LECTURE NOTES

ON

STRATEGIC MANAGEMENT

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K.MAMATHA

Assistant Professor

Master of Business Administration

INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

dundial, Hyderabad - 500 04

UNIT-I

STRATEGIC INPUTS

Strategic Management – Introduction:

A strategy is an action plan built to achieve a specific goal or set of goals within a definite time, while operating in an organizational framework.

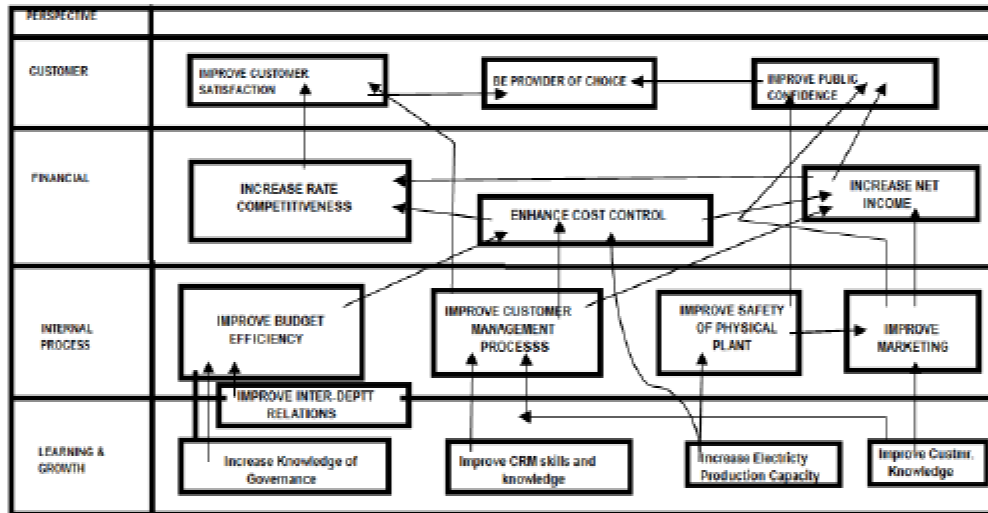
According to Rajiv Nag, Donald Hambrick & Ming-Jer Chen, “Strategic management is the process of building capabilities that allow a firm to create value for customers, shareholders, and society while operating in competitive markets.”

The process of strategic management entails −

- Specifically pointing out the firm's mission, vision, and objectives
- Developing the policies and plans to achieve the set objectives
- Allocating the resources for implementing these policies and plans

Keeping an Eye on Expenses and Goals

A balanced record of plans and policies in relation with operational moves are used to evaluate the business's overall performance. Starting from the executive level, the basic starting point is stakeholder interest, needs and expectations (i.e., financiers, customers, owners, etc.)The following image is an example of a strategy map applicable to a public-sector organization. It shows how various goals are linked with one another and provides the trajectories to achieve these goals.



Common Approaches to Strategy

Rumelt's definition of strategy includes the following steps −

- Diagnosis − what problem needs to be addressed? How do the vision, mission and objectives of a firm imply its actions?
- Guiding Policy − What according to the firm's approach will be the framework to solve the problems?
- Action Plans − How would the operations look like (in detail)? How can the processes be enacted to be in sync with the policy guidelines and to address the issues available in the diagnosis?

Michael Porter

In 1980, Michael Porter provided the following four key elements that needs to be considered while forming a competitive strategy. The elements are −

- SWOT, especially the strengths and weaknesses of the firm
- Ethical points or personal values of key executives (i.e., management or the board)
- The industry's opportunities and threats
- Broader societal and stakeholder expectations

Henry Mintzberg

Mint berg hypothesized five basic approaches, popularly known as 5Ps that can help in developing robust business strategies.

- Strategy as plan − Strategy is a directed course of action to reach the intended set of goals; these are similar to the various strategic planning concept.
- Strategy as pattern − Strategy here emerges from a consistent pattern of past organizational behavior. A strategy is realized over time rather than being planned or intended.
- Strategy as position − this includes locating the brands, products, or the companies within the market and industry depending on the conceptual framework of the firm's consumers or other stakeholders.
- Strategy as ploy − this is a specific man oeuvre and manipulation intended to outwit a competitor.
- Strategy as perspective − this kind of strategy is based on the "theory of the business" or it may be a natural extension of the given mindset or ideological attributes of the organization.
- A vision statement is an organization's declaration of its mid-term and long-term goals.
- Vision statements are often confused with mission statements. Some organizations provide one or the other, and some provide a single message that combines elements of both. Strictly speaking, both messages communicate the organization's values and purpose but a mission statement focuses on current operations and a vision statement on the future. The value of both communications lies in their ability to foster positive public relations (PR).
- Here are a few examples of vision statements:

- Gateway Computers: To be the leading marketer of personal computer products in the world.

- Amazon: Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

- Microsoft: Our vision is to provide experiences for our customers and partners, across all of their interactions with Microsoft, that they value and recognize, and enable them to realize their full potential.

Strategic mission:

A mission statement is a short statement of an organization's purpose, identifying the scope of its operations: what kind of product or service it provides, its primary customers or market, and its geographical region of operation. It may include a short statement of such fundamental matters as the organization's values or philosophies, a business's main competitive advantages, or a desired future state—the "vision".

A mission statement is not simply a description of an organization by an external party, but an expression, made by its leaders, of their desires and intent for the organization. The purpose of a mission statement is to focus and direct the organization itself. It communicates primarily to the people who make up the organization—its members or employees—giving them a shared understanding of the organization's intended direction. Organizations normally do not change their mission statements over time, since they define their continuous, ongoing purpose and focus.

Definition of Business Objectives & Goals

Business goals and objectives are part of the planning process. They are describing what a company expects to accomplish throughout the year. Business owners usually outline their goals and objectives in their business plans. These goals and objectives might pertain to the company as a whole, departments, employees, customers and even marketing efforts. Most companies use specific measurements to keep track of their goals and objectives.

Function

Small companies use various goals and objectives to make progress. Once business owners reach certain goals, they typically strive for even loftier goals. Business owners must communicate their goals and objectives to the entire company so everyone can work in synch in achieving them. Goals must be realistic, specific and measurable, according to the National Business Information Clearinghouse. Small business owners must also assign specific time frames for achieving their goals and objectives.

Types

There are many types of goals and objectives. Small companies usually have certain sales and profit goals; for instance, they might aim to increase customer counts in stores or restaurants. Goals and objectives might also pertain to employees. For example, a small electronics company might plan to hire 25 new employees in its first year. It might also have specific training goals for these employees. Marketing managers usually have their own department goals, to introduce five new products in the current year, for example.

Measuring Goals and Objectives

Companies measure goals and objectives over certain time intervals, using certain variables to report progress. Businesses might measure sales and profit goals and objectives each week, month, quarter and year. Some operators, such as restaurant managers, might need to track sales on a daily or even hourly basis, to determine how many restaurant workers are needed, or when to send people home, keeping labor costs in line. Company owners might expect certain percentage-point increases from year-to-year when establishing sales goals and objectives. Customer counts are also typically measured in numbers. And companies measure the number of trained sales reps as a percentage of the entire sales force.

Purpose

Smaller goals and objectives serve as stepping stones for greater accomplishments. Public businesses are also expected to report certain statistics, including sales, profits and earnings per share. Companies that are successful in meeting goals and objectives can attract more investors or shareholders. Statistics also help companies gauge their success against competitors.

What is SWOT Analysis?

SWOT analysis is a structured process used by an organization in developing a strategic plan for goal and mission accomplishment. SWOT analysis consists of examining an organization's strengths, weaknesses, opportunities and threats in its business environment.

You can also think of SWOT analysis as the process of asking four important questions:

1. What makes us strong?
2. What makes us weak?
3. What opportunities are in the marketplace upon which we can capitalize?
4. What type of threats is out there that can undermine our organization, its goals, and its mission?

SWOT explores two types of environments: the internal environment, which focuses on strengths and weaknesses, and the external environment, which focuses on opportunities and threats. Today we'll be looking at the external environment, or external opportunities and external threats.

Opportunities and Threats

External opportunities provide an organization with a means to improve its performance and competitive advantage in a market environment. Some opportunities can be foreseen, such as being able to expand a franchise into a new city, while some may fall into your lap, such as another country opening up its market to foreign business.

If you can think far enough ahead, you may even be able to create some opportunities, like a chess master being able to calculate the checkmate of his opponent in five moves just by looking at the board. For example, you may be able to see the potential of new products that can be developed from emerging technology. Prime examples of this type of foresight are the social media giants Face book and Twitter.

External threats are anything from your organizations outside environment that can adversely affect its performance or achievement of its goals. Ironically, stronger organizations can be

exposed to a greater level of threats than weaker organizations, because success breeds envy and competition to take what your organization has achieved.

Examples of external threats include new and existing regulations, new and existing competitors, new technologies that may make your products or services obsolete, unstable political and legal systems in foreign markets, and economic downturns. Sometimes you can turn a threat into an opportunity, such as a new technology that may displace one of your key products but also provides an opportunity for new product development.

Examples of SWOT Analysis

Let's illustrate how these concepts work together with an example. Let's say you run a regional newspaper company. It's time for your semi-annual strategy session with your management team. As always, you use a SWOT analysis to help you get a picture of where things stand so you can develop a long-term strategy. You discuss your company's strengths and weaknesses and are ready to move on to external opportunities and threats.

The biggest threat facing your company is technology. The Internet is killing your subscription rate, and your ad revenue has plummeted over the past year. On the positive side, most of your print competition has been forced out of business. Your next step is to look at the opportunities available to you in the market. You and your team figure that if you can't beat the Internet, you should try to capitalize upon it.

Five Components of an Organization's External Environment

Related Articles

- What Are Internal & External Environmental Factors That Affect Business?
- Seven External Factors of Business
- Internal & External Factors That Affect an Organization
- Factors in the External Environment That Influence Employee Behavior

The external environment of an organization is those factors outside the company that affect the company's ability to function. Some external elements can be manipulated by company marketing, while others require the organization to make adjustments. Monitor the basic components of your company's external environment, and keep a close watch at all times.

Customers

Your customers are among the external elements you can attempt to influence, via marketing and strategic release of corporate information. But ultimately, your relationship with your clients is based on finding ways to influence them to purchase your products. Market research is used to determine the effectiveness of your marketing messages, and to decide what changes can be made to future marketing programs to improve sales.

Government

Government regulations in product development, packaging and shipping play a significant role in the cost of doing business and your ability to expand into new markets. If the government places new regulations on how you must package your product for shipment, that can increase your unit costs and affect your profit margins. International laws create processes that your company must follow to get your product into foreign markets.

Economy

As with the majority of the elements of your organization's external environment, your company must be efficient at monitoring the economy and learning how to react to it, rather than trying to manipulate it. Economic factors affect how you market products, how much money you can spend on business growth, and the kind of target markets you will pursue.

Competition

Your competition has a significant effect on how you do business and how you address your target market. You can choose to find markets that the competition is not active in, or you can decide to take on the competition directly in the same target market. The success and failure of your various competitors also determines a portion of your marketing planning, as well. For example, if a long-time competitor in a particular market suddenly decides to drop out due to financial losses, then you will need to adjust your planning to take advantage of the situation.

Public Opinion

Any kind of company scandal can be damaging to your organization's image. The public perception of your organization can hurt sales its negative, or it can boost sales with

positive company news. Your firm can influence public opinion by using public relations professionals to release strategic information, but it is also important to monitor public opinion to try and defuse potential issues before they begin to spread.

Porter's Five Forces

Assessing 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 considering moving 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.

