

Strategic Management - The Competitive Edge

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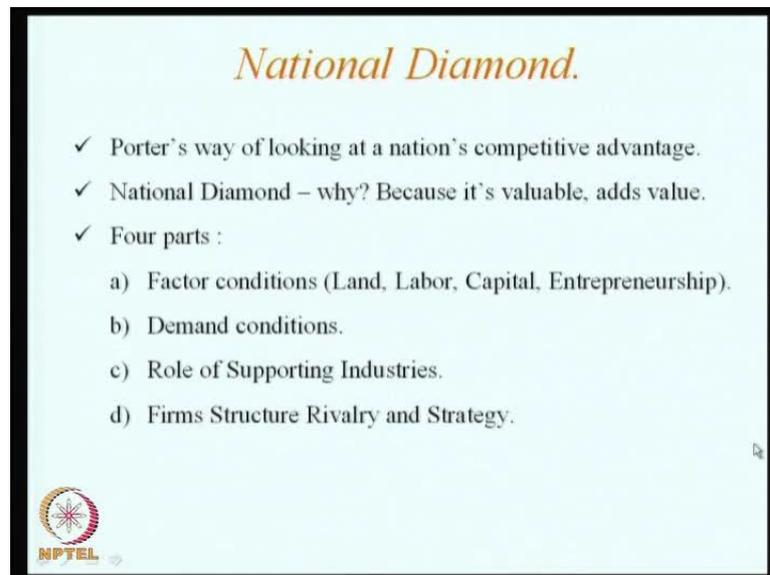
Department of Management Studies

Indian Institute of Science, Bangalore

Lecture No. # 35

Non- Profit Organizations

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So, welcome to this class. So, in the last class we looked at certain concepts like the economic value added and how it can be useful for realizing competitive advantage in the market place.

So, we have already looked at this competitive advantage of nations, what are the factors which were given out by Porter. Even when you look at the national diamond given by Porter also, what you can visualize is that it adds value to a nation.

We can look at this adding value in four parts: one is with respect to factor condition that is land, labor, capital, and entrepreneurship; then, the second is the demand conditions; the third is the role of supporting industries; the fourth is the firms structure rivalry and strategy.

So, in a sense the national diamond what was enunciated by Porter could also be looked at in four parts with respect to factor conditions, demand conditions, that is, the type of markets in which you are operating, it may be a monopoly market or it may be a duopoly market or an oligopoly market, what is the type of market in which you are there.

You have looked at those market conditions, then the role of the supporting industries and the firm's structure rivalry strategy, that is how is the intensity of competition in the whole market setup, in which the firm is operating and what is the type of strategy they are adopting and how all these put together is impinging a sector, then a country; so it **peters** down to different levels. So, when you are looking at the country, what are you trying to really do? You are looking at from the lower end to the higher end.

So, from the firm level, up to the national level you are going; at the firm level itself you are looking at the all these four parts. So, when you are moving up, you are again looking at the four parts in a summated manner. When you are looking at nation, you are looking at these four parts in an aggregated manner. So, this aggregated manner of looking at these four parts, tells you with respect to a nation, what is the type of competitive advantage it can have in the market place. To that extent, all the points that we have discussed earlier, whether it is the balanced score card or whether the economic value added all these can be useful.

Now, before we go further into other strategic issues, we will discuss a few more matrices which can be helpful to a nation, first to a firm, then also to a nation at large. So, this is one of the things is what is called the space matrix; this is called the strategic position action evaluation matrix.

So, this can be helpful for an organizations overall strategic performance. Kindly note all this we are doing for an organization, then we take it up to different levels as I mentioned. So, when you look at the aggregate level, you are looking at the country at large.

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Space Matrix.

- ✓ Strategic Position and Action Evaluation Matrix.
- ✓ For determining an organization's overall strategic performance.
- ✓ 4 Quadrant framework –
 - a) Aggressive.
 - b) Conservative.
 - c) Defensive.
 - d) Competitive.

	FS	
Conservative		Aggressive
CA		IS
Defensive		Competitive
	ES	



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Space Matrix(contd.)

2 internal dimensions –

- ✓ Financial Strengths (FS) – Cash flows, liquidity, ROI, ease of exit from market etc.
- ✓ Competitive Advantage(CA) – Mkt. Share, Product life cycle, customer loyalty etc.

2 External dimensions –

- ✓ Environmental Stability(ES) – Technological changes, Rate of inflation, Demand variability etc.
- ✓ Industry Strength – Growth potential, Profit potential, Technological know-how etc.



