization can stabilize the cost of its raw materials and the associated price of its products through backward integration.
- When present supplies have high profit margins.
- When an organization needs to acquire a needed resources quickly.

Horizontal Integration:

Horizontal Integration refers to a strategy of seeking ownership of or increased control over firm's competitions. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. Managers, acquisitions, and takeovers among competitors allow for increased economics of scale and enhanced transfer of resources and competencies.

Five guidelines for when horizontal integration may be an especially effective strategy for the company and they are:

- When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government for "tending substantially" to reduce competitions.
- When an organization competes in a growing industry.
- When increased economics of scale provide major competitive advantages.
- When an organization has both the capital and human talent needed to successfully manage an expanded organizations.
- When competitors are faltering due to a lack of managerial expertise or a need for particular resources that an organization possesses.

Note that horizontal integration would not be appropriate if competitors are doing poorly, because in that case overall industry sales are declining.

INTENSIVE STRATEGIES:

Market penetration, market development and product development are sometimes referred to as intensive strategies because they require intensive efforts if a firm's competitive position with existing products is to improve.

Market Penetration:

A market penetration strategy seeks to increase market share for resent products or services in resent markets through greater marketing efforts. This strategy is widely used alone and in combination with other strategies. Market penetration includes increasing the number of sales persons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts.

Five guiding principles for when market penetration may be an especially effective strategy for the company and they are:

- When current markets are not saturated with a particular product or services
- When the usages rate of present customers could be increased significantly
- When the market shares of major competitors have been declining while total industry sales have been increasing.
- When the correlation between dollar sales and dollar marketing expenditure historically has been high.
- When increased economics of scale provide major competitive advantages.

Market Development:

Market development involves introducing present products or services into new geographic areas. Like, McDonald's had plan to open 100 new stores in China in

2004 and another 100 in China in 2005. By mid 2003, Mc Donald's had 566 restaurants in 94 cities in China, representing the company's seventh largest market. Presently McDonald serves about 2-3 million customer everyday in china and plans to boost the numbers.

Six guiding principles for when market development may be an effective strategy for the company and they are:

- When new channel of distribution are available that are reliable, inexpensive and of good quality.
- When an organization is very successful at what it does.
- When new untapped or unstructured markets are exists
- When an organization has the needed capital and human resources to manage the extended operations.
- When an organization has excess production capacity.
- When an organization's basic industry is becoming rapidly global in scope.

Product Development:

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures.

Fast food chains from Arby's to McDonald's are pursuing product development, testing gourmet – like sandwiches – because customers increasingly are willing to pay more for fast food crafted with quality ingredients. People more and more want food that not only tests good but those they can feel good about eating.

Five guiding principles for when product development may be an effective strategy to pursue for the company and they are:

- When an organization has successful products that are in maturity stage of the product life cycle.
- When an organization competes in an industry that is characterized by rapid technological developments.
- When major competitors offer better – quality products at comparable rate / prices.
- When an organization competes in a high growth industry.
- When an organization has especially strong research and development capabilities.

Diversification Strategies:

When a company's current product lines do not have much growth potential, management may decide to diversify in business called diversification strategy. There are three general types of diversification strategies:

1. Concentric
2. Horizontal
3. Conglomerate

Defensive Strategies:

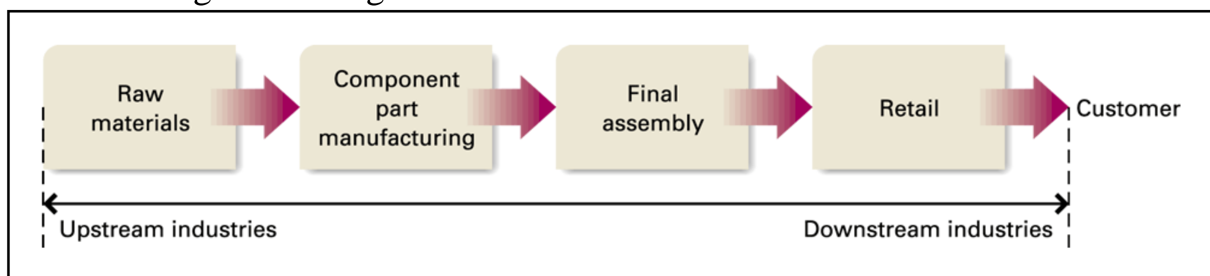
When a company's current product lines faces lots of problems in growth potential, management may decide to take defense in business called defensive strategy. There are three general types of defensive strategies:

1. Retrenchment
2. Divestiture
3. Liquidation

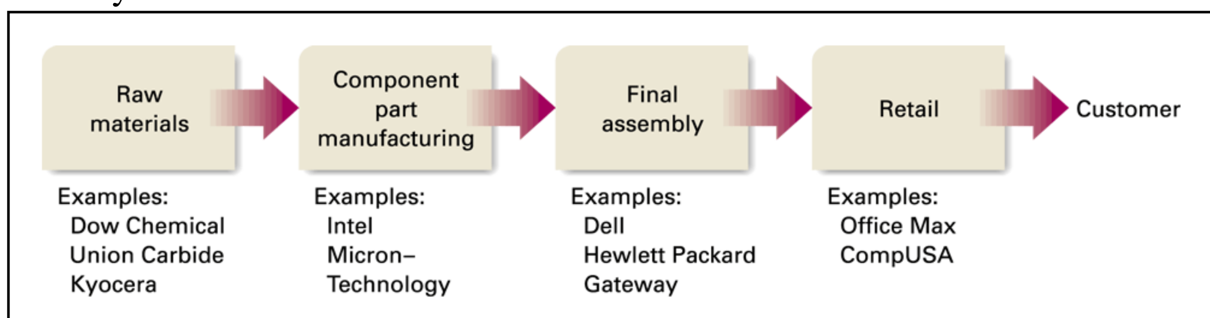
Finally, to some extent strategic choice shapes and even limits the goals a company can reasonably pursue. The logically viable strategy emerges where the three logical elements overlap. Where all three circles overlap, the differing requirements of intent and assessment are most fully met.

Where any two circles overlap are areas where feasible options may exist. They may not be aligned to strategic intent, or if they are aligned are not found feasible. Choices of what not to do may sometimes be as important as choosing what to do.

Vertical Integration: Stages in the Raw Material to Consumer Value Chain



The Raw Material to Consumer Value (Supply) Chain in the Personal Computer Industry



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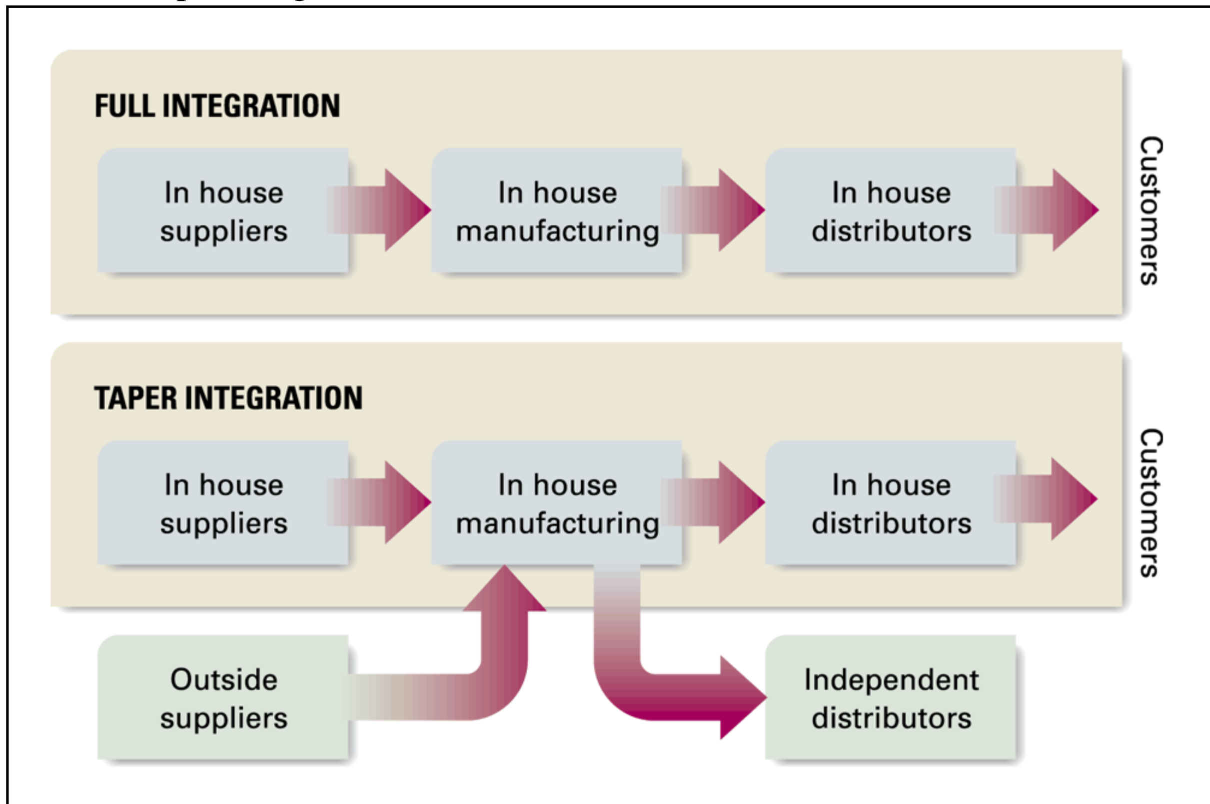
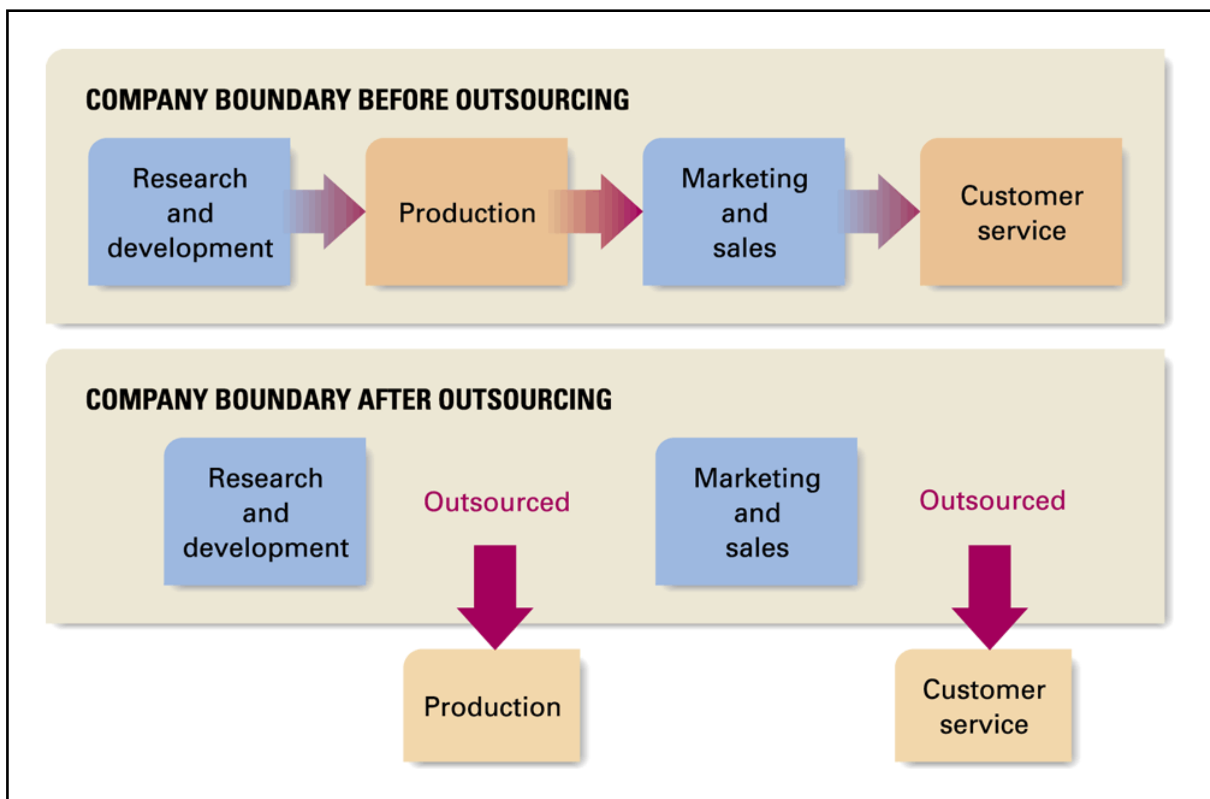




Strategic Alliances

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. This form of cooperation lies between mergers and acquisitions and organic growth.