Understanding the Tool

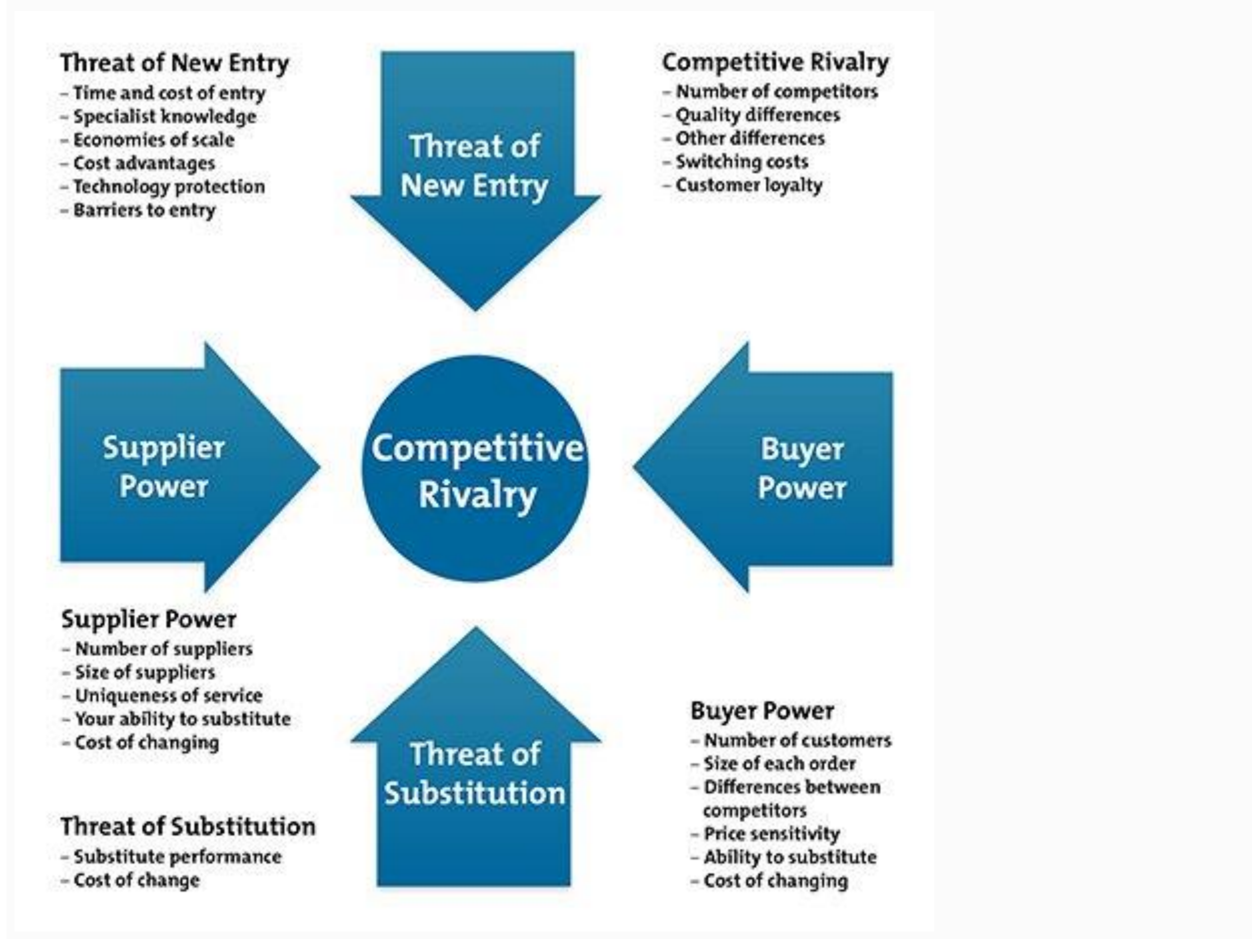
Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

1. **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.
2. **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, then they are often able to dictate terms to you.
3. **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, because suppliers and buyers will go elsewhere if they don't get a good deal from you. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

4. **Threat Substitution**: of 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.
5. **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.

Figure 1 – Porter's Five Forces



To use the tool to understand your situation, look at each of these forces one-by-one and write your observations on our free worksheet.

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 the diagram, 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 (you can see this in the example below).

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 looking at things in this way helps you think through what you could change to increase your power with respect to each force. What’s more, if you find yourself in a structurally weak position, this tool helps you think about what you can do to move into a stronger one.

This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. Since publication, it has become one of the most important business strategy tools. The classic article which introduces it is "How Competitive Forces Shape Strategy" in Harvard Business Review 57, March – April 1979, pages 86-93.

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.

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

You can then look at how you can affect each of the forces to move the balance of power more in your favor.

7 Factors Determining the Internal Environment of a Business

Article Shared by Subho Mukherjee

The following points highlight the seven factors that determine internal environment of a business firm.

The factors are: (1) Value System, (2) Mission and Objectives, (3) Organization Structure, (4) Corporate Culture and Style of Functioning of Top Management, (5) Quality of Human Resources, (6) Labor Unions, and (7) Physical Resources and Technological Capabilities.

Internal Environment of a Business

Factor 1# Value System:

The value system of an organization means the ethical beliefs that guide the organization in achieving its mission and objective. The value system of a business organization also determines its behavior towards its employees, customers and society at large. The value system of the promoters of a business firm has an important bearing on the choice of business and the adoption of business policies and practices. Due to its value system a business firm may refuse to produce or distribute liquor for it may think morally wrong to promote the consumption of liquor.

The value system of a business organization makes an important contribution to its success and its prestige in the world of business. For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D. Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.

Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, “our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large” Thus value system of a business firm has an important bearing on its corporate culture and determines its behavior towards its employees, shareholders and society as a whole.

Factor 2# Mission and Objectives:

The objective of all firms is assumed to be maximization of long-run profits. But mission is different from this narrow objective of profit maximization. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

The-choice of a business domain, direction of its development, choice of a business strategy and policies are all guided by the overall mission of the company. For example, “to become a world-class company and to achieve global dominance has been the mission of ‘Reliance Industries of India’. Similarly “to become a research based international pharmacy company” has been stated as mission of Ranbaxy Laboratories of India.

Factor 3# Organization Structure:

Organization structure means such things as composition of board of directors, the number of independent directors, the extent of professional management and share -holding pattern. The nature of organizational structure has a significant influence over decision making process in an organization. An efficient working of a business organization requires that its organization structure should be conducive to quick decision making. Delays in decision making can cost a good deal to a business firm.

The board of directors is the highest decision making body in a business organization. It takes general policy decisions regarding direction of growth of business of the firm and supervises its overall functioning. Therefore, the managerial capability of the board of directors is of crucial

importance for the functioning of a business firm and for achievement of its overall mission and objectives.

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For efficient and transparent working of the board of directors in India it has been suggested that the number of independent directors be increased. Many private corporate firms in India are managed by family members of their promoters which is not conducive to the efficient working of these firms.

Fig. 1.4. Internal Environment

It is therefore highly desirable to increase the extent of professional management of private corporate companies. The share holding pattern has also an important implication for business management. In some Indian companies the majority of shares is held by the promoters of the company themselves.

In some others share-holding pattern is quite diversified among the public. In India financial institutions such as UTI, LIC, GIC, IDBI, IFC etc. have large share holdings in prominent Indian corporate companies and the nominees of these financial institutions play a critical role in making major business policy decisions of these corporate companies.

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Technically, shareholders elect directors who make up the board of directors. The directors then appoint company's top managers who take various business decisions. However, most of the shareholders delegate the voting rights to the management or do not attend the general body meeting.

Thus, most of the shareholders regard ownership of the company as a purely financial investment. However, in recent years in developed countries like the United States the shareholders have come to wield a great influence.

The bankruptcy of business giants such as Enron, World Com. in the United States have created great awareness as well as mistrust among shareholders. In the last few years there has been frequent law suits filed by shareholders against directors and managers for ignoring the interests of shareholders or in fact cheating them by not declaring dividends. That is why there is worldwide debate on proper corporate governance of business firms.

Factor 4# Corporate Culture and Style of Functioning of Top Management:

Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company. Corporate culture is generally considered as either closed and threatening or open and participatory.

In a closed and threatening type of corporate culture the business decisions are taken by top-level managers, while middle level and work-level managers have no say in business decision making. There is lack of trust and confidence in subordinate officials of the company and secrecy pervades throughout in the organization. As a result, among lower level managers and workers there is no sense of belongingness to the company.

On the contrary, in an open and participatory culture, business decisions are taken at lower levels of management, and top management has a high degree of trust and confidence in the subordinates. Free communication between the top level management and lower-level managers is the rule in this open and participatory type of corporate culture. In this open and participatory system the participation of workers in managerial tasks is encouraged.

Closely related to corporate culture is the style of functioning of top management. Some top managers believe in just giving orders and want them to be strictly followed without holding consultations with lower level managers. This style of functioning is not conducive to the adaptability and flexibility in dealing with the changing external environment of business.

Factor 5# Quality of Human Resources:

Quality of employees (i.e. human resources) of a firm is an important factor of internal environment of a firm. The success of a business organization depends to a great extent on the skills, capabilities, attitudes and commitment of its employees. Employees differ with regard to these characteristics.

It is difficult for the top management to deal directly with all the employees of the business firm. Therefore, for efficient management of human resources, employees are divided into different groups. The manager may pay little attention to the technical details of the job done by a group and encourage group cooperation in the interests of a company. Due to the importance of human resources for the success of a company these days there is a special course for managers how to select and manage efficiently human resources of a company.

Factor 6# Labor Unions:

Labor unions are other factor determining internal environment of a firm. Unions collectively bargain with top managers regarding wages, working conditions of different categories of employees. Smooth working of a business organization requires that there should be good relations between management and labor union.

Each side must implement the terms of agreement reached. Sometimes, a business organization requires restructuring and modernization. In this regard, the terms and conditions reached with the labor union must be implemented in both letter and spirit of cooperation of workers is to be ensured for the reconstruction and modernization of business.

Factor 7# Physical Resources and Technological Capabilities:

Physical resources such as plant and equipment, and technological capabilities of a firm determine its competitive strength which is an important factor determining its efficiency and

unit cost of production. R and D capabilities of a company determine its ability to introduce innovations which enhance productivity of workers.

It is however important to note that rapid technological progress, especially unprecedented growth of information technology in recent years has increased the relative importance of 'intellectual capital and human resources as compared to physical resources of a company. The growth of Bill Gates Microsoft Company and Murthy's Infosys Technologies is mostly due to the quality of human resources and intellectual capital than to any superior physical resources.

Difference between Core Competencies and Competitive Advantage

Core Competencies vs. Competitive Advantage

Core competencies and competitive advantages are closely related to one another as they both help companies achieve greater market share, customer satisfaction, loyalty and greater profits. Core competencies generally lead to competitive advantages, although this may not always be the case. Core competencies and competitive advantages both help a company stand apart from its competition, but are not the same. The article offers a clear explanation on each term and marks their similarities and differences through examples.

What is Competitive Advantage?

Competitive advantage occurs when a company is able to achieve a competitive edge with regards to is products, services, strategies, skills, etc. than its competitors. There are two types of competitive advantage; cost leadership and differentiation. A competitive advantage is something that will help the company stands out from its competitors.

Competitive advantages can be achieved by gaining access to cheaper raw materials, through intellectual property, first mover position, convenience in location, etc. An example of a competitive advantage would be the edge that Google has above other search engines. Google is the best at optimizing searches and has pushed technology beyond what competitor's thought

was possible. A competitive advantage will aid a firm to differentiate its goods and services from competitive offerings. Having a competitive advantage can also contribute towards improving customer loyalty which can go a long way in times of financial difficulty. Building a strong brand name through creative advertising can aid in marketing a company's competitive advantage.

What is a Core Competency?

Core competency refers to a specific set of skills and expertise that a company may have over its competitors. In order for a core competency to exist, 3 criteria must be met; those are market access, benefits consumers, unique and difficult to imitate. One of the most essential aspects of a core competency is that they help gain access to a range of markets and consumers. Core competencies also bring benefits to consumers in terms of lower cost and better quality products, and cannot be easily copied or imitated. Core competencies include things like, technological knowhow, skilled individuals, supply systems and processes, customer relationship management skills, etc. For example, Tesco has emerged as one of the largest retailers in the world because of their core competencies in effectively managing supplies through their innovative supply systems; customer focused selling strategies, personalized customer interface for online shopping, an efficient delivery mechanism, etc.