So, it has a four quadrant frame work - these four quadrants are aggressive, conservative, defensive, competitive; what are these four quadrants signifying? So, there are two internal dimensions - one is the financial strength; that is, the FS.

If you go back to the matrix, you have the FS here, you have the ES here, you have the CA here, you have the IS here; now what does these things stand for, it is brought out here. The financial strength or the FS stands for cash flows, liquidity, then the return on investment, ease of exit from market, etcetera.

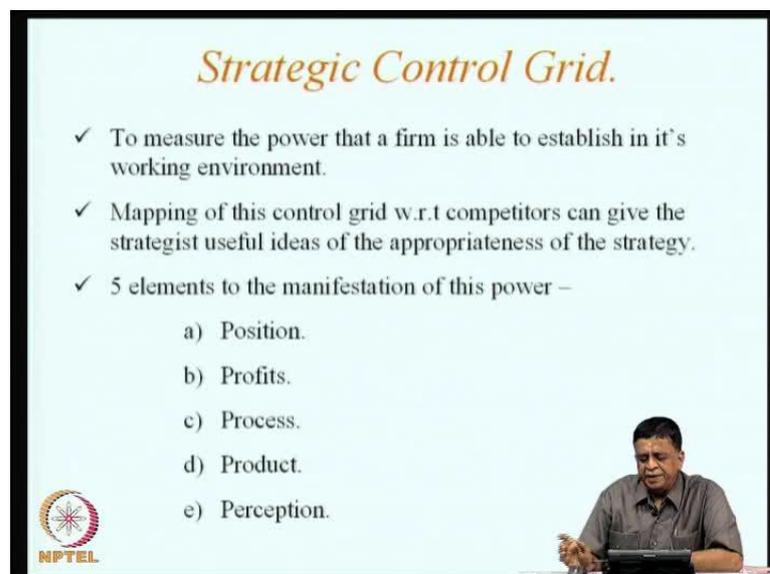
Then the competitive advantage, CA, stands for market share, product lifecycle, consumer loyalty, etcetera. The two external dimensions that you are looking at are the environmental stability ES, that is, the technological changes, rate of inflation, demand variability, etcetera; then the industry strength - growth potential, profit potential, technological know how etcetera. So, this is the IS part.

So, you have, as you can see in the space matrix, two internal dimensions and two external dimensions. Two internal dimensions are the financial strength and the competitive advantages; then, the two external dimensions you are looking at, are the environmental stability and the industry strength.

Now, using these you can look at these four quadrants. Suppose, an organization is in this first quadrant with respect to the FS and IS, you can adopt aggressive strategies; why are you adopting aggressive strategies? You are adopting aggressive strategies to attain the leadership position in the market place. Suppose, you are in this quadrant that is the FS and the competitive advantage here down a little. So, you have to be conservative that is you cannot be aggressive like here, you have to be conservative.

Then the third one quadrant you have to be defensive and the fourth quadrant is not a very good thing; still you can be competitive. So, this is the way you can look at your strategic performance, by saying - yours, I mean the company's strategic performance. So, this is the way a space matrix can be constructed.

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Strategic Control Grid.

- ✓ To measure the power that a firm is able to establish in it's working environment.
- ✓ Mapping of this control grid w.r.t competitors can give the strategist useful ideas of the appropriateness of the strategy.
- ✓ 5 elements to the manifestation of this power –
 - a) Position.
 - b) Profits.
 - c) Process.
 - d) Product.
 - e) Perception.

Now, let us look at one more grid, this is called the strategic control grid. What is the objective of this strategic control grid? The objective of this strategic control grid is to measure the firm, the power that a firm is able to establish in its working environment.