What is it that makes an alliance truly strategic to a particular company? Is it possible for an alliance to be strategic to only one of the parties in a relationship? Many alliances default to some form of revenue generation—which is certainly important— but revenue alone may not be truly strategic to the objectives of the business. There are five general criteria that differentiate strategic alliances from conventional alliances.

An alliance meeting any one of these criteria is strategic and should be managed accordingly.

1. Critical to the success of a core business goal or objective.
2. Critical to the development or maintenance of a core competency or other source of competitive advantage.
3. Blocks a competitive threat.
4. Creates or maintains strategic choices for the firm.
5. Mitigates a significant risk to the business.

The essential issue when developing a strategic alliance is to understand which of these criteria the other party views as strategic. If either partner misunderstands the other's expectation of the alliance, it is likely to fall apart. For example, if one partner believes the other is looking for revenue generation to achieve a core business goal, when in reality the objective is to keep a strategic option open, the alliance is not likely to survive.

Examining each of the five strategic criteria in depth provides insight into how the strategic value of alliances can be leveraged.

1. Critical to a business objective

While the most common type of alliance generates revenue through a joint go-to-market approach, not every alliance that produces revenue is strategic. For example, consider the impact on revenue objectives if the relationship were terminated? Clearly, a truly strategic relationship would have a great bearing on the prospects for achieving revenue growth targets.

In addition to a single strategic alliance, related groupings of alliances—networks or constellations—may also be critical to a business objective. Sun Microsystems has established a group of integrator alliances that function as an effective marketing channel and drive significant revenues for the company each quarter.

This category also includes alliances with high potential, such as alliances that have large but unrealized revenue opportunity. Consider the impact of new industry standards that make it possible for products from different manufacturers to work together.

This can unlock customer value and boost the revenue potential of new, technology-based products. From writable DVD formats to next-generation wireless technologies, technical standards are democratically determined in consortiums of interested industry participants. With product development racing in parallel, the first mover's advantage can be substantial, and hence alliance development and lobbying within an industry become paramount to financial success.
Cost reduction may also be a core business objective of the alliance, particularly among supply-side partners. By investing together in new processes, technologies and standards, alliance partners can obtain substantial cost savings in their internal operations. Again, however, a cost-saving alliance is not truly strategic unless it has an underlying business objective, such as "to achieve an industry-leading cost structure."

2. Competitive advantage and core competency

Another way in which an alliance can prove to be strategic is to play a key role in developing or protecting a firm's competitive advantage or core competency. Learning alliances are the most common form of competitive/competency strategic alliances. An organization's need to build incremental skills in an area of importance is often accelerated with the help of an experienced partner. In some cases, the learning objective of the relationship is openly agreed between the partners; however, this is not always the case. Learning alliances work best when:

1. The objectives are openly shared
2. There is little chance of future competition (such as when the partners are in adjacent industries)
3. The cultures of the organizations are similar enough to enable process and methods to be leveraged, and
4. The governance structure of the alliances is established to promote learning at the executive, managerial and operational levels.

3. Blocking a competitive threat

An alliance can be strategic even when it falls short of establishing a competitive advantage. Consider the case of an alliance that blocks a competitive threat. It is strategic to bring competitive parity to a secondary segment of a market in which the firm competes, when the *absence* of parity creates a competitive disadvantage in the related primary segments of that market. For example, competing in the high and medium price range of a market with a premium product may leave the firm vulnerable to a low-priced entry. If the firm's manufacturing processes do not permit the creation of a low-priced product entry, a strategic alliance with a volume partner in an adjacent market can successfully block the competitive threat.
Another example of strategic alliances that block competitive threats are the airline alliances that permit route-sharing among carriers. The two primary determinants of customer flight selection are routing and cost. Therefore, the adoption of route-sharing alliances by the airlines blocks the competitive threat of preferential routing

in the specific markets in which the airline chooses to compete. In essence, strategic alliances within the airline industry ensure competitive parity with respect to routing and force other factors such as on-time departures and customer service to become the bases for competitive differentiation.

4. Future strategic options

From a longer-term perspective, an alliance that is not fundamental to achieving a business objective today could become critical in the future. For example, in 1984, a U.S. consumer products company needed to expand distribution beyond the Midwestern states. Faced with the prospect of European competition at some point in the future, the firm made a strategic decision to invest in an alliance with a distribution and support services company that had incremental distribution capacity in the U.S. and a similar presence in Europe, rather than invest in expanding its own local distribution capabilities. With the option to expand into European distribution at any point, the firm could work to sew up the U.S. market before expanding too quickly internationally.

5. Risk mitigation

When an alliance is driven by intent to mitigate significant risk to an underlying business objective, the nature of the risk and its potential impact on the underlying business objective are the key determinants of whether or not it is truly strategic. Dual sourcing strategies for critical production components or processes are excellent examples of how risk mitigation can become the context for supply-side strategic alliances.

As process manufacturing companies advance the yield of their operations, suppliers often collaborate with the manufacturer to ensure their new products fit within its new operations. The benefits of such an alliance are cost savings to the manufacturer and accelerated product development for the supplier. In situations where the supplier's product is critical to the manufacturer's operation, it may be necessary for the manufacturer to have strategic alliances with two competing suppliers in order to mitigate such risks as unilateral cost increases or degradation in quality of service.

Joint ventures and minority equity investments

Among relationship commitments, joint ventures and equity investments are closest to the strategic end of the spectrum. However, investing a large sum of money in a partner does not automatically make the relationship strategic. One needs only to survey the wreckage of the dot-com era for proof of failed minority equity investments in alliances. It may be economically sound to invest $1 million in a distribution relationship that is projected to return $1.5 million in incremental sales the following year. This would not necessarily be strategic to a firm with $800 million in annual sales, unless the alliance also served an alternate purpose that met one of the five strategic criteria. For example, if the achievement of a core business

objective, such as access to a new market, were enabled by the investment, then it would be strategic to the firm.

How, then, should strategic alliances be managed differently than traditional alliances? There are countless lists of reasons why alliances fail. However, aside from ensuring “sound strategic alignment” between the partners, most determinants of failure are less than strategic in nature.

Lack of executive sponsorship is often a source of alliance failure. With strategic alliances, the key to effective executive sponsorship is visibility and accountability. Since failed alliances can directly impact a business in a meaningful way, or even have adverse implications for the executive’s own financial bonus or prestige, he has a strong incentive to consider the strategic alliance as important as his other primary responsibilities.

Metrics determine just how the alliance and accountable executives are kept on track. While clear metrics are required of any alliance, shared metrics between the partners are absolutely critical to the success of a strategic alliance. Shared metrics bring immediate alignment of focus between the parties, and when executive sponsors are held accountable for the shared metrics, the two firms become aligned as one.

Poor alliance governance structures are another common source of alliance failure. Strategic alliances are best served by formalized governance structures with clear mandates that are directly linked to the shared metrics underpinning the partnership. At Hewlett-Packard we often create strategic alliance executive committees using an “N by N” mapping of key HP executives to their counterparts at the alliance partner. The number (“N”) and position of the executives participating in the review meetings—usually on a quarterly basis—is tailored to the specifics of each strategic alliance. The attending executives represent the business unit(s) and core functions that are critical to execution of the strategic alliance.

Regular meetings of executives from the partner companies continue the relationship building that begins while formulating and negotiating the terms of the strategic alliance. Trust is perhaps the foundation of a strategic alliance and these relationships are the building blocks for establishing trust amongst the individuals who represent the two parties in the strategic alliance.

The real reason that most alliances fail is the constant change in the business environment. Trust allows the parties in a strategic alliance to have the difficult discussions that will transform the alliance over time and give it longevity. When corporate strategies change as a result of a changing business environment, the assumptions upon which the strategic alliance was originally based also change. What was once a strategic investment may no longer remain strategic without modification to the terms of the alliance. In the most extreme cases, the trust built between the two companies enables the adaptability—even renegotiation of the

financial terms—to accommodate changes in market or other conditions that impact one of the partners.
Strategic alliance organizations are feeling increased pressure. As critical personnel become stretched and financial resources become scarce, strategic alliance organizations must allocate their resources in the most efficient manner possible so that truly strategic alliances can support and accelerate the strategy of the business. The five strategic criteria outlined in this article are primary determinants of the strategic value of an alliance. Using these criteria to identify genuine strategic alliances in the portfolio today and as a guide for developing future strategic alliances are the first steps to improving the impact of an alliance organization. The management principles, also described above, are the next steps towards improving the effectiveness of the strategic alliances themselves.

Organizational Capability Profile

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

Environmental Threat and Opportunity Profile (ETOP)

The Environmental factors are quite complex and it may be difficult for strategy managers to classify them into neat categories to interpret them as opportunities and threats. A matrix of comparison is drawn where one item or factor is compared with other items after which the scores arrived at are added and ranked for each factor and total weight age score calculated for prioritizing each of the factors.
This is achieved by brainstorming. And finally the strategy manger uses his judgment to place various environmental issues in clear perspective to create the environmental threat and opportunity profile.
Although the technique of dividing various environmental factors into specific sectors and evaluating them as opportunities and threats is suggested by some authors, it must be carefully noted that each sector is not exclusive of the other.
Each of the major factors pertaining to a particular sector of environment may be divided into sub-sectors and their effects studied. The field force analysis goes hand in glove with ETOP, as here also the contribution with regard to opportunities and threats posed by the environment is also a necessary part of study.

ETOP Preparation:

The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub factor on the organization is described in the form of a statement.

A summary ETOP may only show the major factors for the sake of simplicity. The table 1 provides an example of an ETOP prepared for an established company, which is in the Two Wheeler industry.

The main business of the company is in Motor Bike manufacturing for the domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic based n the current Indian business environment.

Table 1: Environmental Threat and Opportunity Profile (ETOP) for a Motor Bike company:

Environmental Sectors	Impact of each sector
Social (↑)	Customer preference for motorbike, which are fashionable, easy to ride and durable.
Political (→)	No significant factor.
Economic (↑)	Growing affluence among urban consumers; Exports potential high.
Regulatory (↑)	Two Wheeler industry a thrust area for exports.
Market (↑)	Industry growth rate is 10 to 12 percent per year, For motorbike growth rate is 40 percent, largely Unsaturated demand.
Supplier (↑)	Mostly ancillaries and associated companies supply parts and components, REP licenses for imported raw materials available.
Technological (↑)	Technological up gradation of industry in progress. Import of machinery under OGL list possible.