Competitive Advantage vs. Core Competency

Even though these terms may sound quite similar to one another, competitive advantage and core competency are quite distinct. A core competency is a specific skill set or expertise that can lead to a competitive advantage. For example, a core competency in innovative supply systems can lead to increased efficiencies and lower costs; the lower cost being the competitive advantage. Volvo's core competency lies in their ability to research and develop automobiles that offer the high protection and safety standards. The company's competitive advantage lies in providing a differentiated product valued for its high safety standards that surpass its competitors.

Summary:

Difference between Competitive Advantage and Core Competency

• Core competencies and competitive advantages are closely related to one another as they both help companies achieve greater market share, customer satisfaction, loyalty, and greater profits.

• Competitive advantage occurs when a company is able to achieve a competitive edge with regards to is products, services, strategies, skills, etc. than its competitors.

• A core competency is a specific skill set or expertise that can lead to a competitive advantage.

• In order for a core competency to exist, 3 criteria must be met; these are market access, benefits consumers, unique and difficult to imitate.

Core Competency Theory of Strategy

Core Competency Theory

The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm.

Core Competencies and Strategy

The term core competency was coined by the leading management experts, CK Prahalad and Gary Hamel in an article in the famous Harvard Business Review. By providing a basis for firms

to compete and achieve sustainable competitive advantage, Prahalad and Hamel pioneered the concept and laid the foundation for companies to follow in practice.

Some core competencies that firms might have include technical superiority, its customer relationship management, and processes that are vastly efficient. In other words, each firm has a specific area in which it does well relative to its competitors, this area of excellence can be reused by the firm in other markets and products, and finally, the area of strength adds value to the consumer. The implications for real world practice are that core competencies must be nurtured and the business model built around them instead of focusing too much on areas where the firm does not have competency. This is not to say that other competencies must be neglected or ignored. Rather, the idea behind the concept is that firms must leverage upon their core strengths and play to their advantages.

Some Examples

If we take the examples from real world companies and evaluate their core competencies, we find that many firms have benefited from the application of this theory and that they have succeeded in attaining competitive advantage and sustainable strategic advantage. For instance, the core competencies of Walt Disney Corporation lie in its ability to animate and design its shows, the art of storytelling that has been perfected by the company, and the operation of its theme parks that is done in an efficient and productive manner. Hence, Walt Disney Corporation would be well advised to configure its strategy around these core competencies and build a business model that complements these competencies.

Closing Thoughts

The important aspect to be noted is that core competencies provide the companies with a framework wherein they can identify their core strengths and strategize accordingly. Of course, the identification and evaluation of core competencies must be done as accurately and reliably as possible since the divestment of non-core areas must not lead to the firm missing key areas of operation and competitive advantage. Finally, care must be taken when building the organizational edifice around the core competencies to avoid the situation where many or too few of the competencies are identified leading to redundancies or scarcity.

What is Value Chain Analysis? Definition, Model & Example

What is value chain analysis and how to use it? This article will show you value chain analysis definition, value chain model, and value chain analysis example.

What is Value Chain Analysis?

"Value Chain Analysis can be defined as a strategic planning tool and it's used to analyze the value chain of the focal company. Value chain is how internal functions create value for customers. Value system is the way each value chain is structured and it spans across multiple companies"

What is Value Chain Model?

Value Chain Model is mentioned extensively in the first half of the book "Competitive Advantage" in 1985 by Michael Porter. The Value Chain Model represents various functions under "one" company and how they should work together to create "Competitive Advantage".

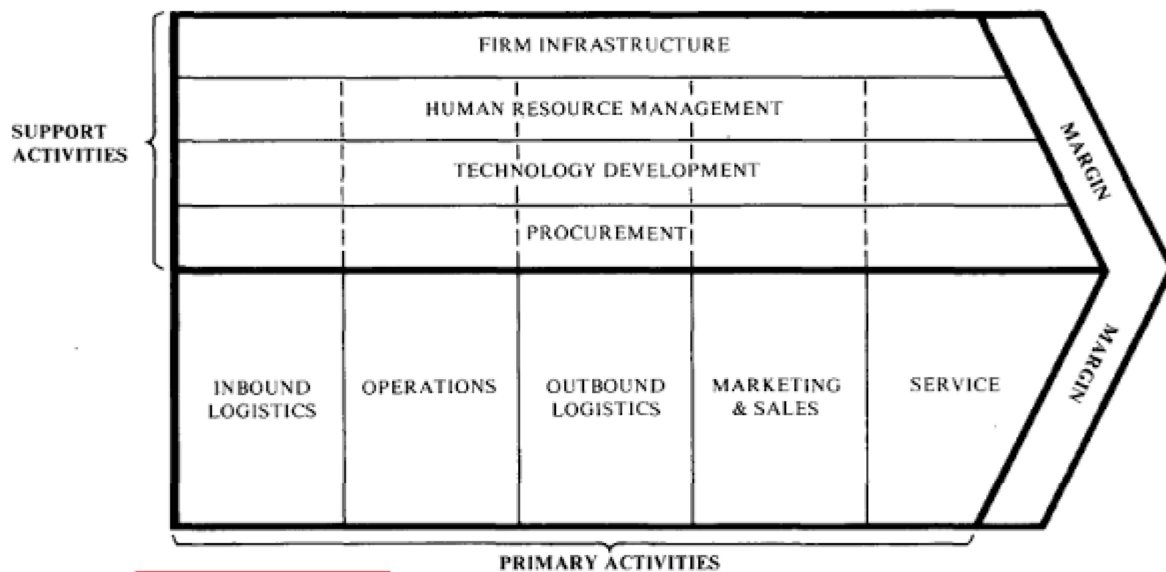


Figure 2-2. The Generic Value Chain

What is Competitive Advantage?

Competitive Advantage is the ability for a firm to put "*generic strategy*" into practice, generic strategy includes,

- **Cost Leadership: aiming to offer the lowest price to customers**

- Differentiation: selecting the important attributes that buyers want so the company can get a premium price

- Focus: doing each strategy according to each market segment

What is Value System?

Another related concept is "Value System", it's simply how each value chain (company) is connected with each other.

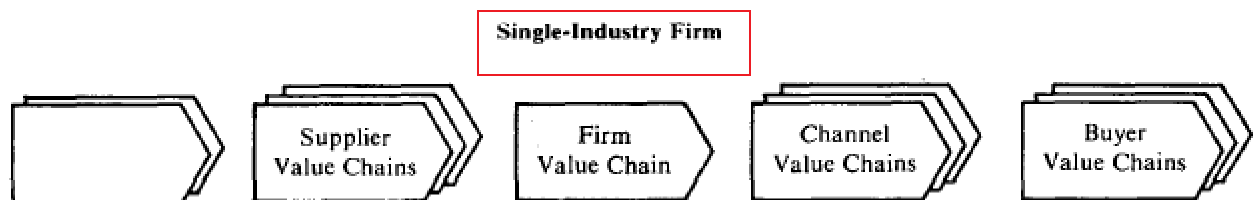
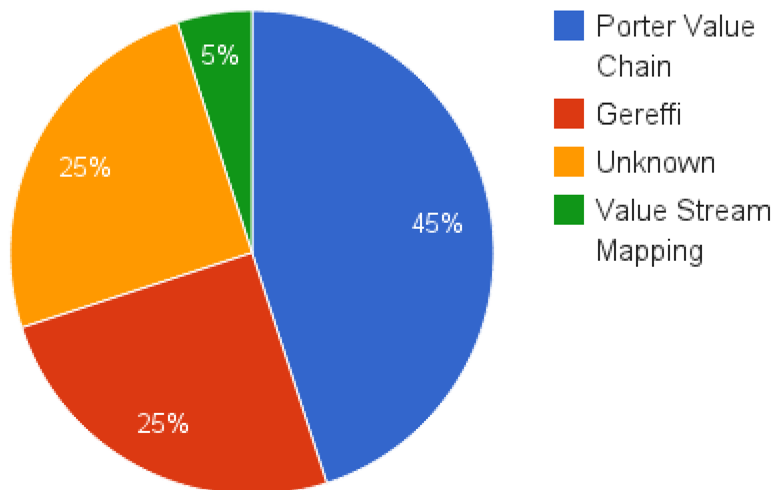


Figure 2–1. The Value System

What is NOT Value Chain Analysis?

We know for the fact that many people, ranging from practitioners in academia, don't really understand value chain analysis concept. Then we conduct a quick literature review in this area. Convenient sampling has been carried out to determine the current practice of value chain analysis, 20 scholarly articles available via Google Scholar are examined and the results are as below,



The results are surprisingly shocking! Only 9 out of 20 articles cite Porter as the source of the concept (only 3 of them explain the concept appropriately, the rest of them do a value system analysis using the unknown methodology). Five articles (mainly from an economic perspective) mistakenly use the term to present unrelated concept called "Global Commodity Chain" by Gereffi, G. and Korzeniewicz, G. (Ed) (1994) Commodity Chains and Global Capitalism.

The surprise doesn't end there, 5 articles present the concept without citing any source, it seems they invented their own methodology and name it "value chain analysis". One paper cites many lean manufacturing articles instead of Porter's so conclusion can be drawn that it's Value Stream Mapping.

Value Chain Analysis Example?

According to a literature review, articles related to this concept are extremely unreliable. Then, Original Porter's Competitive Advantage is used as a source.

Here's how to use value chain analysis:

1. Defining Value Chain: Identify business units/products, determine key functions and include all relevant activities of each function

2. Capturing Cost Data: Estimate costs and assign them to various activities in your value chain. Then, select stronger competitors and determine how they allocate costs to each activity and why.

According to Porter, cost analysis part doesn't need to be very precise, just the estimate is OK. But, a company needs to compare its cost profile against its competitors to reveal the competitor's strategy.

3. Controlling Costs: Find cost drivers and control them such as,

- Scale: expand product lines/facilities
- Linkage: control supplier scheduling, location of warehouse, payment policies
- Timing: Wait until the technology is getting less expensive than acquire them
- Investment: focus on technology that cut costs
- Procurement: reduce SKUs, supply base for better volume

4. Cutting Buyer's Cost: Follow these simple guidelines,

- Lower setup cost/time
- Decrease financing cost
- Improve quality/reduce inspection
- Reduce required maintenance
- Speed up processing time
- Reduce required monitoring/control

5. Determining Purchasing Criteria: Try to figure out the key criteria and try to provide favorable delivery timing or improve product features, packaging and appearance or improve after sales/service

6. Reconfiguring Value Chain: Change the way each activity is performed to support the strategy

The Advantages and Disadvantages of Outsourcing in Business

Outsourcing (also sometimes referred to as "contracting out") is a business practice used by companies to reduce costs or improve efficiency by shifting tasks, operations, jobs or processes to an external contracted third party for a significant period of time. The functions that are contracted out can be performed by the third party either onsite or offsite of the business.

Examples of Outsourcing

Outsourcing is a cost-saving measure, and the practice can have significant impacts in sectors like manufacturing.

In the U.S., for example, manufacturers have outsourced jobs overseas to countries like China and Bangladesh. This practice is also known as "off shoring," which involves outsourcing to a third party in a country other than the one in which the outsourcing company is based in order to save on labor costs.

Outsourcing is not limited to manufacturing jobs. Customer service jobs, such as those in a call center, and computer programming jobs are also outsourced by companies seeking ways to reduce costs. A large number of companies outsource at least some functions of human resources tasks, such as benefits management and payroll.

Outsourcing can also involve the purchasing of components from another source, such as components for computer equipment. The component can be purchased for a lower cost than it would be for the company to manufacture that component themselves, and the component may be of higher quality.

IT services can also be outsourced. For example, cloud computing and software-as-a-service (Seas) offer companies access to computer services and tools that were once managed in-house by a company's IT department.

Benefits of Outsourcing

Outsourcing can free up cash, personnel, facilities and time resources for a company.

It can result in cost savings from lower labor costs, taxes, energy costs and reductions in the cost of production.

In addition to cost savings, a company may also employ an outsourcing strategy in order to focus on its core business competencies. This allows the company to devote more resources to what it does well, which can improve efficiency and increase its competitiveness. Production can be streamlined and production time shortened while reducing operational costs.