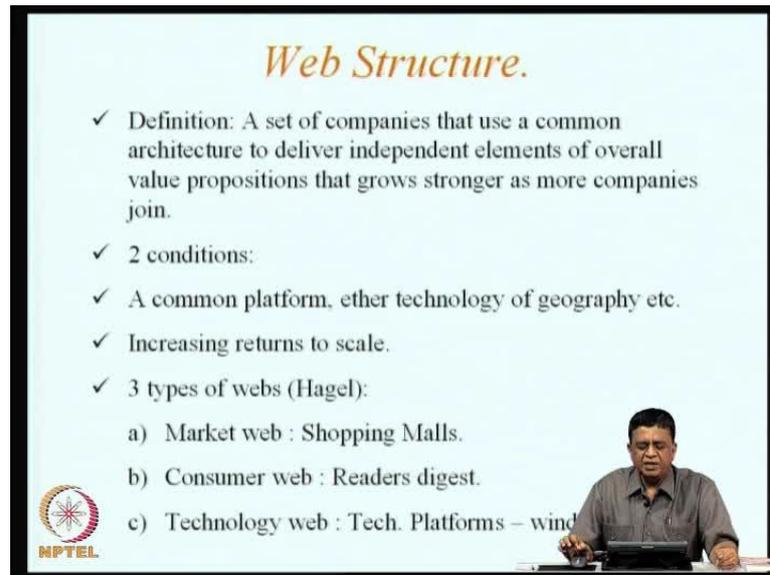
Mapping of this control grid with respect to competitors can give the strategist useful ideas of the appropriateness of the strategy. So, there are five elements, which contribute to the manifestation of this power. They are position, profits, process, product and perception. So, why are we looking at this strategic control grid? We are looking at this grid, to find out whether the firm is powerful in the market environment that it is operating.

Kindly note that all these exercises are required, whether it is this grid or whether it is this space matrix or whether it is the different portfolio matrices that we did. We start looking at the firm level, then we go to the industry level, then we go to the sector level, then we go to the national level. So, this is how the nations GDP start getting worked out. So, we say the services sector is contributing to nearly 54 percent of the country's GDP, what do we mean by that? We mean that when we take all the industries which are coming under the services sector, whether it is the IT enabled services or whether it is the tourism services or the hotel services name it, all this coming under the services industry all that put together; that is the income that is coming from all these industries put together contributing to the services sector and all that totaled up contributes to 54 percent of the GDP.

So, we look at an organization a firm, then from a firm we move to the industry where you have number of firms operating in that particular category; from that industry you move to the sector, from the sector you move to all the sectors put together, and in the end, you get the aggregate picture with respect to the country.

In order to evaluate all these you go through all these methods, whether it is the space matrix or whether it is the other portfolio matrices. So, the organization decides which one to adopt.

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Web Structure.

- ✓ Definition: A set of companies that use a common architecture to deliver independent elements of overall value propositions that grows stronger as more companies join.
- ✓ 2 conditions:
 - ✓ A common platform, ether technology of geography etc.
 - ✓ Increasing returns to scale.
- ✓ 3 types of webs (Hagel):
 - a) Market web : Shopping Malls.
 - b) Consumer web : Readers digest.
 - c) Technology web : Tech. Platforms – wind

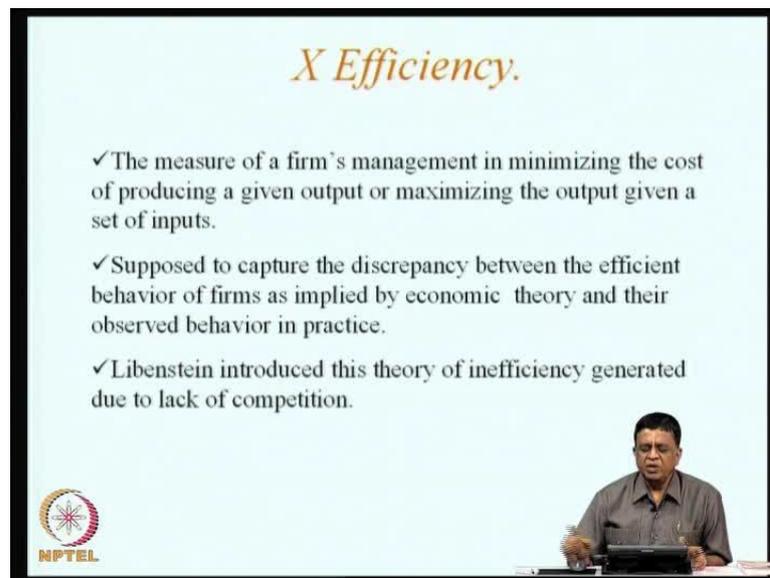
So, this strategic control grid can be one more tool for the organization, where it starts finding out how powerful it is with respect to its market environment. So, working environment, means, you are really working in the marketplace; kindly note that. Now, similarly, we look at what is called a web structure. What is this web structure? A set of companies that use a common architecture to deliver independent elements of overall value propositions that grows stronger as more companies join.