As shown in the table motorbike manufacturing is an attractive proposition due to the many opportunities operating in the environment. The company-can capitalize on the burgeoning demand by taking advantage of the various government policies and concessions. It can also take advantage of the high exports potential that already exists.

Since the company is an established manufacturer of motorbike, it has a favorable supplier as well as technological environment. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry.

Though the market environment would still be favorable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it. The preparation of an ETOP provides a clear picture for organization to formulate strategies to take advantage of the opportunities and counter the threats in its environment.

The strategic managers should keep focus on the following dimensions,

1. Issue Selection:

Focus on issues, which have been selected, should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the impotent issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.

2. Accuracy of Data:

Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variability and low cost of data are some of the important factors, which must be kept in focus.

3. Impact Studies:

Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

4. Flexibility in Operations:

There are number of uncertainties exist in a business situation and so a company can be greatly benefited buy devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained.

Some of the key elements for increasing the flexibility are as follows:

(a) The strategy for flexibility must be stated to enable managers adopts it during unique situations.

(b) Strategies must be reviewed and changed if required.

(c) Exceptions to decided strategies must be handled beforehand. This would enable managers to violate strategies when it is necessary.

(d) Flexibility may be quite costly for an organization in terms of changes and compressed plans; however, it is equally important for companies to meet urgent challenges.

SWOT Analysis

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. It is a way of summarizing the current state of a company and helping to devise a plan for the future, one that employs the existing strengths, redresses existing weaknesses, exploits opportunities and defends against threats.

Steps in SWOT Analysis

The primary aim of strategic planning is to bring an organization into balance with the external environment and to maintain that balance over time (Sackett, Jones, and Erdley 2005). Organizations accomplish this balance by evaluating new programs and services with the intent of maximizing organizational performance. SWOT analysis is a preliminary decision-making tool that sets the stage for this work.

Step 1 of SWOT analysis involves the collection and evaluation of key data. Depending on the organization, these data might include population demographics, community health status, sources of healthcare funding, and/or the current status of medical technology. Once the data have been collected and analyzed, the organization's capabilities in these areas are assessed.

In Step 2 of SWOT analysis, data on the organization are collected and sorted into four categories: strengths, weaknesses, opportunities, and threats. Strengths and weaknesses generally stem from factors within the organization, whereas opportunities and threats usually arise from external factors. Organizational surveys are an effective means of gathering some of this information, such as data on an organization's finances, operations, and processes (Carpenter 2006).

Step 3 involves the development of a SWOT matrix for each business alternative under consideration. For example, say a hospital is evaluating the development of an ambulatory surgery center (ASC). They are looking at two options; the first is a

wholly owned ASC, and the second is a joint venture with local physicians. The hospital's expert panel would complete a separate SWOT matrix for each alternative.
Step 4 involves incorporating the SWOT analysis into the decision-making process to determine which business alternative best meets the organization's overall strategic plan.

Strengths

Traditional SWOT analysis views strengths as current factors that have prompted outstanding organizational performance. Some examples include the use of state-of-the-art medical equipment, investments in healthcare informatics, and a focus on community healthcare improvement projects. Other strengths might include highly competent personnel, a clear understanding among employees of the organization's goals, and a focus on quality improvement.

Weaknesses

Weaknesses are organizational factors that will increase healthcare costs or reduce healthcare quality. Examples include aging healthcare facilities and a lack of continuity in clinical processes, which can lead to duplication of efforts. Weaknesses can be broken down further to identify underlying causes. For example, disruption in the continuity of care often results from poor communication. Weaknesses also breed other weaknesses. Poor communication disrupts the continuity of care, and then this fragmentation leads to inefficiencies in the entire system. Inefficiencies, in turn, deplete financial and other resources. Other common weaknesses include poor use of healthcare informatics, insufficient management training, a lack of financial resources, and an organizational structure that limits collaboration with other healthcare organizations. A payer mix that includes large numbers of uninsured patients or Medicaid patients can also negatively affect an organization's financial performance, and a lack of relevant and timely patient data can increase costs and lower the quality of patient care.

Opportunities

Traditional SWOT analysis views opportunities as significant new business initiatives available to a healthcare organization. Examples include collaboration among healthcare organizations through the development of healthcare delivery networks, increased funding for healthcare informatics, community partnering to develop new healthcare programs, and the introduction of clinical protocols to improve quality and efficiency. Integrated healthcare delivery networks have an opportunity to influence healthcare policy at the local, state, and national levels. They also have an opportunity to improve patient satisfaction by increasing public involvement and ensuring patient representation on boards and committees. Organizations that are successful at using data to improve clinical processes have lower costs and higher-quality patient care. For example, healthcare organizations with CMS Hospital Compare quality scores above the 90th national percentile are eligible for CMS pay-for performance incentives. The greater the number of organizations achieving such scores, the greater patients' access to quality

healthcare. Such scores also enhance an organization's reputation in the community.
Threats
Threats are factors that could negatively affect organizational performance. Examples include political or economic instability; increasing demand by patients and physicians for expensive medical technology that is not cost-effective; increasing state and federal budget deficits; a growing uninsured population; and increasing pressure to reduce healthcare costs.

Force Field Analysis

Healthcare organizations' responsibility to implement change that is beneficial to the patient, staff, and organization is increasing. The primary areas driving change in healthcare include quality improvement, customer satisfaction, improvement of working conditions, and diversification of the healthcare workforce.
Force field analysis takes SWOT analysis a step further by identifying the forces driving or hindering change—in other words, the forces driving its strengths, weaknesses, opportunities, and threats. Forces that propel an organization toward goal achievement are called helping forces, while those that block progress toward a goal are called hindering forces. After identifying these positive and negative forces, organizations can develop strategies to strengthen the positives and minimize the negatives. For an organization to achieve success, the driving forces must outweigh the resisting forces (Baulcomb 2003). When this state is reached, organizations are able to move from their current reality to a preferred future.
Effective force field analysis considers not only organizational values but also the needs, goals, ideals, and concerns of individual stakeholders. A case can be made that individuals who promote change are driving forces, whereas those who resist change are restraining forces. As a result, it is important to understand individuals, their attitudes, and the culture of the organization. It is also important to identify the key stakeholders in an issue and to develop a plan to gain their support. Kurt Lewin, the renowned psychologist often recognized as the founder of social psychology, stressed the importance of counteracting organizational inertia to maintain the status quo (the resisting forces) and creatingan environment that proactively supports future change (the driving forces) (Lewin 1951). Such change is accomplished by modifying current attitudes ("unfreezing" an organization's perspective on a particular issue), emphasizing the positive aspects of change, and then incorporating the new attitudes in the organization's processes ("refreezing" the new attitudes so that they and their associated behavior patterns become entrenched in the institution).
Many believe that a participative management style that solicits input from within the organization is important in implementing change. It also fosters the development of consensus within work groups, which helps to refreeze the new behaviors in the organization.

Gap Analysis

To further refine planning decisions, SWOT analysis can be supplemented by gap analysis. Research shows there are significant gaps in healthcare practice and that these gaps cause providers to make inaccurate assessments of patients' conditions and provide the wrong types of care. The result is poor clinical outcomes. Gaps in healthcare include lack of knowledge, lack of motivation, poor access to information, variations in patient culture and education, lack of resources, and system barriers that limit teamwork. In one study, Robert Fleetcroft, honorary senior lecturer in primary care for the School of Medicine at the University of East Anglia, and his colleagues used gap analysis to measure the quality of healthcare services at 8,407 medical practices in England. Their research found significant gaps in clinical practice, quality indicators, and patient satisfaction across a wide range of outcome measures. Their research was important because the United Kingdom provides pay-for-performance payments to providers based on these critical indicators. In many cases, performance gaps exceeded 25 percent, and there was evidence to support increased mortality as a result of poor performance among some of the outcome measures (Fleetcroft et al. 2008).

Gaps also exist between the public's expectation of high-quality care and situations in which they receive low-quality healthcare. Characteristics of low-quality healthcare include lack of responsiveness, marginal competence, unreliability, weak communication skills, and breaches of confidentiality. Performance variations also result from trade-offs in the allocation of healthcare resources (Wicks and Chin 2008). For example, some healthcare organizations may lack the financial resources to purchase new equipment or hire additional staff when experiencing increased demand because they have allocated their resources for another purpose; as a result, patients experience excessive waiting times.

The complex nature of the healthcare industry necessitates a unified, systems approach to performance enhancement. For example, many patients receive only episodic care during periods of acute illness because they do not have a primary care physician. A system that requires patients to have a primary care provider would coordinate and give continuity to a patient's healthcare services. Other recommended changes include the implementation of evidence-based medicine in clinical processes, the creation of multidisciplinary healthcare teams, and the implementation of a continuous quality improvement process.

Mc Kinsey's 7s Framework

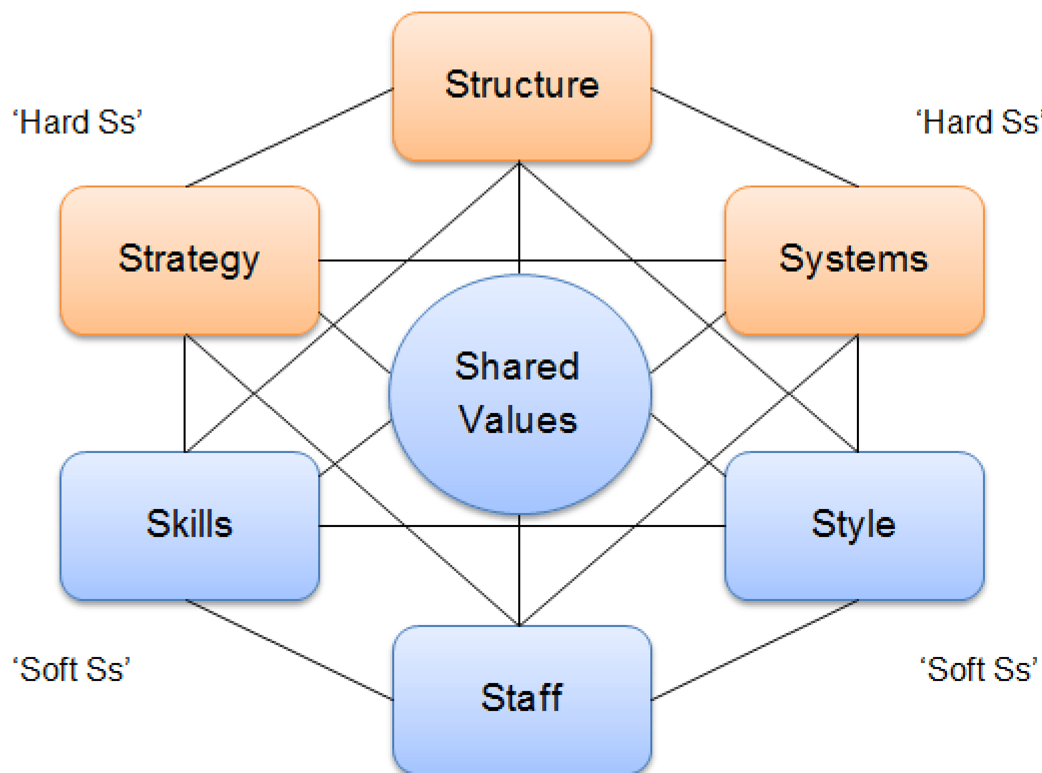
Definition

McKinsey 7s model is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives.