Those non-core functions that are outsourced will usually go to outside organizations for whom that function is a core business competency, further benefiting the business through the improved management of those functions.

A company may also choose to outsource in order to avoid government regulations or mandates, such as environmental regulations or safety regulations and requirements.

Disadvantages of Outsourcing

While outsourcing has many advantages, it also presents some disadvantages. The relationship with the third party that takes on the outsourced functions must be managed. This includes the negotiating and signing of contracts, which requires time and the involvement of a company's legal counsel, as well as the day-to-day communication with and oversight of the outsourced work.

Unit-II

FORMULATION OF STRATEGIC ACTIONS: BUSINESS LEVEL STRATEGY

Five Business Level Strategies

Definition: Five Business Level Strategies

The Business strategy is a detailed plan outlined on how to deliver value to customer at the same time positioning itself as having a competitive advantage over the competitor. The five types of business level strategies are as follows.

- Five Cs of Credit
- Business Cycle
- Business Analysis
- Simulation Business Modeling
- Business Valuation
- Business Risk

• Cost leadership: This type of strategy is totally based on the price as a competing factor. In case of commodity products many producers try to minimize their cost structure and transfer the value to the customer in terms of low price. It is based on having internal efficiency to have above average margins to be sustainable. It can only be achieved by building state of art facility, having very low operational, R&D cost, overhead expenses etc

. Example: Wal-Mart is known for its lowest prices.

• **Differentiation:** the main aim is to position as a provider with unique features of the product or service being offered over the cost aspect. High quality product, high customer service, rapid innovation etc are a few key points of differentiation. Example: apple has differentiated itself as high quality product provider

• **Focused Low Cost:** this kind of strategy provides its offerings only to a small segment of consumers at a low cost. Example a low cost provider supplying goods only to one country thereby serving to the needs of a very small segment.

• Focused Differentiation: by doing so companies compete on differentiating their offering but to a small much targeted segment of consumers. But they are able to serve this base of customers in a more efficient manner than their customers. However there are risks that the segment may become out of interest or other competitors may find the segment attractive.

• Integrated Low Cost Differentiation Strategy: with the advent of globalization many companies adopt this strategy of adapting to the environmental changes by learning new technology and leveraging on core competencies to provide differentiated products at low cost.

Search & Explore:

Browse the definition and meaning of more terms similar to Five Business Level Strategies. The Management Dictionary covers over 7000 business concepts from 6 categories.

5 easy ways to maintain customer relationships

Listen to your customers

Listening to your customers is an easy way to maintain customer relationships. One way social media can help is by providing a space for businesses and customers to connect. By creating a company Twitter handle, Face book page, and Integra account, your company can help customers reach out if they have any concerns, issues, or feedback. Listening to them on these social networks will allow you to respond quickly.

Be genuine to your customers

People can spot a fake from afar, and the last thing you want your company doing is having an insincere business' persona. Same goes for how you converse with your customers online or offline. Being genuine with your customers goes a long way when it comes to maintaining customer relationships. For example, if your customers are having issues with your product, provide an honest answer and don't make promises you can't keep. The worst thing you can do as a business is make false promises instead of an effective customer solution.

Create and engage with your brand ambassadors

For new start-ups, growing a community is the first step in marketing efforts, and that often includes building a community of brand ambassadors. At Hoot suite, we treasure our brand ambassadors, because without them we wouldn't be where we are today. During our early years we spent our marketing efforts in growing a community, as opposed to investing in advertisements. Through engaging Hookups, Google Hangouts, and conversations on social media, we were able to grow our community of local social enthusiasts into a global community of brand ambassadors.

Put emphasis on customer success

Customer success is a pivotal focus point for businesses. If you provide support to your customers, they will, in turn, reward you with loyalty and valuable feedback. This could start out

small: for example, by entrusting someone on your team with customer support duties. This will help you maintain customer relationships, and establish your business as that which makes meeting their customer's needs a top priority.

Keep in touch

Just like maintaining friendships, in order to maintain customer relationships you need to keep in touch. For businesses this can come in the form of holiday cards, birthday greeting Tweets, or a quarterly email reminding your customers that you're there for them if they need you. By keeping in touch with your customers, you'll stay "top of mind"—this is key to making sure your customers don't leave you for someone else, or forget about you altogether.

Learn how to connect with customers like never before at Connect via Hootsuite, our virtual conference. Register for free to learn how to use social media at every stage of the buyer's journey—from engagement and brand awareness, to driving leads and closing sales.

What Is the Purpose of Strategic Objectives?

By Sophie Johnson

Related Articles

- Six Strategic Business Objectives
- Top 10 Strategic Business Objectives
- The Purpose of Mission and Vision Statements in Strategic Planning
- Difference Between Strategic & Operational Objectives

At their broadest, strategic objectives serve an organization's ambition. A company's ambition is found in its mission and vision statements. These statements together describe the main thrust of a company and its ultimate goal, a goal that can only be

reached by successfully carrying out business. Strategic objectives are the steps and accomplishments that a company completes to realize that ultimate goal.

Fulfill a Strategy

While the vision describes the goal, a strategy is the choice of how to reach that goal. A small business might choose a growth strategy to achieve a goal tied to an increase in market share, for instance. Objectives, meanwhile, are steps to some particular end. The particular purpose of strategic objectives, then, is to set targets that, step by step, further the company's strategy.

Deal in the Concrete

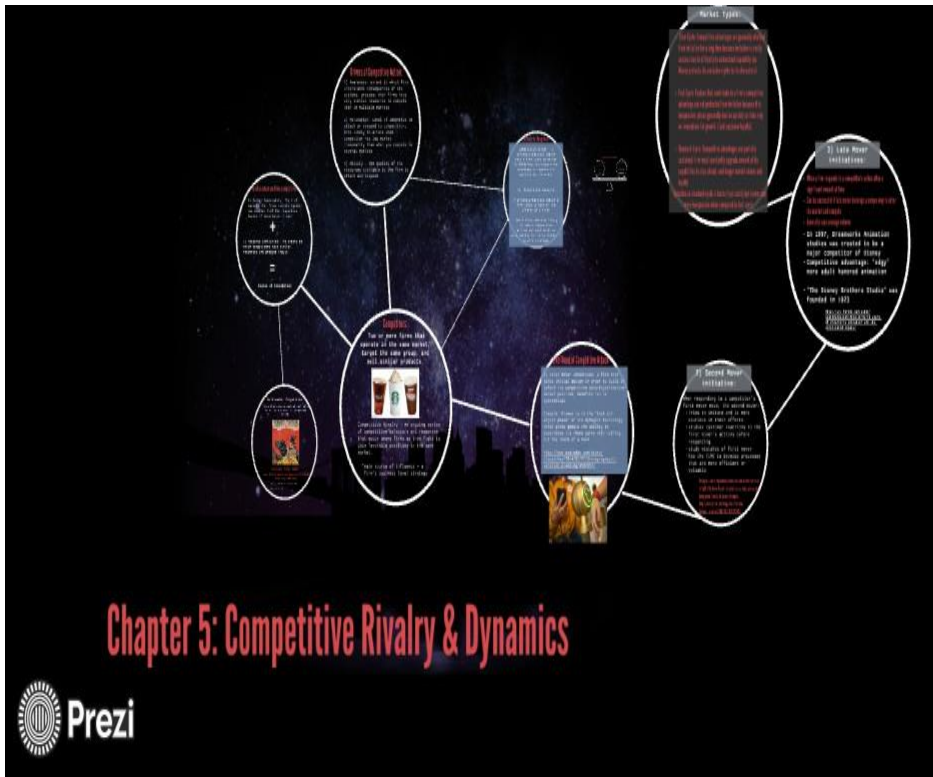
Often, a company's mission and vision have some degree of vagueness. For instance, a bakery's mission might declare that the business exists to make high-quality baked goods that customers demand at every meal. The bakery's vision might picture becoming the No. 1 breakfast destination in the Southeast. But how? One purpose of strategic objectives is to ground the lofty in concrete with specific and quantified targets. Our bakery might plan to open two new locations and increase breakfast profits by 25 percent this year. Concrete strategic objectives allow everyone to agree on what, exactly, the company must achieve.

Guide Goal Setting

While a small-business owner sets strategic objectives, it's up to those below, operating in their respective spheres, to realize those objectives. Middle managers concern themselves with marketplace competition, while at the operational level, front-line manager's work with customers and supply products and services. These middle and operational managers, too, must set goals and targets. Another purpose of strategic objectives is to serve as a guide when managers formulate goals. For example, a functional manager might expect employees to increase sales of a certain product to support a larger goal of profit growth.

Create Company Unity

Good strategic objectives that is, those that are specific, measurable and have a deadline attached unify the activities of everyone throughout a small business. Employees and departments don't work at cross purposes, pursuing their own agendas, but instead work with the larger picture in mind, all moving in the same direction. Because the goals are specific, employees and managers can measure progress, reform ineffective practices and provide or earn incentives. This focuses efforts on achievement not only the achievement of strategic objectives, but eventually, of the vision.



Competitive Rivalry and Competitive Dynamics

Competitors

- Firms operating in the same market, offering similar products and targeting similar customers Competitive Rivalry
- Ongoing set of competitive actions and competitive responses occurring between competitors as they contend with each other for an advantageous market position Competitive Behavior
- Set of competitive actions and competitive responses the firm takes to build or defend its competitive advantages and to improve its market position Multimarket Competition
- Firms competing against one another in several product or geographic markets Competitive Dynamics
- Total set of actions and responses of all firms competing within a market Model of Competitive Rivalry Over time firms take competitive actions/reactions Pattern shows firms are mutually interdependent Firm level rivalry is usually dynamic and complex Foundation for successfully building and using capabilities and core competencies to gain an advantageous market position Competitor Analysis

Competitive Rivalry: the concept

Competitive rivalry is one of Porter's five forces. This term describes the intensity of competition between existing players (companies) in an industry.

Low barriers to entry lead to a high competitive rivalry. If it is easy for customers to move to substitute products for example from coke to water then again rivalry will be high. Not all industries are equally competitive. In general, some of the factors leading to high an low competitive rivalry can be stated as:

- Factors leading to high competitive rivalry.
- Factors leading to low competitive rivalry.
- Low differentiation between products.
- High differentiation hence leading to brand loyalty.
- Competitors are of around the same size.
- Some firms dominate the market.
- Competitors have similar strategies.
- Varied strategies, hence independent of each other.
- High exit barriers.
- Low exit barriers.
- Low market growth rates.
- Market can accommodate competitors (high growth).
- High fixed or storage costs.
- Low fixed costs/ resources are not specific.
- High "strategic stakes" tied up in capital equipment, research or marketing.
- The business is strategically less important.

These are just some of the conditions in which competitive rivalry is more likely to be high. The result of this is a pressure on prices, margins, and hence, on profitability for every single company in the industry. The competitive rivalry in business occurs in so many ways but they mostly depend upon the type of customers, the size of the business, the strategies involved and the costs. In addition, there are many reasons why there is business competition and one of which is that it is expensive to leave the industry that they are in right now. In this case, they have no choice but to fight against one another in order to see which one stays on top. Business rivalry threats cannot be avoided but if you are well prepared and you have the right attitude towards them, you will be able to eliminate your rivals eventually. A series of competitive actions and competitive responses among firms competing within a particular industry leads to what is known as competitive dynamics. Factors affecting competitive dynamics can be represented by:

A Model of Competitive Rivalry

This model shows that for a firm to be able to attack or respond and hence demonstrate competitive rivalry, it needs to first be aware about the competitors; have the motivation to respond/attack and then also have the necessary resources to execute their plan of actions. Moreover, smaller firms are more nimble and hence more responsive when compared to bigger

firms. Firms with high market commonality and highly similar resources are direct and mutually acknowledged competitors. However, direct rivals do not always intensify their competition. The drivers of competitive behavior, as well as the likelihood that a competitor will initiate competitive actions or reactions influences the intensity of rivalry, even for direct competitors.