So, what does it tell you? If you just try to analyze this definition as an individual company, a company feels that the services that it is able to offer may not be well received in the market place. So, the consumer may require some additions to this service or complements to the service all this types of things. Now, suppose, they make a common architecture to service all the needs of these customers, then they are on a much stronger wicket. So, this web structure essentially helps them to be on a stronger footing in the market place.

So, what are the two conditions which are required for this web structure to come into being? One is a common platform, it can be either with respect to technology or geography, then the second one is the increasing returns to scale. So, if you combine together and if you are able to operate, then you should be able to get increasing returns to scale that is you produce more your profits also increase. So, this is the type of manufacturing this thing.

Here in the services, you service more number of people, your profits also should proportionately increase; so with the cost per service not being greatly affected. Three types of web are visualized; one is called the market web. This market web typically refers to shopping malls which have sprung up all over the country and the consumer web is a typical reader digest type of thing, where you have consumers with different taste, different interest all being brought in this through the consumer web into one market or one web structure.

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X Efficiency.

- ✓ The measure of a firm's management in minimizing the cost of producing a given output or maximizing the output given a set of inputs.
- ✓ Supposed to capture the discrepancy between the efficient behavior of firms as implied by economic theory and their observed behavior in practice.
- ✓ Libenstein introduced this theory of inefficiency generated due to lack of competition.

The slide features a light blue background with the title 'X Efficiency.' in a brown, serif font. Below the title are three bullet points, each starting with a checkmark. In the bottom right corner, there is a small inset video of a man in a grey shirt sitting at a desk with a laptop. In the bottom left corner, there is a circular logo with a starburst pattern and the text 'NPTEL' below it.

The technology web is where you bring all this technology platforms into one structure; that is, the windows or whatever etcetera. So, this is how you can look at the web structure. Now, one more term, this is called X efficiency. What is X efficiency? The X efficiency refers to measure of a firm's management in minimizing the cost of producing a given output or maximizing the output given a set of inputs.

Kindly note the definition of this X efficiency- the measure of a firm's management in minimizing the cost of producing a given output or maximizing the output given a set of inputs. Why do you want to look at this efficiency?

It is supposed to capture the discrepancy between the efficient behavior of firms as implied by economic theory and their observed behavior in practice. So, you are really looking at economic theory, purely from a theoretical point of view and its application in practice.

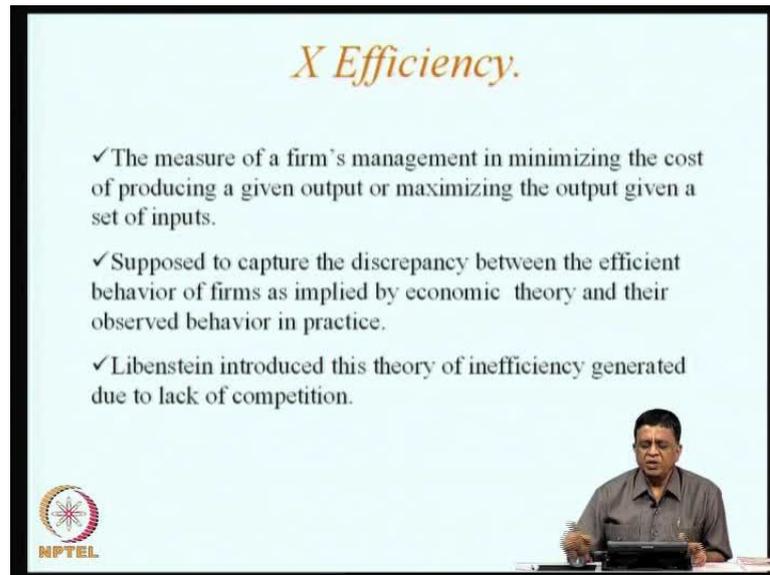
So, the person who introduced this is Libenstein. So, he introduced this theory of inefficiency generated due to lack of competition. So, X efficiency in a sense refers to lack of competition not a good thing to have, because if you have no competition then you are really in the suppliers market not in the buyer's market.

So, is a possibility that the interest of the consumer can get compromised in the whole process? So, in other words, now, we have looked at almost all the aspects that one could consider with respect to competitive advantage, whether it is at the firm level or the industry level or the national level and how could all these matrices be helpful?

So, we looked at all the aspects of this whole gamut of competitive advantage going from the balanced score card to the BCG matrix **new**; then the competitive advantage of nations given out by Porter; then what is meant by the competitive convergence, then the grand strategy matrix, then we looked at the doom loops, how it is going to destroy the competitive advantage of nations; then J curve; then the cob web theorem; then we looked at the end game strategies, then we looked at the economic value added; then we looked at the national diamond from the four parts, the space matrix, the strategy control grid, the web structure, and the X efficiency, in fact the theory of inefficiency put out by Libenstein.