Understanding the tool

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.



The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.

7s factors

In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

7s factors	
Hard S	Soft S
Strategy	Style
Structure	Staff
Systems	Skills
	Shared Values

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly

articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it’s hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.

Structure represents the way business divisions and units are organized and include the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems are the processes and procedures of the company, which reveal business’ daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills are the abilities that firm’s employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company’s leaders.

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

We provide the following steps that should help you to apply this tool:

Step 1. Identify the areas that are not effectively aligned

During the first step, your aim is to look at the 7S elements and identify if they are effectively aligned with each other. Normally, you should already be aware of how 7 elements are aligned in your company, but if you don't you can use the checklist from WhittBlog to do that. After you've answered the questions outlined there you should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, you designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2. Determine the optimal organization design

With the help from top management, your second step is to find out what effective organizational design you want to achieve. By knowing the desired alignment you can set your goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in your organization for a few reasons. First, you need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that you could use and you'll have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3. Decide where and what changes should be made

This is basically your action plan, which will detail the areas you want to realign and how would you like to do that. If you find that your firm's structure and management style are not aligned with company's values, you should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4. Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, you should find the people in your company or hire consultants that are the best suited to implement the changes.

Step 5. Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

Example

We'll use a simplified example to show how the model should be applied to an existing organization.

Current position #1

We'll start with a small startup, which offers services online. The company's main strategy is to grow its share in the market. The company is new, so its structure is simple and made of a very few managers and bottom level workers, who undertake specific tasks. There are a very few formal systems, mainly because the company doesn't need many at this time.

Alignment

So far the 7 factors are aligned properly. The company is small and there's no need for complex matrix structure and comprehensive business systems, which are very expensive to develop.

McKinsey 7s Example (1/3)

		Aligned?
Strategy	Market penetration	Yes
Structure	Simple structure	Yes
Systems	Few formal systems. The systems are mainly concerned with customer support and order processing. There are no or few strategic planning, personnel management and new business generation systems.	Yes
Skills	Few specialized skills and the rest of jobs are undertaken by the management (the founders).	Yes
Staff	Few employees are needed for an organization. They are motivated by successful business growth and rewarded with business shares, of which market value is rising.	Yes

Style	Democratic but often chaotic management style.	Yes
Shared Values	The staff is adventurous, values teamwork and trusts each other.	Yes

Current position #2

The startup has grown to become large business with 500+ employees and now maintains 50% market share in a domestic market. Its structure has changed and is now a well-oiled bureaucratic machine. The business expanded its staff, introduced new motivation, reward and control systems. Shared values evolved and now the company values enthusiasm and excellence. Trust and teamwork has disappeared due to so many new employees.

Alignment

The company expanded and a few problems came with it. First, the company's strategy is no longer viable. The business has a large market share in its domestic market, so the best way for it to grow is either to start introducing new products to the market or to expand to other geographical markets. Therefore, its strategy is not aligned with the rest of company or its goals. The company should have seen this but it lacks strategic planning systems and analytical skills.

Business management style is still chaotic and it is a problem of top managers lacking management skills. The top management is mainly comprised of founders, who don't have the appropriate skills. New skills should be introduced to the company.

McKinsey 7s Example (2/3)

		Aligned?
Strategy	Market penetration	No
Structure	Bureaucratic machine	Yes
Systems	Order processing and control, customer support and personnel management systems.	No
Skills	Skills related to service offering and business support, but few managerial and analytical skills.	No
Staff	Many employees and appropriate motivation and reward systems.	Yes
Style	Democratic but often chaotic management style.	No

Shared Values	Enthusiasm and excellence	No

Current position #3

The company realizes that it needs to expand to other regions, so it changes its strategy from market penetration to market development. The company opens new offices in Asia, North and South Americas. Company introduced new strategic planning systems hired new management, which brought new analytical, strategic planning and most importantly managerial skills. Organization's structure and shared values haven't changed.

Alignment

Strategy, systems, skills and style have changed and are now properly aligned with the rest of the company. Other elements like shared values, staff and organizational structure are misaligned. First, company's structure should have changed from well-oiled bureaucratic machine to division structure. The division structure is designed to facilitate the operations in new geographic regions. This hasn't been done and the company will struggle to work effectively. Second, new shared values should evolve or be introduced in an organization, because many people from new cultures come to the company and they all bring their own values, often, very different than the current ones. This may hinder teamwork performance and communication between different regions. Motivation and reward systems also have to be adapted to cultural differences.

McKinsey 7s Example (3/3)

		Aligned?
Strategy	Market development	Yes

Structure	Bureaucratic machine	No
Systems	Order processing and control, customer support, personnel management and strategic planning systems.	Yes
Skills	Skills aligned with company’s operations.	Yes
Staff	Employees form many cultures, who expect different motivation and reward systems.	No
Style	Democratic style	Yes
Shared Values	Enthusiasm and excellence	No

We’ve showed the simplified example of how the Mckinsey 7s model should be applied. It is important to understand that the seven elements are much more complex in reality and you’ll have to gather a lot of information on each of them to make any appropriate decision.

The model is simple, but it’s worth the effort to do one for your business to gather some insight and find out if your current organization is working effectively.

GE 9 Cell Model

Strategic Emphasis

This matrix was designed to overcome the shortfalls that companies were encountering with the BCG matrix and to fill the requirement to compare numerous and diverse businesses. The scope of application for this model extends from a corporate level to a business level incorporating the products making up the business.

Flexibility

The matrix can be described as a multifactor portfolio model and it has a greater flexibility compared to the BCG, in terms of the elements that can be included. The matrix allows a company to assess the fit between the organisational competencies and the business/product offerings. It also introduces the forecasted positioning of businesses/products on the matrix facilitating the strategic planning process. The matrix has nine cells compared to the BCG four cells and the scores on the axis can be rated low, medium, high compared to the BCG high and low.

The Approach

This model suggests that the long run profitability of each unit is influenced by the unit's business strength and that the ability and incentive of a firm to maintain or improve its position in a market depends on the industry attractiveness.

Factors that Affect Industry Attractiveness

Whilst any assessment of Industry attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:

- Industry size
- Industry growth
- Market profitability
- Pricing trend
- Competition intensity
- Overall risk and returns in the industry

• Opportunity to differentiate products and services

• Distribution structure

Factors that Affect Business Strength

• Strength of assets and competencies

• Relative brand strength

• Market share

• Customer loyalty

• Relative cost position

• Distribution strength

• Record of technological or other innovation

• Access to finance and other investment resources.

Who Defines the Factors?

The factors are usually identified by a representative, experienced group of managers from the firm including corporate, business and functional managers. An explicit understanding of what constitutes a potentially profitable environment is essential to the formulation of strategy and for the understanding of the potential impact of competitors. A market or industry is considered to be attractive if its potential for providing a significant contribution to objectives for earnings growth and return on investment is judged to be high.

Examples of Industry Attractiveness Factors

Different strategists and consultants have devised different sets of variables for industry or market attractiveness indicating that there is no consensus regarding the factors that make up industry attractiveness but the final factor selection is a subjective evaluation conducted by the firm. Not all of the factors have equal attractiveness to every company. They must be weighted accordingly to determine how much each factor contributes to the attractiveness of the industry to which the business belongs. The criteria or factors must be consistent for all the industries that

the firm competes in so that comparisons between the various strategic businesses can be made.

Plot Configuration

In the original GE McKinsey matrix, business strength is plotted on the vertical axis; the industry attractiveness on the horizontal axis and the size of the circle represents the size of the industry with a shaded wedge representing the firm's current share of the industry. The matrix is divided into nine boxes. Note: In the time period following the introduction of the GE McKinsey matrix, the axes have been changed and more often than not the industry attractiveness constitutes the vertical axis while the business strengths are plotted along the horizontal axis.

This approach considers not only the objective factors such as sales, profit, ROI for example but also gives weight to the subjectively estimated factors such as volatility of market share, technology, employee loyalty, competitive stance and social need. The GE-McKinsey model can be likened to the more generalised and well-known SWOT (strengths, weaknesses, opportunities, threats) analysis as it allows the addition of both internal and external factors in the matrix construction. The competitive position or business strength represent the internal capabilities which are controllable by the company while the external factors which are not controlled by the company (opportunities and threats) make up the industry attractiveness.

Value of the Model

This portfolio model also allows the business/product to be analysed in terms of dimensions of value to the organisation (Industry Attractiveness) and dimensions of value to the customer (Relative Business Strength). The GE McKinsey or AttractivenessStrength matrix is important primarily for assigning priorities for investment in the various businesses of the firm, it is a guide for resource allocation and does not deal with cash flow balance, as does the BCG.

Model Use and Applicability

1. The three cells at the top left hand side of the matrix are the most attractive in which to operate and require a policy of investment for growth – these are usually coloured green.

2. The three cells running diagonally from left to right have a medium attractiveness, are coloured yellow and the management of businesses within this category should be more cautious and with a greater emphasis being placed on selective investment and earning retention.

3. The three cells at the bottom right hand side are the least attractive, therefore coloured red and management should follow a policy of harvesting and / or divesting unless the relative strengths can be improved.

Channon and McCosh devised a set of generic investment strategies for the GE McKinsey matrix as labelled in the previous diagram. A. T. Kearney also put forward guidelines for strategies in the different boxes and where these have not been incorporated they are mentioned below. (ATK = A.T. Kearny)

• Grow / Penetrate – These businesses are a target for investment, they have strong business strengths, are in attractive markets and they should therefore have high returns on investment and competitive advantage. They should receive financial and managerial support to maintain their strong position and to continue contributing to long-term profitability.

ATK – Seek dominance

Grow

Maximise investment

• Invest for Growth – Businesses here are in very attractive industries but have average business strength. They should be invested in to improve their long-term competitive position.

ATK – Evaluate potential for leadership via segmentation

Identify weaknesses

Build strengths

• Selective Investment or Divestment - These businesses are in very attractive markets but their business strength is weak. Investment must be aimed at improving the business strengths. These businesses will probably have to be funded by other businesses in the group as they are not self-funding. Only businesses that can improve their strengths should be retained – if not they should be divested.

ATK – Specialise

Seek niches

Consider acquisitions

• Selective Harvest or Investment – Businesses in this box have good business strength in an industry that is losing its attractiveness. They should be supported if necessary but they may be self-supporting in cash flow terms. Selective harvesting is an option to extract cash flow but this should be done with caution so as not to run down the business prematurely.

ATK – Identify growth segments

Invest strongly

Maintain position elsewhere

Segment and Selective Investment -Businesses with average business strengths and in average industries can improve their positions by creative segmentation to create profitable segments and by selective investment to support the segmentation strategy. The business needs to create superior returns by concentrating on building segment barriers to differentiate themselves.

ATK – Identify growth segments

Specialise

Invest selectively

• Controlled Exit or Harvest – Businesses with weak business strengths in moderately attractive industries are candidates for a controlled exit or divestment. Attempts to gain market share by increasing business strengths could prove to be very expensive and must be done with caution

ATK – Specialise

Seek niches

Consider exit

• Harvest for Cash Generation – Strong businesses in unattractive markets should be net cash generators and could provide funds for use throughout the rest of the portfolio. Investment should be aimed at keeping these businesses in a dominant position of strength but over investment can be disastrous especially in a mature market. Be aware of competitors trying to revitalise mature industries

ATK – Maintain overall position

Seek cash flow

Invest at maintenance level

• Controlled Harvest – They have average business strengths in an unattractive market and the strategy should be to harvest the business in a controlled way to prevent a defeat or the business could be used to upset a competitor.