Two important drivers of competitive actions and responses are market commonality and resource similarity. Market Commonality is concerned with the number of markets with which the firm and a competitor are jointly involved and the degree of importance of the individual markets to each. Resource Similarity is the extent to which the firm's resources are comparable to a rival's in terms of both type and amount. Firms with similar types and amounts of resources tend to have similar strengths and weaknesses and use similar strategies. Also Competitors are more likely to respond to strategic and tactical actions taken by market leaders. Hence reputation is also a key determinant of the extent of competitive rivalry.

Market Commonality

Boeing and Airbus compete in 6 main geographic regions in two broad product categories - narrow body and wide body aircrafts10

North America

Europe

Asia Pacific

Latin America

Middle East

Africa

Narrow body aircrafts are used for up to 6,000km and carry between 100 and 200 passengers whereas wide body aircrafts are used for up to 14,000km and carry 200 to 450 passengers.

Historically Boeing had dominated the market share in each of the regions and categories. This is possibly due to the fact that it had the first mover advantage and hence a longer presence in the industry .Also the fact that commercial aircrafts have an average life span of about 30 years contributes to this dominant market share of Boeing. In the last 10 years however, the two companies had about the same share of orders and deliveries. However with regard to the net order share, in the last ten years, Airbus has overtaken Boeing in the race with 64% market share while Boeing is left with only 36% as of in the year 2009. This is in contrast to the fact that Boeing occupied 54% market share as compared to 46% by Airbus in 2000.

In fact Boeing and Airbus capture about 92% share of the world commercial aircraft market in narrow body and wide body aircrafts.

In Asia, Airbus has two subsidiaries namely Airbus Japan and Airbus China. Since the Asia market is of strategic importance the two subsidiaries there carry out marketing and sales activities and also foster greater industrial cooperation with companies in the Asia-Pacific regions. Similarly, the Airbus Russia subsidiary offers its services to Aeroflot, Russia's international airline operator

Again Boeing has been actively involved in the international market and especially in the Asia-Pacific region. In Japan, Boeing has offered longstanding relationships with Japanese suppliers including Mitsubishi Heavy Industries and Kawasaki Heavy Industries by which these companies have had increasing involvement on successive Boeing jet programs. This process has helped Boeing achieve almost total dominance of the Japanese markets for commercial aircrafts.

Again when it comes to product portfolio both the companies have similar portfolios with the products being direct competitors in different categories. In 1970 Boeing launched the world's largest passenger aircraft, the famous B747. Since then, Boeing enjoyed a monopoly in the market for large passenger aircrafts. In 2001, EADS Airbus attacked this monopoly by launching the A380, which is now the largest passenger aircraft with more than 550 seats. The launch of the A380 programmer actually pushed Boeing into the position of challenger. Boeing responded by launching the B747X, an extended version of the B747. However despite a heavy marketing effort in the beginning of 2001, Boeing did not have the same success with its 747X.Given the segment's slim size, Boeing had to withdraw from the race and instead created another niche in which it started to compete. In April 2001, Boeing launched the Sonic Cruiser, which not only had a new design with canards and delta wings, but also signaled a very different strategic approach to the market.

In the 100-seat market Airbus's A318 is a direct competitor to Boeing's B717. Likewise A321 competed directly with B757 in the 240-280 passenger categories. Again in the wide-body, long-range, 200-400 seat market the Boeing 767 and 777 families, compete with the Airbus A300, A310, A330, and A340 families. All of these aircraft families are intricately intertwined in market relations and competition.

Over the years the two companies have come out with fundamentally different products, based on diametrically opposite visions of the future. The A380 is built around the assumption that airlines will continue to fly smaller planes on shorter routes into a few large hubs, then onward to the next hub on giant airplanes. It assumes that passengers will put up with the hassles of changing planes in exchange for the privilege of travelling in a jet-powered cruise liner. Boeing however challenges the current hub-and-spoke model as a given and believes customers still prefer more point-to-point flights, flown more frequently, on smaller airplanes.

Resource Similarity

Strategy is concerned with matching company's resources and capabilities to the opportunities that arise in the external environment. Airbus' main goal is to meet the needs of airlines and operators by producing the most modern and comprehensive aircraft family on the market. This in turn is complemented by the highest standard of product support. Airbus produces aircraft which are unique in its design and uses high end technology installing fly-by-wire, cockpit

commonality design and other innovative designs attracting orders from its customers. At the same time Airbus also manufactures products suiting to the needs of military with use of advanced technology. The capability of Airbus lies in manufacturing aircrafts which are unique in design and are advanced on the technological aspect as compared to its rivals. The capabilities of Airbus arise from its valued resources like culturally diverse employees, its customers, contractors, suppliers whom it considers as partners and develops new aircraft only in consultation with its customers. The resources and capabilities have resulted in a sustained competitive advantage over its rival in terms of technology and design. The strong organizational structure and the work culture, defined by the Airbus way of Airbus have actually helped the company in becoming the industry leader and pushing Boeing to the role of the challenger.

Innovation has been a primary driver in Airbus' decades of success and has guided many aspects of the company's business activities and playing a crucial role in the development of new-generation products, processes and techniques. Airbus has over 3,000 individuals working directly or indirectly on more than 400 research and technology projects. The A300 made the most extensive use of composite materials and by automating the flight engineer's functions it became the first large commercial jet to have a two-man flight crew. Again in the 1980s Airbus was the first to introduce digital fly-by-wire controls into an airliner the A320.

Like Airbus, Boeing too emphasizes marketplace insight as the core of product development. Technological innovation pursued at the Boeing Technology Services goes into the making of most of newly designed, fuel-efficient twin engines and lightweight composite materials. According to Boeing, the 787 is the result of over a decade of focus groups and scientific studies to gain a better understanding of passenger comfort and how the design of airplane interiors can make flying a more pleasant experience. Approximately 1.5% of Boeing employees are in the Technical Fellowship program, a program through which the top engineers and scientists set technical direction for the company. Boeing believes that having diverse employees, business partners and community relationships is vital to creating advanced aerospace products and services. However, Boeing's lost market share has often been attributed to its poor corporate strategy and decision-making and the vulnerability of a notoriously long-term business to rampant shareholder value.

Thus on the basis of market commonality and resource similarity one can conclude that Airbus and Boeing have both high market commonality as well as high resource similarity. As a result the two firms are direct and mutually acknowledged competitors and use their similar resource portfolio to compete against each other in markets that are important to them.

Drivers of Competitive Actions and Responses

Awareness

As the market commonality and resource similarity is high, Airbus and Boeing recognize the fact the degree of mutual interdependence is high for both the firms. Both the firms are acutely aware of each other's competitive actions and responses. And the rivalry is intense. The Asia-Pacific market is considered to be the most profitable market in the near future and it will be very significant as to which of the companies captures the majority of world market share in the

future. As both companies have equal market share in the last few years, any potential move by Airbus will be countered by Boeing. Similar is the case in North America which is the largest market of commercial markets. It is significant for both companies, but more for Boeing which considers the market to be its home market.

The European market is the third largest market and it is highly profitable and significant for both companies. Airbus enjoys an advantage because of its cultural heritage but Boeing is a strong competitor in this market as well.

Motivation

Motivation is essentially the incentive for a firm to take action or respond to a competitor's attack. This in turn depends on the perceived gains and losses. Now Airbus enjoys an advantage in marketing and sales activities for the Asian region because of its local subsidiaries in China and Japan However, Boeing has tighter and better relations with governments. As the Asia-Pacific market involves high strategic stakes both the firms will be motivated to protect their positions through competitive actions and responses.

On the other hand as the North American region is more critical to Boeing's revenues it will have higher motivation to launch strategic moves to defend its position here. Similar is the case for Airbus in Europe where it enjoys a slightly better position. Airbus will have higher motivation to consolidate its position in Europe through competitive actions and responses.

Ability

The ability of a firm to respond to a competitor's actions or attack a competitor is related to a firm's resources. As both the firms have very similar resources any competitive action is taken only after a careful study of the possible response of the competitor is done. However as pointed out earlier, Airbus enjoys a slight better position in Europe whereas North America is the home market for Boeing. Hence in these two regions the two firms enjoy slight advantage over each other in terms of resources.

History of the Rivalry

This rivalry started in the early 1970s with AIRBUS positioned as a viable alternative to BOEING with the help of substantial financial help from the European governments. Soon, AIRBUS was engaged in a fierce competition with BOEING in several markets across the globe. As is natural in such cases, this struggle was characterized by legal disputes, agreements, alleged violations and ever increasing complexity in the relationship that these two behemoths have come to share.

The intensity of the involvement of the Governments on both sides has added a further dimension to this rivalry.

Another interesting feature about this phenomenon was the background in which it has been played out. The relatively unique market structure of the Aircraft Industry, where the huge

Economies of Scale vis-à-vis the market demand make it a highly complex environment to operate in, suggesting an overwhelming reliance on Long Term Strategy for achieving any kind of sustainable success.

The continued subsidies available to AIRBUS from the Governments of Europe have been one of the major points of contention and the basis of recurring trade disputes between the two strategic competitors. In short, strategic trade policies have been a frequently used tool on both sides of the Atlantic.

Boeing - Boeing ventured into the commercial aviation sector first in 1958 with the 707, its first commercial jet airliner. The following decade saw a spate of new models from its stables including the 727, the 737 for short hauls, and the 747 jumbo jet for long-range, high capacity flights.

During this period, the competition consisted of several small European firms, which were finding it increasingly difficult to thrive in such an environment. They realized the need to unite against the common threat and hence formed a consortium in 1970 that came to be known as the Airbus Industry. Initially, Airbus tried to "fill a gap in the market" by introducing the A300, its first aircraft. However, it gained little traction in the market, with the high entry barriers proving tough to overcome.

However, with an increasing number of national firms from Europe joining Airbus, and the additional resources that it enjoyed in terms of strong financial backing from the various governments, Airbus's market power began to grow, its order book swelling at an ever increasing pace. The turning point however came in 1981, with the launch of the Airbus A320, which finally established Airbus as a major competitor in the industry.

In the next two decades till 2000, both the competitors focused on expanding their product portfolios. Boeing had added the 757, the 767, and the 777 to its line-up while at the same time upgrading all its existing models as well. Airbus had similarly introduced the A300/310 family, the A320 family, and the A330/340 family. In 2003, Airbus delivered more aircraft than Boeing for the first time ever.

A Classic Case of Game Theory

In the 1990s, Boeing and Airbus attempted to collaborate on creating a superjumbo jet capable of carrying 500-1000 passengers.

They were brought together by their common views on the need of such an aircraft to tackle congestion.

The other, stronger factor was the realization that there was room in the market for only one player. The strategic interdependence in this case was deep. If both players developed their own VLA (Very Large Aircraft), both would incur huge losses, besides Boeing's 747 coming under pressure as well.

However, by 1995, the collaboration had ended, with many alleging that it was all just part of a strategy on part of Boeing to stall the market and delay Airbus from developing anything itself.

Airbus decided to continue pursuing the VLA project, holding on to the path of developing the superjumbo jet, subsequently to be christened the A380. By 1999, it had firmed up plans to build a family of VLA, with capacity ranging from 555 to 990 passengers.

Boeing, after breaking off, indicated that it would develop updated and "stretched" versions of its 747 jumbo jet. But it cancelled the development effort in 1997. However, in 1999, it changed tack again, saying it would build a stretch jumbo that would be available ahead of Airbus's A380.

By 2000, with a number of advance orders in the pipeline, Airbus officially launched the new plane. This led to Boeing stopping its development of its stretch jumbo in 2001, and a simultaneous beginning of the development of a new aircraft known as the Sonic Cruiser, which would be faster, quieter and fly higher than existing aircraft, while being significantly smaller than the stretch jumbo. This too was abandoned in 2002 in favor of the slower, but even more fuel efficient 787 "Dream liner", which has, of late, tilted the balance back in Boeing's favor.

Competitive Actions and Responses

Boeing and Airbus have engaged in a long drawn competitive rivalry on various fronts and using different strategies.