So, with all these we have more or less covered all the aspects which we can look at possibly with respect to competitive advantage, whether it is with respect to a firm starting from a firm moving up to a nation at large.

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NPTEL

Now, we look at a few more issues; that is, we look at one particular set of industries which we have not looked at till now that is what is called the nonprofit organizations or the NPO's at large.

So, which are these nonprofit organizations? These are voluntary organizations, many times they do social service. So, you can be looking at different types of social service rendered by these organizations. So, this NPO's sometimes bracketed as NGO's depending on the context in which they are operating; so these NPO's or NGO's are NPO's which are operating in a certain context and many of these NPO's receive liberal donations from the industries. So, most of these big industries make liberal donations to different voluntary organizations, so all these NPO's like this cry, action aid these are all different organization working in certain sectors.

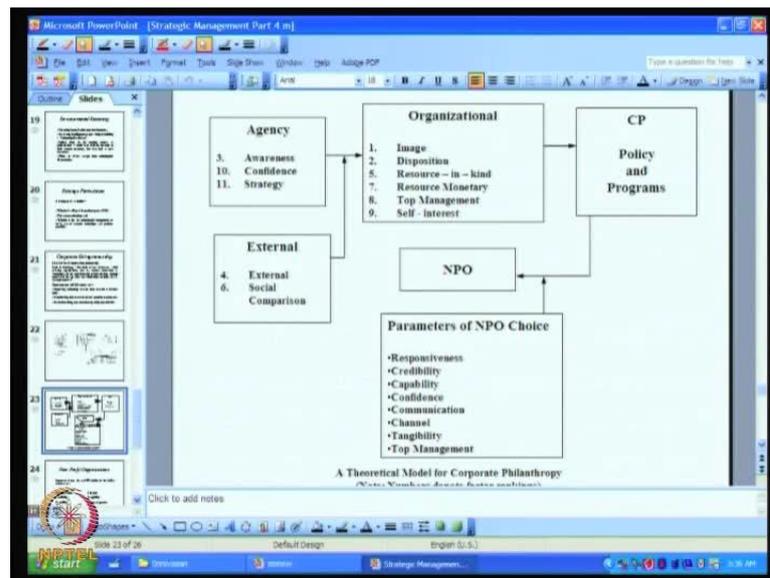
Whether it can for the upliftment of children at an economically lower strata, so that they can be benefited by studies things like that or provision of basic amenities all those types of things coming under this umbrella. Now, when you look at the industry making these types liberal donations, so you have organizations like TATA's, which are very active. You also have organizations like infosys again vary active in this field.

So, what is the whole gamut of operations of these NPO's in relations to the industries **involved coming under, which head.** So, when you look at the industries you can say it is the corporate social responsibility.

Then when you look at the NPO's, you can say these are providing certain benefits to certain under privileged sections of the economy, which they were deprived or which they are deprived, which the government itself cannot provide. So, this the type of ((this thing.))

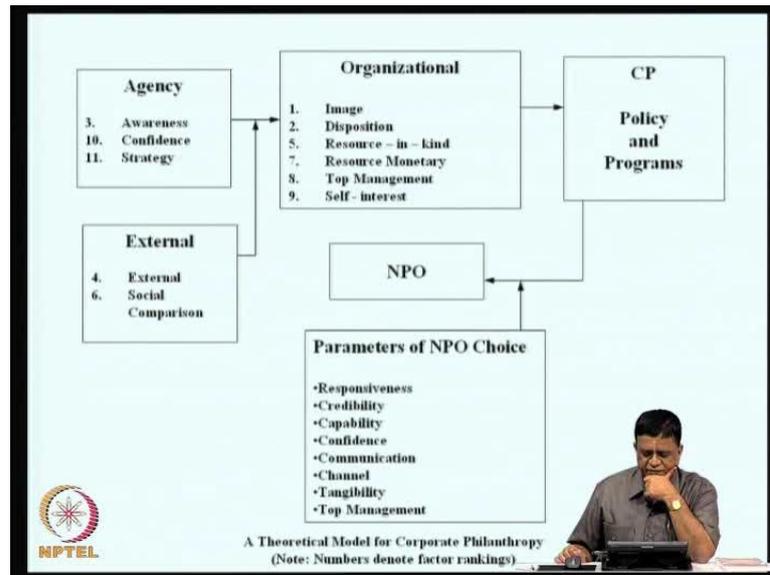
So, being a receptor or being a receiver of so many donations, that is like these organizations like this action aid or cry or name different types of organizations; so there are a large number of them operating in each state under different names; so all these organizations are receiving donations from the industry. So, for the industry it is the corporate social responsibility, for the receiving organization it has got a set of objectives, where these donations or where these contributions made, whether it is by individuals or whether it is by the organizations concerned.