ATK – Minimise investment

Position to divest

• Rapid Exit or Attack Business – These businesses have neither strengths nor an attractive industry and should be exited. Investments made should only be done to fund the exit.

ATK – Trust leaders statesmanship

Go after competitors cash generators

Time exit and divest.

Best Use

• Use of the GE McKinsey matrix is recommended if an organisation is made up of many business units or if a business unit is made up of a number of different product lines. General Electric used this matrix at five different levels in the organisation: product, product line, market segment, SBU, business sector.

• The GE McKinsey matrix is important for assigning priorities for investment in the various businesses of the firm and is guidance for resource allocation. (Hax & Majluf 1983) Investment is assigned according to the generic strategies laid out above but generally is given to businesses who show strength in an attractive market.

• This matrix can be used at all levels within the organisation. At the corporate level, the portfolio of businesses making up the firm can be analysed on the matrix, at the business unit level, the products making up the business's portfolio can be mapped out onto the matrix

• This matrix allows one to set a strategy for the future after mapping the portfolio in the present and forecasting the future positions by assessing the factors constituting the business strengths. It allows an organisation to focus on the strengths and weaknesses of the business units or products.

Model weaknesses

• This model has been criticized by some authors for its ’pseudo-scientific’ approach referring to the method of weighting the factors before assessing them. Some critics ascertain that the factors of business strength and some of the industry attractiveness factors cannot be measured.

• It can also be difficult to impose a uniform standard among businesses so that the final portfolio matrix will be consistent in terms of the criteria. Some firms develop standard lists of internal and external factors but each business/product is different and factors will vary accordingly.

• This portfolio model relies heavily on managerial judgement in identifying, weighting and assessing the relevant factors.

• Composite dimension matrices such as this one may mask important differences among products. (e.g. If business strength is made up of two factors weighted similarly, one product may be assessed as very low on the one factor and very high on the other one. Another product may score vice versa but both will be positioned on the same spot on the business strength axis.)

• The simplicity of the BCG matrix has been criticised in the past but the more complex GE matrix has also been accused of being too complicated and taking too long to complete.

• The GE McKinsey matrix pays too little attention to the business environment.

Internal Analysis: Distinctive Competencies, Competitive Advantage, and Profitability

Internal Analysis

The purpose of internal analysis is to pinpoint the strengths and weaknesses of the organization.

Strengths lead to superior performance. Weaknesses lead to inferior performance.

Internal Analysis includes an assessment of:

Quantity and quality of a company’s resources and capabilities

Ways of building unique skills and company-specific or distinctive competencies

Building and sustaining a competitive advantage requires a company to achieve superior:

Efficiency

Quality

Innovations

Responsiveness to customers

Internal Analysis: Strengths and Weaknesses

Internal analysis -along with the external analysis of the company's environment - gives managers the information to choose the strategies and business model to attain a sustained competitive advantage.

Strengths

Of the enterprise are assets that boost profitability

Weaknesses

Of the enterprise are liabilities that lead to lower profitability

Internal Analysis:A Three-Step Process

Understand the process by which companies create value for customers and profit for themselves.

Resources

Capabilities

Distinctive competencies

Understand the importance of superiority in creating value and generating high profitability.

Efficiency

Quality

Analyze the sources of the company's competitive advantage.

Strengths – that are driving profitability

Weaknesses – opportunities for improvement

Competitive Advantage

Competitive Advantage

A firm's profitability is greater than the average profitability for all firms in its industry.

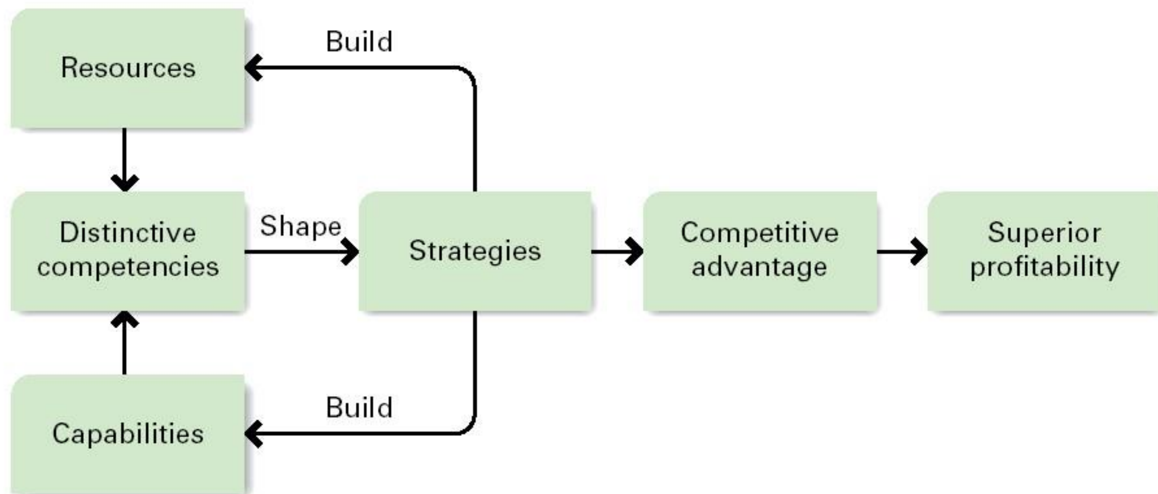
Sustained Competitive Advantage

A firm maintains above average and superior profitability and profit growth for a number of years.

The Primary Objective of Strategyis to achieve aSustained Competitive Advantage

which in turn results in Superior Profit and Profit Growth.

Strategy, Resources, Capabilities, and Competencies



Competitive Advantage, Value Creation, and Profitability

How profitable a company becomes depends on three basic factors:

VALUE or UTILITY the customer gets from owning the product

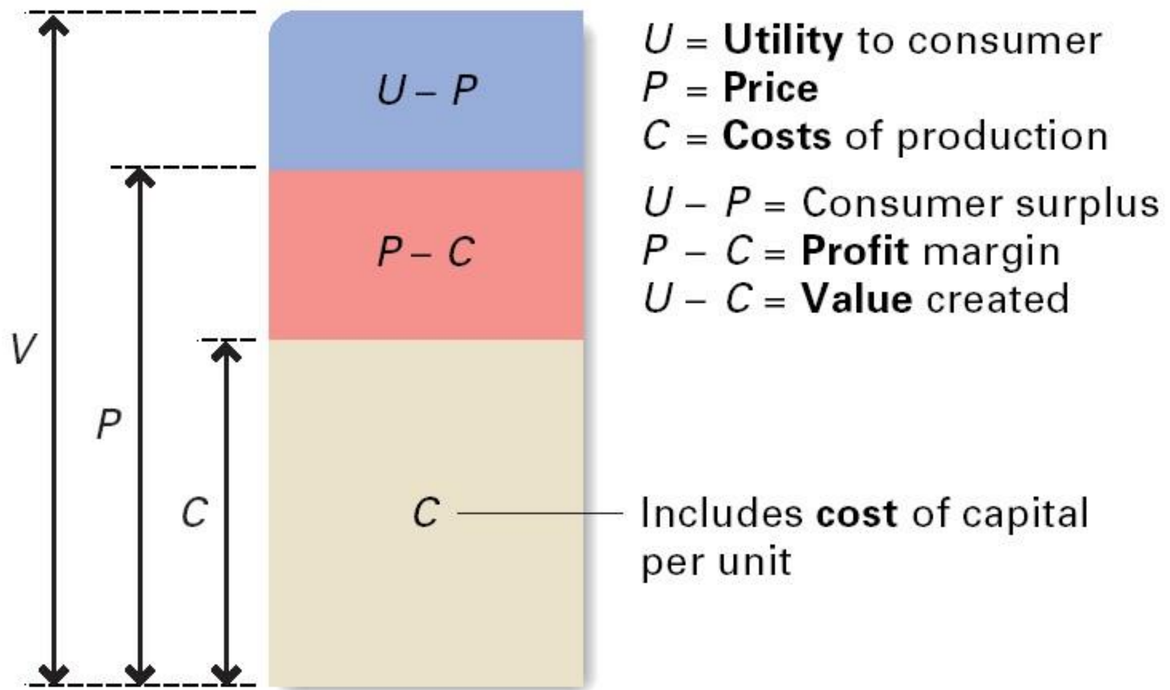
PRICE that a company charges for its products

COSTS of creating those products

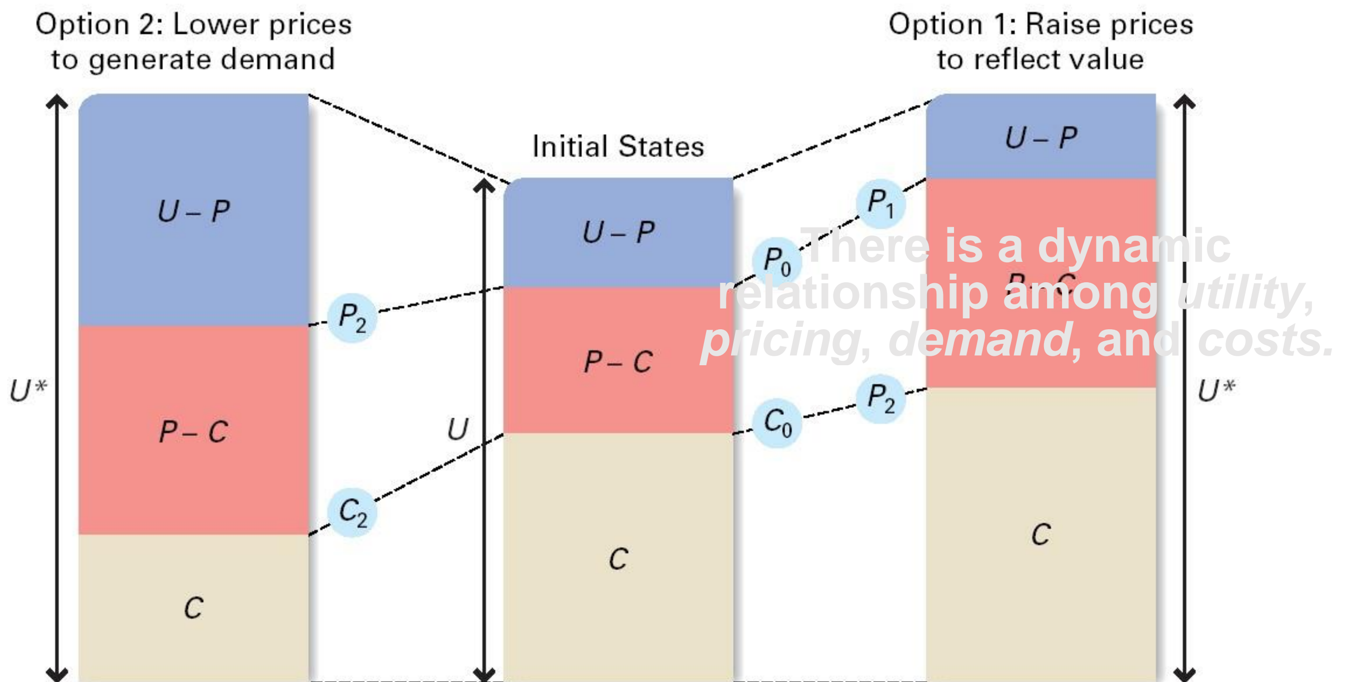
Consumer surplus is the "excess" utility a consumer captures beyond the price paid.