FIRST MOVER/ SECOND MOVER -

In this particular rivalry, Boeing, for long, held the First Mover's advantage. Founded in 1916, it has forayed into Defense, Space Security as also into Commercial Airplanes in 1958. By the time Airbus entered in the 1970s, Boeing enjoyed a monopoly in the Commercial Aircraft industry. It has repeatedly bolstered its competitive advantage by relying heavily on the First Mover's Advantage. Instances of this include the development and launch of the 707 (1957-58), USA's first commercial jet, the 747 (1969), which became the first wide-body commercial plane and remained the only significant jumbo jet for decades, and lately, the 787 "Dream liner", the first jet to make use of revolutionary technologies like light weight composites and the integrated fuselage design.

Airbus, on the other hand, relied less on the First Mover's Advantage and more on filling the gaps left behind by Boeing initially, and later on launching products that, on some level, were based on addressing the perceived weaknesses of Boeing's products. The A300 is an example of the former strategy, whereas the A380, though innovative in many ways, and not strictly an imitation, was targeted at doing what the 747 did, only better. Airbus, as compared to Boeing, could be classified as the second mover.

Now, since the market itself was a slow cycle market, with each advance and change in technology taking a long time to fructify, Boeing was not wildly successful with its First Mover's Advantage. The last two decades of the 20th century saw Airbus make deep inroads into Boeing's territory, finally overtaking it in 2003. Its own gamble with the A380 has however

jeopardized its position again. It was entering into uncharted waters for the first time, and faced numerous glitches. It was Airbus's first effort at bringing out something revolutionary (by its standards), and it seemed to have not met the expectations of the manufacturer. Thus, the industry does not seem to have favored the First Mover as much as some other Fast Cycle Markets would have. The 787 seems to be an exception, but that has yet to be tested against upcoming competitors like the A350.

Size

Size has always been a huge factor in this rivalry. This industry is highly capital intensive, with massive costs of development and production. Also, size has had its advantage in terms of creating and exploiting additional synergies in terms of sharing resources like expertise and technology sharing. The economies of scale relative to market demand are so high that small players cannot exist in such an environment. Airbus spent $12 billion before its first flight in 2005. Similarly, the 787 is estimated to have cost Boeing over $10 billion in pure development costs alone. It generally takes a decade before a firm can hope to recover such costs through sales, and that only if the model is successful. Several smaller player with lesser resources have either ceased to exist or been taken over.

Recognizing this very fact, the various constituent members of Airbus came together to form the consortium and take the fight to Boeing, which always had the advantage of a strong resource base.

Boeing further increased its size by acquiring Rockwell International's aerospace businesses, McDonnell-Douglas and Hughes Space and Communication towards the end of the 20th century. This was also an instance of Related Diversification which helped Boeing tap the synergies between the various organizations.

In response to this action from Boeing, three Airbus partners- Aerospatiale Marta, Daimler Chrysler Aerospace and Constructions Aerospatiale- merged to become the European Aeronautics Defense and Space Company (EADS). Airbus formally became a division owned by EADS and Britain's BAE Systems.

Technology

In this industry, there is a continuous battle on the technology front. Though on the surface, it is a Slow Cycle Market, the pace of technology development and change behind the scenes is frenetic and ever increasing. Every Strategic Action by the competitor is duly noted and efforts to fashion an appropriate Strategic Response get underway before the original Strategic Action's results see the light of day.

Throughout the 1990s, Airbus relentlessly pursued Boeing, expanding its line-up to match that of its competitor's. In 2001, having taken the lead, Airbus began to develop a ground-breaking alternative to the 747 in the VLA segment.

Boeing made several responses, both pre-emptive and otherwise, but all of them were hampered by severe faults. Its supersonic aircraft plan went nowhere. Its collaboration with Airbus in the VLA segment failed to preclude the Airbus from going ahead by itself. Its efforts to upgrade the 747 to fight the A380 also proved unsuccessful.

However, in a totally unrelated development, Boeing stumbled upon the lightweight plastic composites, with which it built the 787's airframe, making it highly fuel efficient and quieter than existing rivals. This was a game changing response, especially with increasing fuel prices, which put Boeing back in the driver's seat.

Market/ Political Dependence -

Political Muscle, rather than market dependence, seems to have played a greater role in shaping the success/failures of both the firms. Airbus, especially its initial existence, was funded by generous financial support from the French, British, German and Spanish governments. Airbus came to represent the Strategic Trade Policy of the European leadership. Its subsidies were justified as essential support to an "infant industry" in a high-risk environment. However, the continuation of this form of financial help to a now-well-established-firm has a different justification. Boeing's lucrative defense contracts are highlighted as another form of subsidy and are said to necessitate the continued help that Airbus receives.

The 1992 agreement between EU and USA limited the launch aid to 33% of the development costs for Airbus, and the US defense contracts to 4% of civil aircraft Boeing's turnover. However, it was terminated in 2004, after Airbus used the Launch Aid clause to fund its A380 and A350, the latter enabling to instantly challenge Boeing's 787.

Further, Boeing is the undisputed leader in US and Japan, while Airbus dominates the European markets, indicating the political overtones that mark this rivalry. However, the worldwide success of the 787, on the strength of its technology, and the emergence of markets that are not as affected by the political angle, show that slowly, the actual market dependence is acquiring an increasingly important role in this rivalry.

OUTCOMES

The competitive rivalry between Boeing and Airbus is one of great significance purely because of the way in which the companies have been able to counter attack the other strategically, with new products etc. This war has been waging for a long time and it is very difficult to point towards one as a clear winner. As mentioned earlier, the rivalry kicked off sometime in 1980s when Airbus came out with their A300 models.

Due to the subsidy that Airbus enjoyed, they were able to provide their jets at a lower rate as compared to Boeing. The first impacts of the rivalry could be traced back to the agreement on subsidy in 1992 when the US government and the European Union decided to limit the subsidies for these manufacturers to a maximum of 33%. Similarly the recent launch of the Airbus A380, the largest passenger aircraft was a result of the Boeing 747.

The launch of the A380 has prompted Boeing now to go for a modification of the 747 to compete with the A380 in all aspects. Thus we see that the rivalry has been tough and hard fought. We will look at the outcomes with regards to market position and financial performance.

MARKET POSITION

The graph below shows a brief description about the manner in which market share has been shifting around the two airline manufacturers.

We find that from the large gap that was prevalent in 1996, Airbus was able to catch up with Boeing and even managed to remain the market leader from 2001 to 2005.

The present position is a little more in favor of Boeing which enjoys a 55% share.

Unit-3

Corporate level Strategy

Levels of Diversification

Companies that follow single- or dominant-business strategies have low levels of diversification. A single business is a company where more than 90% of its revenues are generated by the dominant business. A dominant business is a company that generates between 70 and 95% of their sales within a single category.

Companies classified as dominant businesses also tend to be vertically integrated to some extent, with many having begun as a single business and evolving over time into a dominant business through vertical integration (a topic that will be discussed later in this course).

A diversified company is one that earns at least 30% of its revenues from sources outside of the dominant business and whose units are linked to each other by the sharing of resources, and by product, technological, and distribution linkages. Moderately Diversified companies also earn at least 30% of their revenues from the dominant business and all business units share product, technological, and distribution linkages. Unrelated diversified companies generate at least 30% of their total revenues from the dominant business but there are few linkages between key value-creating activities.

As has been mentioned earlier in our discussion of diversification, some companies that have pursued unrelated high diversification strategies are restructuring to focus on a less diversified mix of businesses that may reflect an inability to manage high levels of diversification. This is because of the recognition that a lower level of diversification would improve the match between the company's core competencies and environmental opportunities and threats.

The Role of Diversification

- Diversification strategies play a major role in the behavior of large firms
- Product diversification concerns:

- The scope of the industries and markets in which the firm competes
- How managers buy, create and sell different businesses to match skills and strengths with opportunities presented to the firm

Two Strategy Levels

- Business-level Strategy (Competitive)
  - Each business unit in a diversified firm chooses a business-level strategy as its means of competing in individual product markets
- Corporate-level Strategy (Companywide)
  - Specifies actions taken by the firm to gain a competitive advantage by selecting and managing a group of different businesses competing in several industries and product markets.

Corporate-Level Strategy: Key Questions

- Corporate-level Strategy's Value

Ø The degree to which the businesses in the portfolio are worth more under the management of the company than they would be under other ownership

Ø What businesses should the firm be in?

Ø How should the corporate office manage the group of businesses?

Levels and Types of Diversification

Low levels of Diversification

Single Business: More than 95% of the revenue comes from a single business.

Dominant business: Between 70% and 95% of revenue comes from a single business.

Moderate to High Levels of Diversification

Related Constrained: Less than 70% revenue comes from the dominant business, all the businesses share product, technological and distribution linkage.

Related Linkage: Less than 70% revenue comes from the dominant business, and there are only limited links between businesses.

Very High Levels of Diversification

Unrelated: Less than 70% revenue comes from the dominant business, and there are no common links between businesses.

Reasons for Diversification

Incentives and Resources with Neutral Effects on Strategic Competitiveness:

Ø Antitrust regulation

Ø Tax laws

Ø Low performance

Ø Uncertain future cash flows

Ø Risk reduction for firm

Ø Tangible resources

Ø Intangible resources

Managerial Motives (Value Reduction)

Ø Diversifying managerial employment risk

Ø Increasing managerial compensation

Strategic Motives for Diversification

To Enhance Strategic Competitiveness:

- Economies of scope (related diversification)

Sharing activities
transferring core competencies

- Market power (related diversification)

Blocking competitors through multipoint competition
Vertical integration

- Financial economies (unrelated diversification)

Efficient internal capital allocation

Business restructuring

Incentives and Resources for Diversification

Incentives and Resources with Neutral Effects on Strategic Competitiveness

- Antitrust regulation
- Tax laws
- Low performance
- Uncertain future cash flows
- Risk reduction for firm
- Tangible resources
- Intangible resources

Managerial Motives for Diversification

Managerial Motives (Value Reduction)

- Diversifying managerial employment risk
- Increasing managerial compensation

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Corporate Restructuring

Definition: The Corporate Restructuring is the process of making changes in the composition of a firm's one or more business portfolios in order to have a more profitable enterprise. Simply, reorganizing the structure of the organization to fetch more profits from its operations or is best suited to the present situation.

The Corporate Restructuring takes place in two forms:

1. **Financial Restructuring**: The Financial Restructuring may take place due to a drastic fall in the sales because of the adverse economic conditions. Here, the firm may change the equity pattern, cross-holding pattern, debt-servicing schedule and the equity holdings. All this is done to sustain the profitability of the firm and sustain in the market. Generally, the financial or legal advisors are hired to assist the firms in the negotiations.
2. **Organizational Restructuring**: The Organizational Restructuring means changing the structure of an organization, such as reducing the hierarchical levels, downsizing the employees, redesigning the job positions and changing the reporting relationships. This is done to cut the cost and pay off the outstanding debt to continue with the business operations in some manner.

The need for a corporate restructuring arises because of the change in company's ownership structure due to a merger or takeover, adverse economic conditions, adverse changes in business

such as bankruptcy or buyouts, over employed personnel, lack of integration between the divisions, etc.