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How should it be used? This is an interesting study was done on this particular aspect of the NPO's, and the objective was how an industry should decide, which NPO it should pick up for making this type of contribution. Suppose ,there are some ten NPO's and a company like TATAs wants to give contributions through its CSR umbrella, how much each of these organizations should get or how do you really get to the idea of getting this type of evaluation.

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So, **the one thing is** this study was done in the Indian context. So, what are the parameters of NPO choice which you can look at that is the organization can look at. The idea was with respect to its corporate philanthropy program.

So, in other words, what could be the parameters of NPO choice, which can guide the organization concerned? To make a decision on the amount of contribution to be made from the organization side, its corporate philanthropy. So, the whole exercise was to give a theoretical model for corporate philanthropy. So, this theoretical model for corporate philanthropy, when it was put out in the Indian context, tried with different organizations like the one which I gave, so came out with these blocks. One is suppose, you have the NPO in the middle now, this NPO in the **middle. What are** the types of when you look at the agency parameters that is how aware are you about this agency are you aware of this action aid are you aware of cry we have. So, many organizations like you have this Bosco in Bangalore trying to pick up children who are homeless.

So many of them are deserted children let us say picking up from railway stations or bus stands, then providing for their welfare, all those types of things. So, many of these organizations, so which ever might be the type of organization. What are the factors when you are looking at with respect to the agency? One is the awareness, second is the confidence, and third is the strategy. So, the organization is looking at these three factors;

How aware is this agency? That is, what is the type of awareness with respect to the target markets, concern about this agency.

Then the external factors are: one is factors external to the company, then the social comparisons which can be made put together, that is, the agency and the external factors you come up with what is called the organizational factors.

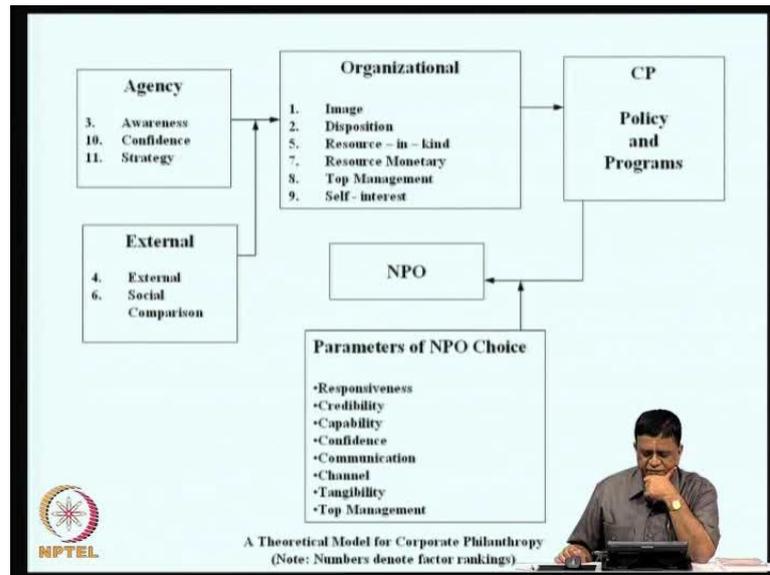
The organizational factors are one with respect to image, second with respect to disposition, third with respect to resources in kind, then fourth with respect to resources monetary, fifth with respect to the top management, then sixth with respect to the self-interest.

What do you mean by this organization? You look at the agency, you look at the external factors from the organizational point of view; that is, you are the donating organization, so whether it is TATAs or Infosys, what are you looking at? You are looking at by donating x amount of money to this particular agency, what is it that the industry is gaining? Gaining with respect to image or how is the industry being viewed in its disposition? Then, how does the industry want to contribute? Does it want to give in terms of resources in kind?

So, sometimes you may not like to give resources **monitory**, because you may think that resources in kind might be better method than resources monetary, because in times of floods or in times of drought, it may be better to offer resources in kind, may be food grains, may be some other aspects all those types of things.