Basic Principle: the more utility that consumers get from a company's products or services, the more pricing options the company has.

Value Creation per Unit

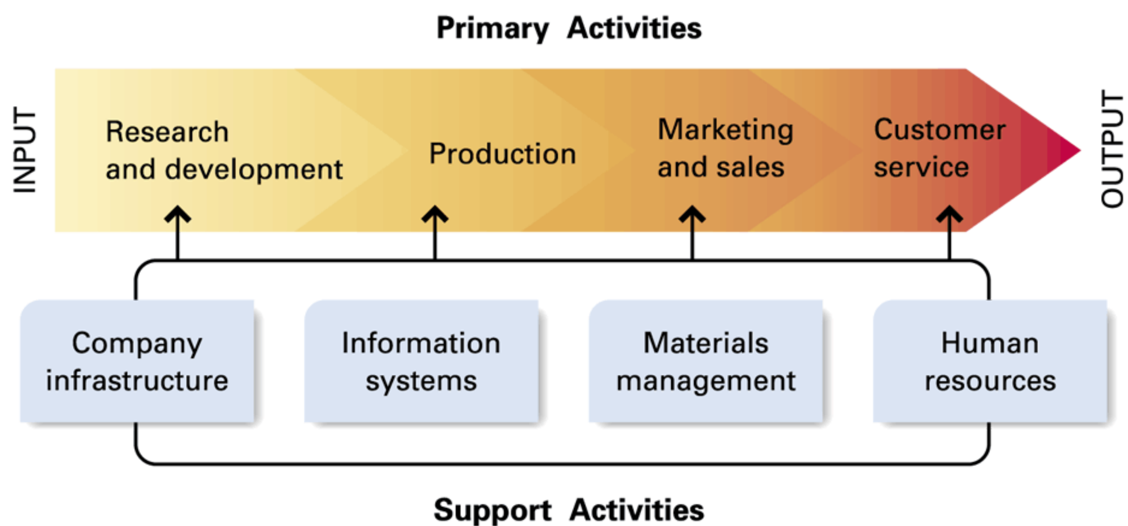


Value Creation and Pricing Options



The Value Chain

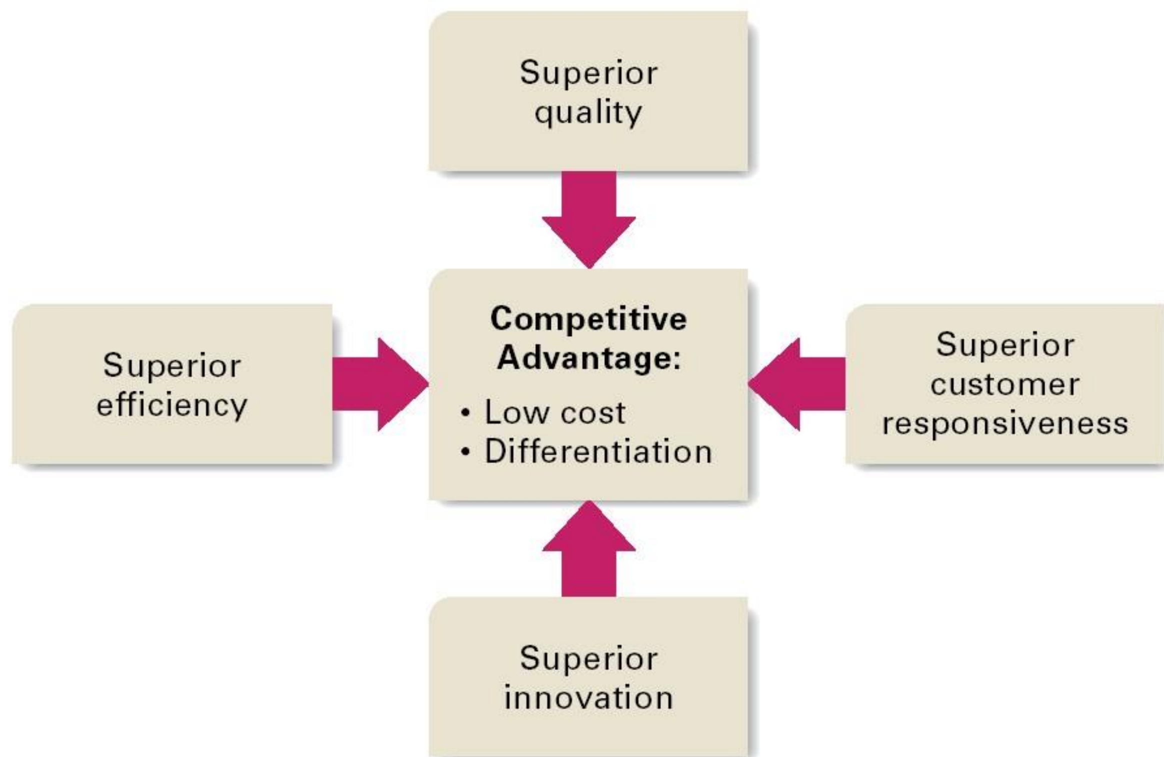
A company is a chain of activities for transforming inputs into outputs that customers value including the primary and support activities.



Building Blocks of Competitive Advantage

The Generic Distinctive Competencies allow a company to:

- Differentiate product offering
- Offer more utility to customer
- Lower the cost structure regardless of the industry, its products, or its services



① Efficiency

Measured by the quantity of inputs it takes to produce a given output:

Efficiency = Outputs / Inputs

Productivity leads to greater efficiency and lower costs:

Employee productivity

Capital productivity

Superior efficiency helps a company attain a competitive advantage through a lower cost structure.

② Quality

Quality products are goods and services that are:

Reliable and differentiated by attributes that customers perceive to have higher value

The impact of quality on competitive advantage:

High-quality products differentiate and increase the value of the products in customers' eyes.

Greater efficiency and lower unit costs are associated with reliable products.

Superior quality = customer perception of greater value in a product's attributes

Form, features, performance, durability, reliability, style, design

③ Innovation

Innovation is the act of creating new products or new processes

Product innovation creates products that customers perceive as more valuable and Increases the company's pricing options

Process innovation : Creates value by lowering production costs

STRATEGY IMPLEMENTATION & EVALUATION

Strategic evaluation is the assessment process that provides executives and managers performance information about programs, projects and activities designed to meet business goals and objectives.

This report is the fourth and final deliverable submitted to the European Commission – Directorate General for Health and Consumers (DG SANCO) by The Evaluation Partnership (TEP) on behalf of the "Public Health Evaluation and Impact Assessment Consortium" (PHEIAC) in the context of the Evaluation of the implementation of the Strategy for Europe on Nutrition, Overweight and Obesity related health issues.

It contains the complete results of all evaluation tasks, as well as conclusions and recommendations. The report is structured as follows:

- Section 2 briefly introduces the evaluation subject, purpose and issues, as well as the approach and methodology and key limitations.
- Section 3 summarizes the most relevant statistical data concerning trends in overweight and obesity and other related issues.
- Section 4 presents the main findings of the evaluation, structured by thematic areas and evaluation questions.
- Section 5 contains key conclusions on the main groups of instruments (based on the responses to the evaluation questions) and certain key objectives (based on the case studies), as well as overarching conclusions and recommendations.

Approach to the Evaluation

The Strategy for Europe on Nutrition, Overweight and Obesity related health issues

In view of the dramatic rise in the levels of overweight and obesity and the worsening trend of poor diets and low physical activity levels across large parts of Europe, the EU began to significantly ramp up its action in this area approximately

ten years ago. Following repeated calls for action from the Council,1 the European Commission launched a Green Paper consultation in 2005,2 which led to the adoption of the White Paper on "A Strategy for Europe on Nutrition, Overweight and Obesity related health issues" ("the Strategy") in 2007.3 This Strategy provides an integrated framework for action intended to contribute to reducing ill health due to poor nutrition, overweight and obesity in the EU. Emphasizing the Commission's conviction that "an optimal response in this field will be achieved by promoting both the complementarily and integration of different relevant policy areas (horizontal approach), and of the different levels of action [i.e. local, regional, national, European and international] (vertical approach)", the Strategy advocates a partnership approach, and goes on to outline the roles of and encourage action by four main groups of actors: the EU itself, Member States, private actors, and international cooperation with the WHO

Purpose and scope of the evaluation

Almost exactly five years after the adoption of the Strategy for Europe on Nutrition, Overweight and Obesity related health issues, the European Commission decided to commission an independent external evaluation of the implementation of the Strategy. According to the Task Specifications:

"The general aim of the evaluation is to give a substantiated knowledge of the degree of achievement of actions by the Commission and Member States since 2007 and an assessment of how far they contributed to promote health, prevent ill health caused by poor nutrition, overweight and obesity and in particular of their capacity to help achieving the WHO Europe objective of a decline of overweight and obesity by 2015."

Strategic controls

Strategic controls are a very significant component of the implementation process, as it involves tracking, monitoring and evaluating the effectiveness of the **strategies** that have been implemented, as well as making any necessary adjustments and improvements when necessary.

The Evaluation and Control process

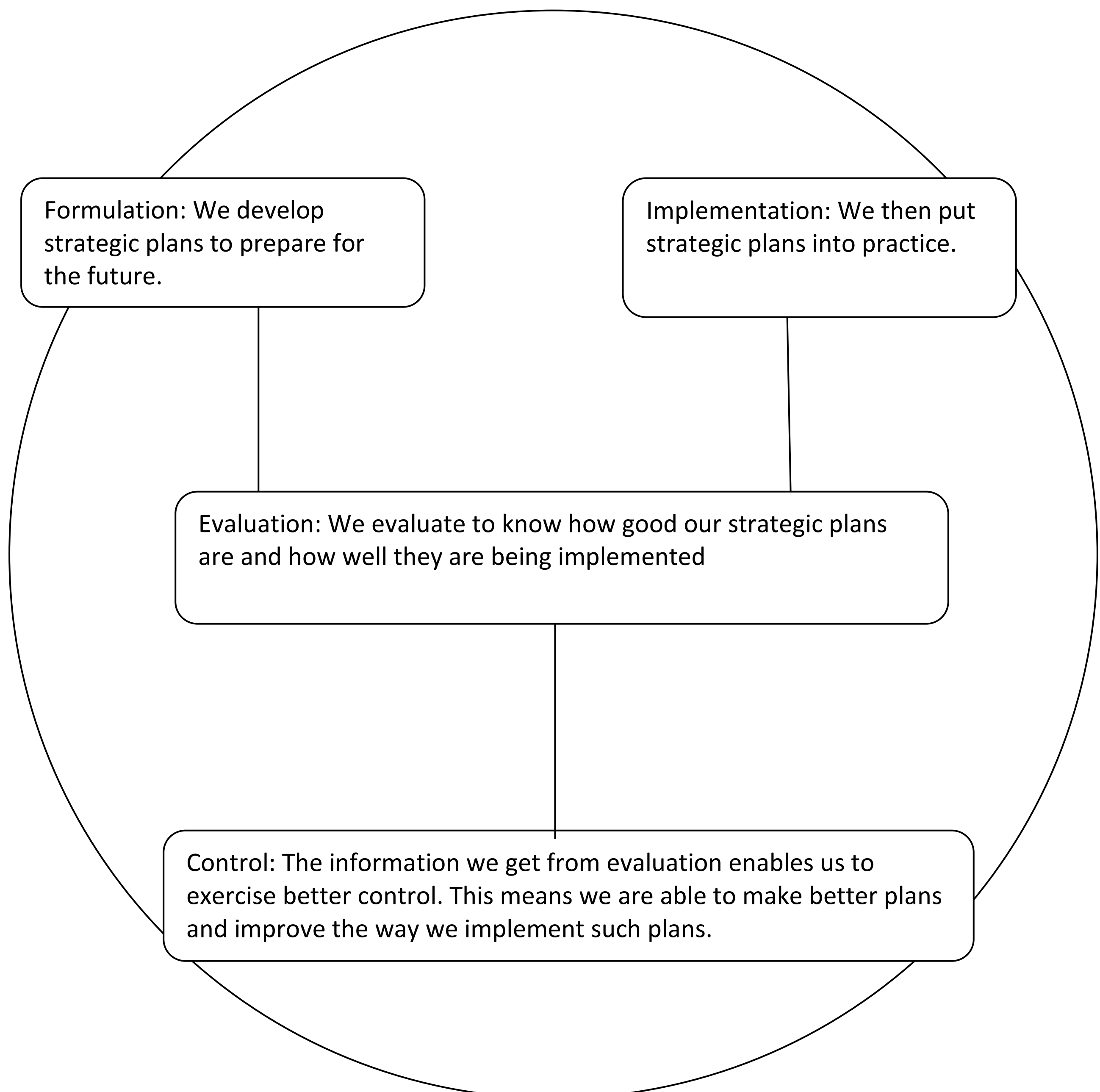
As soon as we mention evaluation and control some ideas will spring into your mind. Stop for a moment to think of the controls in your work environment. Below are some ideas of control for a master.