Related Terms:

1. Market Structure
2. Systematically Important Core Investment Company
3. Financing Decision
4. Leveraged Buyout
5. Hybrid Financing

The popularity of merger and acquisition strategies

The popularity of merger and acquisition strategies – while a sustainable means of growth with the potential for strategic competitiveness M&A have changeover the years due to the financial crisis making megadeals ($10 billion or more) more difficult to complete, firms looking to acquire focus on smaller targets with a niche focus that complements their existing strategy- There are 3 modes of growth:oInternal development – developing products and services you see opportunities for in the future market placeoAcquisitions^^2 most commonoStrategic alliance – agreement to some mutual benefit for 2 companiesa.Mergers, Acquisitions, and takeovers: What are the differencesMerger:a strategy through which two firms agree to integrate their operation on relatively coequal basisAcquisitions:is a strategy through which one firm buys a controlling or 100% interest in another firm with the intent of making the acquired firm a subsidiary business within itsportfolioTakeover:a special type of acquisition where the target firm does not solicit the acquiring firms bid; usually unfriendly acquisitionist. Reasons for acquisitionsa.Increased market powerb.Overcoming entry barriersc.Decreased cost of new product development and increased speed tomarketd.Lower risk compared to developing new productse.Increased diversificationf.Reshaping the firm's competitive scopeg.Learning and developing new capabilitiesIII. Problems in achieving acquisition successa.Integration difficultiesb.Inadequate evaluation of targetc.Large or extraordinary debt

Problems in Achieving Acquisition Success (N = 7)v1. Integration difficultiesvChallenges: Melding 2 disparate corporate cultures, linking diff financial & control systems, building effective working relates & resolving probes regarding the status of the newly acquired firm's execs. The post-act integration phase is probably thev2. Inadequate evaluation of targetvDue diligence: process thru which a potential acquirer evaluates a target firm for acquisition. (financing for transaction, diff in cultures, tax consequences, actions necessary to meld 2 workforces) done by: invest bankers, accts, lawyers, mgmtconsultants, or firms own internal due-diligence team.v3. Large or extraordinary debtvJunk bonds: financing option whereby risky acquisitions are financed with money (debt) that provides a large potential return to lenders (bondholders)

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Process thru which a potential acquirer evaluates a target firm for acquisition. (Financing for transaction, diff in cultures, tax consequences, actions necessary to meld 2 workforces) done by: invest bankers, accts, lawyers, mgmtconsultants, or firms own internal due-diligence team.v

3. Large or extraordinary debt

Junk bonds: financing option whereby risky acquisitions are financed with money (debt) that provides a large potential return to lenders (bondholders)

Restructuring is the corporate management term for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Other reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or major change in the business such as bankruptcy, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring.

Executives involved in restructuring often hire financial and legal advisors to assist in the transaction details and negotiation. It may also be done by a new CEO hired specifically to make the difficult and controversial decisions required to save or reposition the company. It generally involves financing debt, selling portions of the company to investors, and reorganizing or reducing operations.

The basic nature of restructuring is a zero-sum game. Strategic restructuring reduces financial losses, simultaneously reducing tensions between debt and equity holders to facilitate a prompt resolution of a distressed situation.

Corporate debt restructuring is the reorganization of companies' outstanding liabilities. It is generally a mechanism used by companies which are facing difficulties in repaying their debts. In the process of restructuring, the credit obligations are spread out over longer duration with smaller payments. This allows company's ability to meet debt obligations. Also, as part of process, some creditors may agree to exchange debt for some portion of equity. It is based on the principle that restructuring facilities available to companies in a timely and transparent matter goes a long way in ensuring their viability which is sometimes threatened by internal and external factors. This process tries to resolve the difficulties faced by the corporate sector and enables them to become viable again.

Steps:

- Ensure the company has enough liquidity to operate during implementation of a complete restructuring
- Produce accurate working capital forecasts
- Provide open and clear lines of communication with creditors who mostly control the company's ability to raise financing
- Update detailed business plan and considerations.

Unit-4

Global Strategy

COMPETITIVE ADVANTAGE

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of low prices, or by providing greater benefits and services that justifies higher prices. The strategy is a combination of planned and emergency ones. • The competitive advantage comes from development of internal competencies and changing conditions in the business'environmet. • It is important to distinguish sectors and markets. • The competitive advantage is a result of learning process of an organization as well as its competitive and cooperation behaviors. • The dynamics of changes, both internal and external require companies to constantly learn

COMPETITIVE POSITIONING /1980, 1985-Porter/ - configure your core competencies within the sector to max. Value added in order to obtain competitive advantage. CORE COPETENCES OR RESOURCES /1959-Penrose, 1990- Prahald and Hamel, 1992-Stalk at all, 1993- Kay, 1997-Heene and Sanchez, etc…/ - 1. be like an open system and cooperate with the environment, 2. use your core competencies GLOBAL STRATEGY / 1986, 1990 – Porter, 1987-Bartlett, 1992-Yip, etc/ - use the scale of being global, configure and coordinate international activities

International Strategies • International Business Level Strategies • International Corporate Level Strategies – Multi-domestic Strategy – Global Strategy – Transnational Strategy

Cooperative Strategy

A large number of firms today engage in co-operative strategies. A cooperative strategy is an attempt by a firm to realize its objectives through cooperation with other firms, in strategic alliances and partnerships (typically joint ventures), rather than through competition with them. In the global economy, many of these strategic alliances are international in scope. A cooperative strategy can offer significant advantages for companies that are lacking in particular competencies, knowledge or resources, enabling them to secure these through links to other companies possessing complementary skills or assets. It may also offer easier access to new markets, and opportunities for mutual synergy and learning. Cooperative strategies are proving to

be particularly important in facilitating international expansion. This module focuses on the benefits that can be gained through cooperation and how to manage the cooperation so as to realize them.

Learning Outcomes

By the end of the module students should be able to:

- Develop an understanding of the role of cooperative strategy, and its expression through strategic alliances, in the modern global business context.
- Introduce perspectives from different disciplines that contribute to an understanding of cooperative strategy and strategic alliances.
- Understand the considerations involved in establishing alliances, selecting partners and choosing an alliance form.
- Understand issues arising in the management of strategic alliances, with special reference to cross-border alliances.
- Provide an insight into factors impacting on the achievement of alliance objectives (including learning) and on how they may evolve over time.

Assessment

Students will have to prepare two linked pieces of work which together constitute their assessed coursework. There is no examination for this course.

- group case analysis (maximum 3000 words)
- individual reflective assessment (maximum 1200 words)

Business Level Cooperative Strategies

Definition: Business Level Cooperative Strategies

A business level cooperative strategy is the one in which a number of firms work together to attain some common goal. The firms share their resources and the capabilities they have to create some competitive advantage in the form of new products or services.

In this way, the firms also share the costs of the new product. It also helps them diversify, attain flexibility in terms of diversifying operations and strengthens their position with respect to their competitors. Besides, it facilitates their growth and improves their performance. There are different types of business level cooperative strategies like Joint Venture, Horizontal integration, vertical integration, Conglomerate diversification, etc.

Eg – Some examples of business level cooperative strategies are as follows:

Vertical integration – When Amazon.com also started book publishing besides just book selling, it backward vertically integrated and started publishing its own books.

Horizontal integration – Google buying YouTube

Joint venture

Joint venture of Japanese consumer electronics company Sony Corporation and Swedish Telecommunications company Ericsson to form Sony Ericsson, a mobile phones company.

Strategic Alliance Combined Resources Capabilities Core Competencies Resources Capabilities Core Competencies Resources Capabilities Core Competencies Firm A Firm B Mutual interests in designing, manufacturing, or distributing goods or services Slide 5 Copyright © 2004 South-Western. All rights reserved. 9–5 Three Types of Strategic Alliances • Joint Venture two or more firms create a legally independent company by sharing some of their resources and capabilities • Equity Strategic Alliance ÿPartners who own different percentages of equity in a separate company they have formed • No equity Strategic Alliance two or more firms develop a contractual relationship.

Business-Level Cooperative Strategies • Complementary strategic alliances ÿVertical ÿHorizontal • Competition response strategy • Uncertainty reducing strategy • Competition reducing strategy

Discussion about three corporate level cooperative strategies.

Before the discussion of corporate level cooperative strategies, we have to understand the meaning of cooperative strategy. As the name shows that the cooperative strategy is making the efforts by making alliance to achieve the common target. With the help of cooperative strategy, many organizations make alliance to achieve the same target. The main advantage of the cooperative strategy is that many organizations can use their excellence to achieve target in a cost effective way and also to save the time. An objective has the different tasks to do, and it is not necessary the every organization is expert in every task, so different organization share the objective to achieve the target.

For sharing the object the corporate makes the alliances to achieve the common target. These can be divided into three types of alliances as follows-

1. Joint Venture- In this kind of alliance two or more than two firms makes an independent company. They share their capabilities and resources to achieve the target. The resources can be in the form of money, technology or raw materials etc.

2. Equity strategic alliance- In this kind of alliance two or more than two companies own a part of the equity in the venture they have created. In this kind of alliance if any company wants to gain expertise in or access new technology, they can but the smaller company having those technologies.

3. Non equity strategic alliance- In this kind of alliance one company makes strategic alliance with the other company to share the technologies or skills. There is no role of equity in that kind of alliance. In this alliance all the partner companies share the profit or loss equally.

Corporate level cooperative strategies help to provide the best service or to provide the best product in the market. So these strategies make to lead the market also to diversity itself in terms of product and services or both. Here are the three types of the corporate level cooperative strategies as follows-

a. Diversifying strategic alliance- In this kind of cooperative strategy, organizations use their some resources and skills to diversity into a new product or market areas. The organizations are limited to use their resources. This alliance is make to get the competitive advantage in market by making different product or to provide different services which is not providing by the other competitors in the market. For example telecom company lacteal lucent made strategic alliance with advertising company 1020 place cast for mobile advertising. Alcatel made this alliance to show the people that their mobiles are better than the other available mobiles in the market with the help of 1020 place cast with the help of advertising in market. Here point to be noted that there is no sharing of equity and they just make alliance for individual profit.

b. Synergistic strategic alliance- This is a form of agreement in which two business organizations work jointly and also sharing their cost strength to enhance their combined benefit. They are also responsible for the combined loss. They work each other to convert their weaknesses into strength by synergetic efforts and as a result they become more powerful than other companies in the competitive market. For example Disney's ABC partners with YouTube to fight with their competitors in the market and also to make strong position than other competitors.

c. Franchising- In this kind of strategy, a big company franchise their some limited rights to other small companies. For example a beverage company provides their franchisee to small company to sell the beverage product. With this strategy both the companies can make the profit. This alliance is done by the big company to make their presence in small markets. It also helps the company to create the brand awareness and also helps to create the new customers. But the challenge is that the franchise company should choose the right partner.

Unit-5

Structure and Controls with Organizations

Organizational Structure Organizational structure specifies the firm's formal reporting relationships, procedures, controls, and authority and decision-making processes.15 Developing an organizational structure that effectively supports the firm's strategy is difficult,16 especially because of the uncertainty (or unpredictable variation17) about cause-effect relationships in the global economy's rapidly changing and dynamic competitive environments.18 When a structure's elements (e.g., reporting relationships, procedures, and so forth) are properly aligned with one another, that structure facilitates effective implementation of the firm's strategies.19 Thus, organizational structure is a critical component of effective strategy implementation processes.20 A firm's structure specifies the work to be done and how to do it, given the firm's strategy or strategies.21 Thus, organizational structure influences how managers work and the decisions resulting from that work.22 Supporting the implementation of strategies,23 structure is concerned with processes used to complete organizational tasks.24 Effective structures provide the stability a firm needs to successfully implement its strategies and maintain its current competitive advantages, while simultaneously providing the flexibility to develop competitive advantages that will be needed for its future strategies.25 Thus, structural stability provides the capacity the firm requires to consistently and predictably manage its daily work routines,26 while structural flexibility provides the opportunity to explore competitive possibilities and then allocate resources to activities that will shape the competitive advantages the firm will need to be successful in the future.27 An effective organizational structure allows the firm to exploit current competitive advantages while developing new ones.28 Modifications to the firm's current strategy or selection of a new strategy call for changes to its organizational structure. However, research shows that once in place, organizational inertia often inhibits efforts to change structure, even when the firm's performance suggests that it is time to do so.29 In his pioneering work, Alfred Chandler found that organizations change their structures only when inefficiencies force them to do so.30 Firms seem to prefer the structural status quo and its familiar working relationships until the firm's performance declines to the point where change is absolutely necessary.31 In addition, top-level managers hesitate to conclude that there are problems with

the firm's structure (or its strategy, for that matter), in that doing so suggests that their previous choices weren't the best ones.

The Evolution Of Organizational Structure

What is organizational structure and why does it matter? We can think of organizational structure as the set of formal arrangements that determine how tasks are carried out within an organization. These arrangements usually take two forms: (1) groups or units, which are formed around highly interdependent activities, knowledge sets, or strategic points of focus, and (2) linkages or ties, which connect units in different ways and establish how the organization's workflow will progress.