Now, from the organizations point of view also, it has to decide whether it will give resources in kind or monetary resources and it should also look at the top management of this agency and then what is the type of self-interest that is involved in the whole setup.

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Now, taking all these into account, you derive with respect to an NPO or this study derived with respect to an NPO, the parameters of choice that is the NPO choice which are the parameters which came out. 1 - is responsiveness, then 2 - is credibility, 3 - is capability, 4 - is confidence, 5 - is communication, 6 - is channel, 7 - is tangibility, 8 - is top management.

Responsiveness: suppose, there is a certain situation requiring immediate response, how good is this NPO in giving that response. Suppose it is found wanting in providing that response, then it may not be desirable to make contributions to that type of an NPO. So, this is happening in a routine manner with reference to different NPO's. Because many donors, they are making their own assessment of all these NPO's before they decide, yes, we are making the contributions to these NPO's and this will be the volume of the contribution or the quantum of contribution. So, the responsiveness is one aspect, the top aspect which they go into.

Second is the credibility; this credibility with respect to an NPO is with respect to not only its working force, but also the top management which is behind this NPO. Suppose, you find there are many NPO's which are having some ulterior motives, so an organization or a donor organization has to be extremely careful about contributions being made to these types of NPO's.

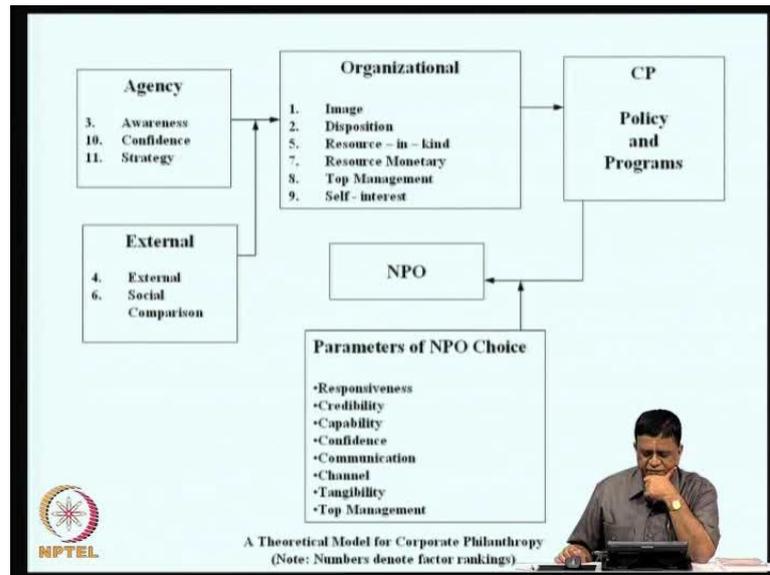
The third one is many organizations claim that is the NPO's claim that they are doing this social service. Question is whether they are really capable of doing this type of social service. So, a donor organization has to make an assessment through independent channels, not the channel of the NPO. Because the channel of the NPO is always bound to give it a good certificate, whether this NPO is having the capability to provide the type of service that it claims to be providing. Then what is a confidence of the target segments or the segments who have received or who are going to receive this type of service in the NPO concerned.

So, all these factors are, kindly note, are extremely crucial, then how is this NPO communicating with the target segments? So, you find day in and day out, so many charges being leveled. So, if you really see in the present, in the recent past also and ongoing also, we see so many contributions, made by so many organizations towards flood relief towards drought relief it has not reached the target segments.

So, where has it gone, where has the money gone, what is the type of accounting mechanism that has been established, and as the NPO concerned communicated with this target segments effectively. Then what is the type of channel that it is adopting to disperse these types of services, that is, the NPO is adopting and how tangible is its operations that is the transparency. Many of these NPO's do not disclose data, they want to hide data, they want to operate under a secret veil, the secret veil or a veil this which is many times having lot of secrets. So, many times you have to lift that veil to find out what exactly is being done by the NPO.

And then to a large extent the credibility of the NPO will be enhanced by having people who are known for their integrity in the top management. So, this essentially provides a theoretical framework.

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A theoretical model for the corporate donors how to make an NPO choice, that is, the parameters of NPO choice. So, in the end, these are the parameters which an **organization** a donor organization generally looks at one is the responsiveness, second is the credibility, third is the capability, fourth is the confidence, fifth is the communication, sixth is the channel, seventh is the tangibility, and eighth is the top management; so this is a theoretical model as I mentioned.