Control for a master

Whilst there are many ways of organizing a shipping company the trend is likely to be towards a more central role for the Master in all aspects of the operation of his or her vessel. Thus, the Master needs to understand how those control functions which are (or should be) common to all shipping operations work. These include:

– Ship finance, including voyage estimating and the budgetary control of running costs;
– The effective management of human resources in an era where manning policies and social standards are changing;
– The management of the commercial operation.

The terms ‘evaluation’ and ‘control’, although almost always appearing in tandem, are not necessarily the same thing. Figure 9.1 shows the relationship between evaluation and control, and the role they play in the strategic management process.



The role of evaluation and control in strategic management

We can see that as strategic managers, we must be able to exercise proper control over the strategic management process; that is, we must know how well our strategic plans are formulated and implemented, and where necessary, what corrective action can be taken to improve performance. Finding out what is going on is what evaluation is all about. It means collecting information about how well the strategic plan is progressing.

Once we have the evaluation results, then we must decide on the appropriate action. If, according to our evaluation, everything is going well, then we have no problem; all we need to do is to continue doing what we are doing (or try to do better!). However, if our evaluation shows that some things are not going well, then we have to take care of these trouble spots and eliminate them. Are our goals, objectives and/or implementation plans so ambitious that they cannot be achieved? Then perhaps we should be more realistic and bring them down to earth. Are our people not well enough prepared to follow the implementation process? Then we may have to prepare job aids or give training.

Evaluation is really just a part of the overall control process, but it is a very important part. Without it, managers may end up making the wrong decisions. Because of this close relationship between evaluation and control, it is common to talk of them as though they were one and the same thing.

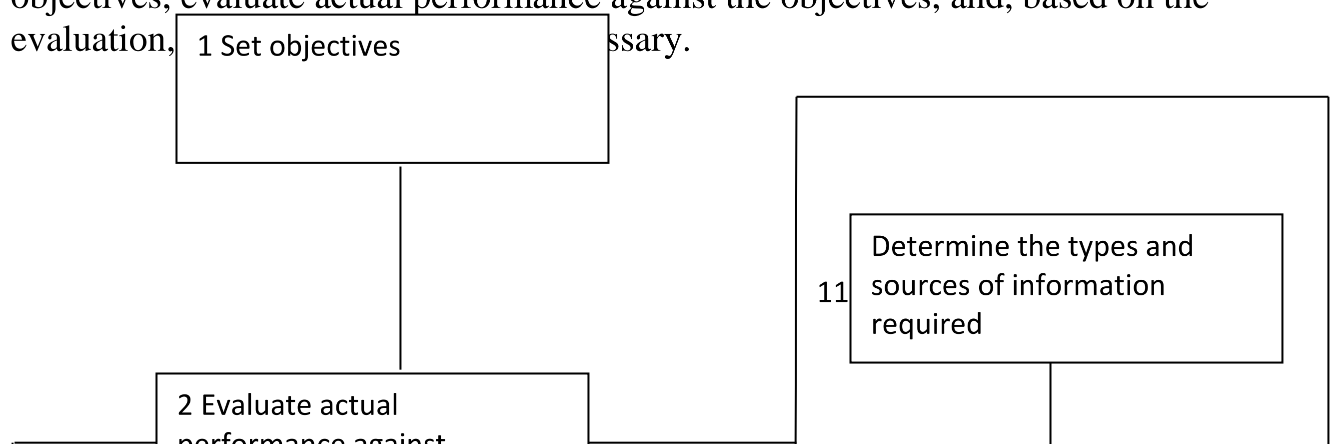
Benefits of strategic evaluation and control

What are the main benefits of strategic evaluation and control? There are three:

- They provide direction. They enable management to make sure that the organisation is heading in the right direction and that corrective action is taken where needed.
- They provide guidance to everybody. Everyone within the organisation, both managers and workers alike, learn what is happening, how their performance compares with what is expected, and what needs to be done to keep up the good work or improve performance.
- They inspire confidence. Information about good performance inspires confidence in everybody. Those within the organisation are likely to be more motivated to maintain and achieve better performance in order to keep up their track record. Those outside – customers, government authorities, shareholders – are likely to be impressed with the good performance.

How the process works

The way the evaluation and control process works is quite straightforward: set objectives, evaluate actual performance against the objectives, and, based on the evaluation, ssary.



Setting objectives (step 1)
If you chose the first step, 'setting objectives', then you are right. Essentially, this involves looking at strategic targets. These could be your strategic goals and objectives, or operational plans and programs that have been set up to meet the goals and objectives while ensuring that they have measurable outcomes.
The difficulty in setting objectives lies not so much in specifying the outcomes themselves as in (a) identifying those areas where performance objectives should be set and (b) evaluating whether the level of performance set is appropriate.
To set objectives properly, the first thing to do is to establish which areas require performance objectives. Start with the big picture, then narrow down to the most essential:

- What specific things must be done to ensure the success of the strategic plan? „
- Of these, which are the most important?

Those that are identified as most important then become the areas where objectives should be set. This is very important! Please do not try to set objectives in every area. This shotgun approach is doomed to fail! Be more focused.

Another equally important consideration when setting objectives is determining whether they are realistic and attainable. There is no point in working yourself (and all those people who have to follow your orders!) to the bone if the objectives you have set are altogether unrealistic. To guard against this, a concept called benchmarking can be a useful tool. Benchmarking simply means finding out how well your main competitors are doing and comparing your performance against

theirs. In this way, you can set targets that equal, or are better than, what the competition is offering.
When setting performance objectives, also bear in mind these other useful pointers,

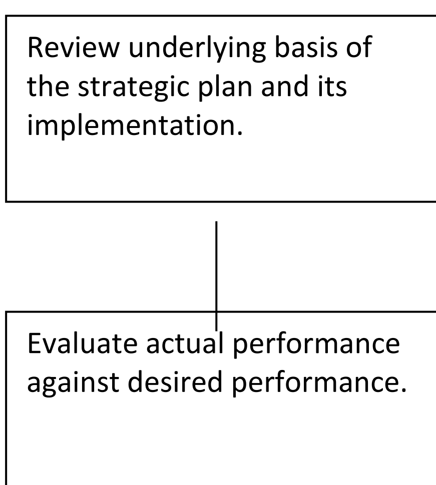
- Objectives should focus on three main areas of performance:
  – how people perform
  – how equipment functions
  – how money is used
- To make sure that objectives fully describe the type of performance required, try viewing performance along five dimensions:
  – quantity: volume of work completed (number of tasks completed, number of units sold, volume of money spent etc)
  – quality: how well a task was done (number of satisfied customers, number of rejects/repeats or things that had to be redone etc)
  – cooperation: working well with others, providing support where needed (interdepartmental sharing of resources and personnel, trading information etc)
  – dependability: doing a task according to expectations (completed work on time and when needed, reduced number of sick days, etc.)
  – creativity: finding new or better ways of doing things (coming up with new ideas on how to increase revenue, reduce cost or complete a task, etc)
- Good performance objectives should always be SMART. That is, they should be: Specific: a specific area of improvement is targeted for
  Measurable: some indicator of when it is complete
  Assignable: someone is responsible for its achievement
  Realistic: the level of performance expected, given the resources
  Time-related: when the task should be completed by.
  Below are some examples of objectives that might be set.
  • Reduce the expense budget by five per cent over the next 12 months.
  • Reduce the number of customer complaints by 10 per cent over the next six months.
  • Increase the client base by five per cent over the next 12 months.
  • Reduce the truck waiting time by half an hour per vehicle over the next six months.
  • Increase the number of container lifts per working hour by five per cent in the next six months.
  Evaluating objectives (step 2) and taking action (step 3)
  The second and third steps in the evaluation and control process, evaluating objectives and taking action, tend not to be as problematic as the first. Once the appropriate objectives are set, the next step is to carry out the evaluation. This involves (a) determining the types and sources of information required to compare actual performance against the standard, (b) collecting the information, and (c) based on the information collected, doing a comparative

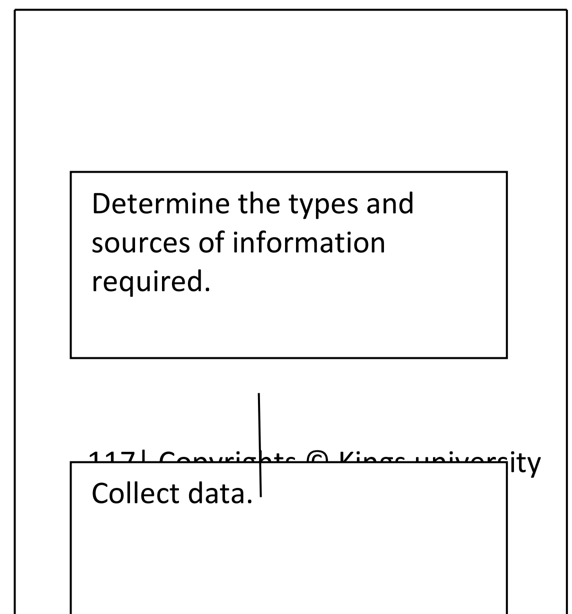
analysis. Once done, the final step is to determine what action is necessary. Is everything fine? Then keep up the good work and continue monitoring. Have any problem areas cropped up? Then some corrective action must be taken to ensure things remain (or go back) on track.
How often you should assess deviations from objectives depends on the nature of your organisation and its industry. Production, sales, expense and manufacturing figures and turnaround times are commonly collected. These are often presented in daily, weekly, monthly and twice-yearly totals.
In most activities some variation can be expected between set objectives and actual performance. Therefore it is critical to determine the acceptable degree of deviation from the standard. Some examples may make this clearer.
Another important point needs to be made here. When a set standard has been achieved or exceeded do not overlook the opportunity to recognise performance and praise staff. This is a wonderful tool for motivation.
Having determined that there has been a deviation from objectives you have two options (assuming that doing nothing is not really an option). „

- Correct the actual performance (of equipment or human resources). If the source of the deviation is inadequate performance you have a number of options. For example, you may change your section's strategy or how you structure your section; you may alter your compensation or remuneration practices; you may introduce training programs or new technologies; or you may redesign jobs. „
- Revise the criteria of performance or the objectives set. You may determine that one or more of the original objectives were unrealistic or inappropriate. In this case it is the objectives, and not the performance, that need to be altered.