In simple terms, structure sets the rules of the game in terms of roles, accountability, and authority within an organization: it specifies who does what and who reports to whom so that the organization can operate in a coordinated fashion. More subtly, structure provides a context for communication and knowledge generation and transfer. By grouping and linking people together, structure sets the stage for learning to take place, which can offer a competitive advantage when learning processes and outcomes are difficult to imitate by competitors. Even more fundamentally, however, organizational structure is conducive to identity formation. Individuals identify at different levels with their role in an organization, with their broader community of practice, with the unit in which they are embedded, and with the organization to which they belong. In this vein, structure affords people a sense of belonging, a sense of self.

Ever since large organizations rose to become a prevailing phenomenon in our economy and society, scholars have attempted to conceptualize the "optimal structure." Seminal 20th century studies tried to identify the different types of structures organizations were using (e.g. by function, by geography, by product, etc.) and to establish the set of contingencies to which those structures responded (for example, the size of the organization, the nature of their primary tasks, the technology available, the characteristics of

their environment, etc.).[1] These studies seemed to promise that, under X circumstances, organizing like Y would lead to superior performance.

In the 21st century, however, the sheer number of contingencies organizations face make such a proposition virtually impossible to sustain: global competition, disruptive technologies, shorter product life cycles, and more sophisticated and knowledgeable customers are just some of the factors organizations deal with today. Add to this the fact that key processes such as innovation are happening across organizational boundaries, with organizations aggregating input from myriad contributors through global communications networks. How should organizations structure themselves in an age of extreme uncertainty, dynamism, complexity, and openness?

In response to these changes, the focus in academia has shifted to the notion of “amount of structure”.[2] the question we are now trying to answer is: To what degree does an organization need to formally specify units and linkages, roles and authority lines, tasks and responsibilities to deal with complexity? Modern organizations require structures that grant them the flexibility they require to reconfigure roles, communication lines, processes, and learning patterns on the go. More and more organizations are turning to organic structures that are tailored to their specific situations. These structures combine multidimensionality (simultaneously pursuing a variety of strategic goals), hybridist (combining and overlapping elements from different “pure organizational forms”), ambiguity (downplaying the role of formal structure while relying more heavily on informal structure), and fluidity (emphasizing transient rather than permanent design components). No two structures are alike, and no structure is fully specified or fully designed.

An excellent example of this trend is the commercial real estate services company Jones Lang LaSalle (JLL). In the mid-2000s, the company transitioned from a structure focused on vertical, semi-autonomous service lines (business units centered on delivering specific services) to a system relying on several interdependent groups. Each group referred to a specific dimension of the business JLL deemed worthy of tracking performance along: products, client segments,

geographic markets, industries, etc. In working with clients such as Bank of America or Procter & Gamble, JLL's groups overlap to create what is internally referred to as "intersections": intra-organizational contexts where people, ideas, and resources come together to yield an integrated solution. There are minimum structural guidelines at these intersections; top management understood early on that too many formal rules might "tilt" the balance between groups and compromise the focus on the customer, which should prevail over the interests of particular groups. Executives lead by influence instead of formal authority, and individuals often collaborate before knowing which portion of the resulting profit will be allotted to them.

Communications and networking company Cisco has also been experimenting with organizational structure over the past decade. In the early 2000s, they created a structure that relied on myriad horizontally linked functional groups, each housing experts in Cisco's technologies such as routing, switching, network management, and wireless. Linkages occurred via boards and councils, which constituted a network of cross-functional executive-level committees. By linking together different functional groups, councils and boards were used as a means for Cisco to explore business opportunities adjacent to its core business. CEO John Chambers commented in 2008, "Cisco is an example of how a global company can operate as a distributed idea engine, where leadership emerges organically, unfettered by central command." Initiatives such as Cisco's "connected stadiums" for sports and entertainment found their origins in this organizational structure. While the company recently transitioned to a matrix structure linking sales and engineering groups, the emphasis on cross-functional work continues.[a]

If organizational structure suddenly becomes a malleable construct, what are the consequences in terms of workflow? Individuals will have to define and redefine their roles in the organization as they discover new ways in which they are interdependent. Formal authority will be replaced by influence. Accountability will be horizontal instead of vertical. A more diluted sense of structure will also have implications in terms of how organizations learn: if learning and innovation are distributed, organizations will need to find ways to manage communities of knowledge that transcend asset ownership and property rights. Finally, less structure will prompt organizations and individuals to redefine their identities. The old-age elements that gave us a sense of

belonging will no longer be salient, but replaced with others more suitable to the multi-dimensional world we live in. Structure will no longer be a set of constricting formal arrangements but a valuable cognitive tool to guide individuals and organizations toward multiple goals.

ENTREPRENEURIAL IMPLICATIONS FOR STRATEGY

IMPORTANT DEFINITIONS:

Organizational culture: the complex set of ideologies, symbols, and core values shared throughout the firm and that influence how the firm conducts business The social energy that drives—or fails to drive—the organization Strategic entrepreneurship: entrepreneurial actions (exploiting found opportunities in the external environment) through a strategic perspective (innovation efforts)Entrepreneurship dimension: Identifying opportunities to exploit through innovations Strategic dimension: determining the best way to manage the firm's innovation efforts.

INTERNATIONAL ENTREPRENEURSHIP

Firms creatively discover and exploit opportunities outside their domestic markets in order to develop a competitive advantage. Entrepreneurship has become a global phenomenon as internationalization typically leads to improved firm performance.

EXAMPLE - Large multinational companies (MNCs) generate roughly 54% of their sales outside their domestic market, and more than 50% of their employees work outside of the home country

Four fundamental ethical principles (a very simple introduction)

- **The Principle of Respect for autonomy**

  Autonomy is Latin for "self-rule" We have an obligation to respect the autonomy of other persons, which is to respect the decisions made by other people concerning their own lives. This is also called the principle of human dignity. It gives us a negative duty not to interfere with the decisions of competent adults, and a positive duty to empower others

for whom we’re responsible.

Corollary principles: honesty in our dealings with others & obligation to keep promises.

- **<u>The Principle of Beneficence</u>**

  We have an obligation to bring about good in all our actions.

  Corollary principle? We must take positive steps to prevent harm. However, adopting this corollary principle frequently places us in direct conflict with respecting the autonomy of other persons.

- **<u>The Principle of normal efficiency</u>**

  (It is not "non-malfeasance," which is a technical legal term, & it is not "normal evolence," which means that one did not intend to harm.)

  We have an obligation not to harm others: "First, do no harm."

  Corollary principle: Where harm cannot be avoided, we are obligated to minimize the harm we do.

  Corollary principle: Don't increase the risk of harm to others.

  Corollary principle: It is wrong to waste resources that could be used for good.

- **<u>The Principle of justice</u>**
  We have an obligation to provide others with whatever they are owed or deserve. In public life, we have an obligation to treat all people equally, fairly, and impartially.
  Corollary principle: Impose no unfair burdens.

Combining beneficence and justice: We are obligated to work for the benefit of those who are unfairly treated.

- Professional ethics encompass the personal, organizational, and corporate standards of behavior expected by professionals.
- The term professionalism originally applied to vows of a religious order. By at least the year 1675, the term had seen secular application and was applied to the three learned professions: Divinity, Law, and Medicine. The term professionalism was also used for the military profession around this same time.
- Professionals and those working in acknowledged professions exercise specialist knowledge and skill. How the use of this knowledge should be governed when providing a service to the public can be considered a moral issue and is termed professional ethics.
- Professionals are capable of making judgments, applying their skills, and reaching informed decisions in situations that the general public cannot because they have not attained the necessary knowledge and skills. One of the earliest examples of professional ethics is the Hippocratic Oath to which medical doctors still adhere to this day.

    1. Introduction Ethics is two things. First, ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethics, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons. Secondly, ethics refers to the study and development of one's ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous

effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based. Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong. This is usually distinguished from business ethics or legal ethics. These branches of ethics come from outside organizations or governments, not the individual's conscience. These branches of ethics occasionally overlap. Personal ethics can affect all areas of life, including family, finances and relationships. 'Personal ethics' is rarely identified by philosophical institutions as a formal area for philosophical investigation, but there is little doubt that the history of philosophy, west and east, includes much work about individual choices, good and bad ways of living, and articulating what may be considered

2. Professional Ethics The other type of ethics is 'professional ethics'. Professional ethics are codes of conduct or certain standards that people set in a specific profession. A code of ethics is expected in every profession in the society today. Respect and honesty are the two main components of professional ethics. All employees in a company are expected to represent a business in such a way that the goodwill of the company is maintained. Again like personal ethics, the professional ethics may be different for different persons and their company. What may be considered 'justified' by one organization may not be right for the other one. Professional ethics generally talk about the collective good of the company or organization. The competitive world has given rise to many power hungry individuals who have made innumerable profits. How far has their success been 'ethical' is a vital question. Every employee has to be loyal to his company, he is expected to be truthful and work diligently. Today the society tends to question professional ethics because it often comes in the way of personal ethics. But everything needs to change with the changing trends in the society. Acceptance to strict professional conduct is one of them. An employee is expected to not question his company's policies. An employee is also expected to keep complete secrecy and maintain the company's privacy.

3. Cyber crime, or computer related crime, is crime that involves a computer and a network.[1] The computer may have been used in the commission of a crime, or it may be the target. Cybercrimes can be defined as: "Offences that are committed against individuals or groups of individuals with a criminal motive to intentionally harm the reputation of the victim or cause physical or mental harm, or loss, to the victim directly or indirectly, using modern telecommunication networks such as Internet (networks including but not limited to Chat rooms, emails, notice boards and groups) and mobile phones (Bluetooth/SMS/MMS)". Cybercrime may threaten a person or a nation's security and financial health. Issues surrounding these types of crimes have become high-profile, particularly those surrounding hacking, copyright infringement, unwarranted mass-surveillance, child pornography, and child grooming. There are also problems of privacy when confidential information is intercepted or disclosed, lawfully or otherwise. Debarati Halder and K. Jaishankar further define cybercrime from the perspective of gender and defined 'cybercrime against women' as "Crimes targeted against women with a motive to intentionally harm the victim psychologically and physically, using modern telecommunication networks such as internet and mobile phones". Internationally, both governmental and non-state actors engage in cybercrimes, including espionage, financial theft, and other cross-border crimes. Activity crossing international borders and involving the interests of at least one nation state is sometimes referred to as cyber warfare.

ETHICS AND HUMAN RIGHTS

Today, many countries are struggling with fewer resources, shortages of health care workers, and increasingly ill patients. These situations, coupled with advances in technology and increases in lifespan - and our own cultural and religious beliefs and social norms - create ethical dilemmas for nurses and others. ICN works to guide nurses in everyday choices and supports their refusal to participate in activities that conflict with caring and healing.

Human rights challenges are industry-specific.

Human rights challenges are rarely unique to individual companies, but they are typically similar for an entire sector. Identifying the most critical human rights risks per sector ensures that each company works on the most material human rights issues through their core business operations. For example, companies in the manufacturing sector need to focus on ensuring compliance with labor standards in their global supply chains, while Information Communications Technology (ICT) companies need to discuss how they ensure the rights to freedom of expression and privacy through (or despite) their core business models.

INTRODUCTION

Image: U.S. First Lady Eleanor Roosevelt displaying the Universal Declaration of Human Rights in 1949

Since World War II and the founding of the United Nations, the established human rights framework under international law has focused on the responsibility of states to protect the rights of their citizens. This was first articulated in a comprehensive way in 1948 when the UN General Assembly adopted the Universal Declaration of Human Rights, establishing the universality of human rights, asserting the universality of human rights, asserting that these rights belong to

everyone by virtue of their humanity. It also internationalized this debate, stating that all nations bear a joint responsibility to protect rights when individual states commit gross violations.

Unfortunately many governments are either unwilling or unable to provide adequate protection and non-state actors--including global corporations--increasingly are being pressed to protect human rights. Traditionally global companies have assumed that their obligations with regard to human rights required only that they abide by local laws in the places where they operate. But in today's globalized economy, this framework is no longer enough.