And certain numbers are given here these numbers are factor rankings, which was obtained in the factor analysis model, which was used in the Indian context. So, those **who are interested can refer to further interest** to those who are further interested in this can refer to a doctoral dissertation done by a student from the institute of science under my guidance. This is called the critical factors of corporate philanthropy their impact on monetary contribution and critical attributes of corporate choice of NPO.

This is an unpublished doctoral dissertation, by a student Sangeetha Mansoor, at the Institute of Science, available in the library of the Institute of Science, in 2001. So, this is the way you look at a theoretical model with respect to corporate philanthropy.

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Non Profit Organizations

Important factors for an NPO choice in the Indian context are –

Responsiveness	Channel
Credibility	Tangibility
Capability	Top management
Confidence	Communication

NPTEL

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So, now, when you look at this model the nonprofit organizations and this model what is the type of inference that you can make? The inference that you can say with respect to the organization. So, this is what is brought out here; that is, the 8 important factors of NPO choice. The NPO itself refers to not for profit sector firms of the economy; they are not interested in making profits, kindly note. They work toward public or collective good; so kindly note these two points. So, these organizations they are not working for profit, they are working for public good or collective good and they are looking at philanthropic service, then community service.

So, the main idea is to look at the community good; that is, what good can be done for the community at large. Now, why are we looking at all these things with respect to an NPO? Because there are large number of NPO's which are operating in the Indian context and they are getting substantial donations from donor organizations. The donor organizations for them it is the corporate social philanthropy or the social responsibility which is coming into picture; so, the corporate philanthropy translating into CSR corporate social responsibility.

Now, whether these NPO's themselves whether they should go in for strategic management. Because of the large number of them which are existing in the Indian market, Indian context then being recipients of large amounts of donations whether they should go in.

So, when you looked at this study, when you look at all the factors, which a donor organization might consider on the NPO choice. Now, what is the type of inference that you can draw? The NPO also should look at strategic management and it should also look at all these factors.

That is how responsive is the NPO, how credible, how capable and what is the confidence level in the NPO the channels of service adopted, the tangibility, the top management and the communication. So, this can be useful for the NPO also. In other words what does it mean? An NPO also which is operating in the Indian context can take certain rudimentary steps; so they can adopt certain rudimentary steps towards strategic management.

So, what are we trying to say? We are saying whether you are a large industry or whether you are a medium industry or whether you are a small scale industry, please look at strategic management in this liberalized context. A small scale industry should not think that the strategic management is the domain of the large scale industry. Similarly, the medium scale industry should not think that it belongs to the large scale industry, not to them, because the scenarios are totally different from the ones, which existed a few years back. You are operating in a hyper competitive scenario and when you are operating in a hyper competitive scenario this subject of strategic management becomes imperative for all the types of organizations.

Now, we are saying it is essential even for a nonprofit organization, which is operating in the Indian context. So, a service organization in the Indian context, which it claims even that should look at strategic management or at least take some rudimentary steps to look at strategic management.

So, in a sense, what are we trying to say? We are saying that this entire subject of strategic management, which started in great earnestness in the Indian context in the late 70s, that is, you had BHEL as the first Indian organization going in for corporate planning in 1974 followed by other public sector organizations, then followed by different private sector organizations especially after the liberalization process in 1991.

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Non Profit Organizations

Important factors for an NPO choice in the Indian context are –

Responsiveness	Channel
Credibility	Tangibility
Capability	Top management
Confidence	Communication

And now, when you are approaching this 2011, you find that the gamut of strategic management or the tentacles of strategic management has really spread it encompasses the entire economy, whether it is the primary sector or whether it is the secondary sector or the tertiary sector. We are saying that look at strategic management that is look at where the resources are being invested and whether it is going to the target markets concerned and what is the type of advantages that is being realized out of whole scenario.

So, in other words this strategic management is becoming an important component in the modern day context. So, you are looking at it not only from the organizations, you are looking at it even for a nonprofit organization. A donor organization looks at the tools of strategic management even when it is making some contributions to these nonprofit organizations. So, this is where we stop for this day. So, we have more or less covered all the aspects of strategic management.

So, when you are looking at the Indian market scenario the ongoing process of liberalization makes it essential for Indian companies to innovate and become market leaders. So, when it is required to become market leaders the role of the SME's will have to become entrepreneurial, then Indian companies should strive to draw technology road maps which help them to predict the future rather than to react it.

Then the NPO's in the Indian context should also look at meaningful options for strategic management. So, we stop here, we continue in the next class. Thank you.