Choosing the right evaluation approach

Ultimately the kinds of questions you ask, and the criteria you set will depend on the evaluation approach you use. Before we say any more on this subject, try your hand at the following activity and see if it can help you decide which evaluation approach to use for what purpose.





Based on the evaluation, take the necessary action. If performance is OK, continue monitoring If not, take corrective action.

Appro[illegible]igure 9.2) zeroes in right away on the targets (usual[illegible]tated in the strategic plan) and assesses everything from that basis. It focuses on questions such as: Are the objectives appropriate under current circumstances? If not, what has changed the internal or external environment?

Should the objectives be changed in view of any identified environmental changes? As these questions indicate, approach 1 does a lot of backtracking, constantly checking to see if targets remain in consonance with present or anticipated conditions.

Approach 2 (Figure 9.4) casts a wider net right from the start. Instead of going directly to the targets, it starts off with a review of the basis of the whole strategic plan. Essentially, this means seeking to validate every major aspect of both the strategic plan and the way in which it is implemented.

The difference between the two approaches is that the first assumes the strategic plan is valid and focuses on areas that require attention: the second first examines whether the plan is valid and then proceeds from there. This second approach is more comprehensive, but is time consuming (and by extension, more expensive). Your choice of approach would of course depend on the resources you have for conducting evaluation and control and the evaluation requirements of the organisation.

Both approaches, however, do raise the question of how in-depth a review should be. Experience has shown that far too many organisations get bogged down in detail.

The type of review you choose depends on two factors: the relative importance of the issue/problem and the strategic health of the area being evaluated: „

- Large-scale reviews are clearly for those areas facing a major problem, or where a potential opportunity may make a significant impact. „
- Medium-scale reviews are for areas that may be meeting their targets but have a few important issues ahead that may require a slightly modified change. „
- Small-scale reviews are for areas where there are no real problems or dangers lurking on the horizon, and all that is needed is to monitor the situation.

Assessing the type of review or evaluation you require before you actually start is indeed a good way of making efficient use of time and money and of focusing on

the most essential. Remember the 80/20 rule: concentrate on those areas that will produce the majority of results

Characteristics of an effective control system

We shall now turn our attention to how control systems are designed: that is, to how we can appraise our activities and our effectiveness in terms of both means and ends. The process of control is not automatic. It must be tailored to meet the requirements and uniqueness of your organisation. Whether controls are developed to facilitate innovation or for other purposes, managers must continually assess them to ensure they are achieving the intended results.
Reliable and effective control systems have certain characteristics in common. The relative importance of these characteristics varies with circumstances, but most control systems are strengthened by their presence.
The following brief reading explains the basic characteristics of control systems.

When strategy fails: Lessons to live by

Perhaps there is no better way of stressing the importance of evaluation and control than by leaving you with some sobering lessons on failure. The literature on strategic management contains many stories of failure. Not that all these are due to a lack or an absence of evaluation and control. However, it is likely that had proper evaluation and control systems been set in place, problems could have been detected earlier, and perhaps resolved before they could have done any serious damage.
We have grouped reasons why a planned strategy fails into two categories: general reasons and implementation-specific ones. Even from the general category, many of the entries are also implementation related. These reasons tell us a lot about the weakness of the strategic management process itself – perhaps too much time formulating the strategy and too little time planning and monitoring its implementation.

General reasons for the failure of strategic planning „

- Expecting results too fast. It takes time to see the results of a strategy. „
- Lack of commitment from the top throughout the entire process. „
- Just because the plan has been developed and provision has been made for implementation does not mean that it can then be delegated to others to do. The commitment from the top must always be there. It must be visible, and all actions and key decisions must be tailored towards the plan's achievement. „
- Too much complexity. „
- If all the processes are kept as simple as possible, busy people will put up less resistance at putting in valuable time and effort. „
- Loss of momentum.

- Try to keep people's spirits up and seek to meet milestones on time and within the level of resources allocated.
- Not educating people about strategic management. To counteract this, ensure that:
  - everybody understands the strategic management process and the need for the organisation to do it; and
  - the strategic management process becomes a living part of the organisation, with everybody carrying out some function every day as a vital part of what they do.
- Inadequate line management involvement.All to often, line managers are brought into picture only at the implementation stage. Instead, their input and commitment must be sought at the very beginning and must continue through the entire process. „
- Telling senior management what they want to hear.
  Avoid the temptation of trying to produce good results that simply are not there just to please the boss. The boss will not thank you for doing so! Tell it as you see it, but be diplomatic in the telling. „
- Too much form, very little substance. Oodles of facts and figures are not the goal; quality is. Strategy must be directed by important issues and not by lengthy routine reviews that produce meaningless bundles of paper. „
- Isolation from the competitive environment. Strategic planning can very easily become inbred and insular. When this happens, the competitive environments tend to get overlooked. To overlook potential competitors while assessing the competitive environment is a very common problem in strategic planning. „
- Extrapolation from the past Too many organisations extrapolate from the past even though they know that the past will be a poor guide to the future. „
- Failure to differentiate. A common mistake is to compare an organisation's performance against industry norms. Such averages convey very little information about important strategic issues. The strategic requirements of an organisation should be differentiated, so that the right resources are allocated in the right places.
- Inexperience in strategic management. All too often, the people responsible for strategic management do not have the necessary skills and competencies to carry out the strategic change.

Implementation – specific reasons for the failure of strategic planning

  - Underestimating the nature and extent of disruption that can happen as a result of changes.
- ensure that internal efficiencies within departments are subservient to the strategy and not the other way around „
- detect and deal with the weak links in the strategy and within the organisation, appreciate that there is a natural bias towards the status quo

- get functional areas behind the new strategy „
- appreciate the workload effect of a strategic change on functional areas „
- contain strategic shock waves within the organisation when changing from the old to the new strategy „
- communicate properly; upwards and downwards and as a team(s) „
- put into place the necessary coordination and controls in order to move from the old to the new strategy
- restructure at the operational level when making structural changes „
- provide proper incentives that will motivate people „
- make changed responsibilities clear to all employees „
- focus on the most important and critical areas.
  After a while, such a litany of woes becomes rather burdensome to read, does it not? It pulls the soul down, so to speak. However, hard lessons like these are necessary every now and then. They provide us with a better perspective of what strategic management is all about and the challenges that strategic managers face.

Strategic Issues In Managing Technology And Innovation

In this age of hyper competition and innovation, management of technology plays a crucial role. Innovation is the major driver of companies for creation of value.

a) The Role of Management

Due to increased competition and accelerated product development cycles, innovation and the management of technology are becoming crucial to corporate success. New product development is positively associated with corporate performance. Approximately half the profits of all U.S. companies come from products launched in the previous 10 years. What is less obvious is how a company can generate a significant return from investment in R&D aswell as an overall sense of enthusiasm for innovative behavior and risk-taking. One way is to include innovation in the corporation's mission statement.

Eg. Intel: "Delight our customers, employees, and shareholders by relentlessly delivering the platform and technology advancements that become essential to the way we work and live."

Another way is by establishing policies that support the innovative process. If top management and the board are not interested in these topics, managers below them tend to echo their lack of interest.

b) Environmental Scanning

Issues in innovation and technology influence both external and internal environmental scanning.

(i) External Scanning

Corporations need to continually scan their external societal and tack environment for new development in technology that may have some application to their current or potential products. This is external scanning.

Impact of Stakeholders on Innovation

A company should look to its stakeholders, especially its customers, suppliers, and distributors, for sources of product and service improvements. These groups of people have the most to gain from innovative new products or services. Under certain circumstances, they may propose new directions for product development. Some of the methods of gathering information from key stakeholders are using lead users, market research, and new product experimentation.

Technological Developments

A company's focusing its scanning efforts too closely on its current product line is dangerous. Most new developments that threaten existing business practices and technologies do not come from existing competitors or even from within traditional industries. A new technology that can substitute for an existing technology at a lower cost and provide higher quality can change the very basis for competition in an industry. Managers therefore need to actively scan the periphery for new product ideas because this is where breakthrough innovations will be found.

(ii) Internal Scanning

Strategists should assess how well company resources are internally allocated and evaluate the organization's ability to develop and transfer new technology in a timely manner to generate innovative products and services.

- *Research allocation issues* –The company must make available the resources necessary for research and development.
- *Time to market issues* – In addition to money another improvement consideration in the effective management of R&D is time to market. It is an important issue because 60% of patented innovations are generally imitated within 4 years at 65% of the cost of innovation.

Strategy Formulation

R&D strategy deals not only with the decision to be a leader or a follower in terms of technology and market entry but also with the source of the technology.

(i) *Technology sourcing* – a make or buy decision can be important in a firm's R&D strategy. There are two methods for acquiring technology, namely in house R&D is an important source of technical knowledge. Firms that are unable to finance alone the huge cost of developing a new technology may coronate their R&D with other firms through a strategic R&D alliance.

(ii) *Technology competence* – R&D creates a capacity in a firm to assimilate and exploit new knowledge. This is absorptive capacity. Technology competence is to make good use of the innovative technology purchased by a firm.

Strategy implementation

If a corporate decides to develop innovations internally, it must make sure that its corporate system and culture are suitable for such a strategy. It must establish procedures to support all six stages of new product development [idea generation, concept evaluation, preliminary design, prototype build and test final design and pilot production, new business development. Top management must develop an entrepreneurial culture – one that is open to the transfer of new technology into company must be flexible and accepting change.

Evaluation and Control

For innovations to succeed, appropriate evaluation and control techniques must be used to ensure that the end product is what was originally planned. Some of these techniques are the stage gate process and the house of quality. Appropriate measures are also needed to evaluate the effectiveness of the R&D process.

(i) The **stage-gate process** is used by companies such as IBM, 3M, General Motors, Corning, and P&G. Corning's managers believe that the process enables them to better estimate the potential payback of any project under consideration. They report that the stage-gate process reduces development time, allows identification of questionable projects, and increases the ratio of internally generated products that result in commercially successful products.

(ii) The **house of quality** is another method of managing new product development. Originally developed at Mitsubishi's Kobe shipyards, it is a tool to help project teams make important design decisions by getting them to think about what users want and how to get it to them most effectively. It enhances

communication and coordination among engineering, marketing, and manufacturing and ensures better product/customer fit. House of quality is a matrix that maps customer requirements against product attributes.

SUGGESTED READINGS

- **1. Business Strategy: Managing Uncertainty, Opportunity, and Enterprise by J.C. Spender**
- **2. The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment by Robert Kaplan and David Norton**
- **3. Accelerate: Building Strategic Agility for a Faster-Moving World by John P. Kotter**