

Strategic Management - The Competitive Edge

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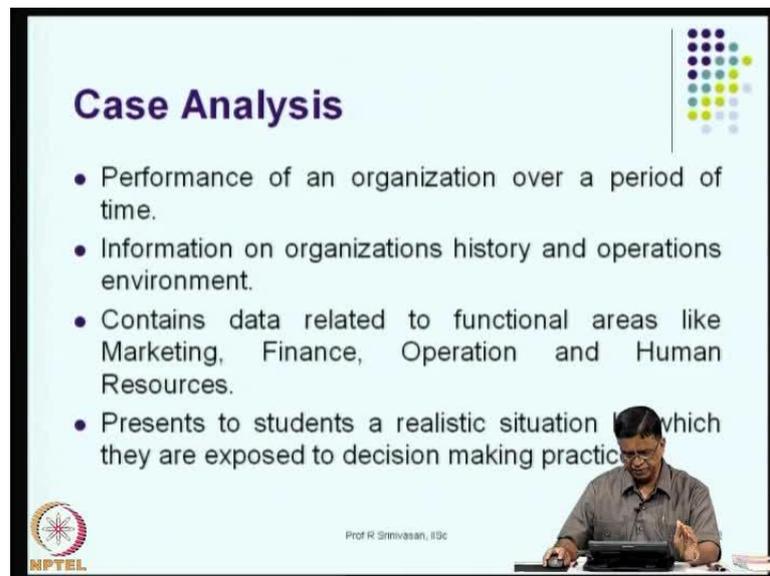
Module No. # 08

Lecture No. # 37

Summary - two

Welcome to this session of round up of what all we have covered. We looked at case analysis, also how to do the analysis of a case.

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Case Analysis

- Performance of an organization over a period of time.
- Information on organizations history and operations environment.
- Contains data related to functional areas like Marketing, Finance, Operation and Human Resources.
- Presents to students a realistic situation in which they are exposed to decision making practice.

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Then, in this, we said, we look at the performance of an organization over a period of time, information on organizations history and operations environment. Then, look at data related to the functional areas like marketing, finance, operation and human resources. Then, make use of **these present to students' realistic situation.**

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Objectives of the Case Method

- To acquire skills to apply theoretical knowledge to practice.
- To get into the habit of diagnosing the problem, analysis and evaluation of alternatives and formulation of an action plan.
- To learn to independently find the answers to practical problems
- To gain exposure to a variety of organizational and managerial situations

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We learnt what the objectives of the case method are. The main idea is to acquire skills, to apply theoretical knowledge to practice. Case method helps you to diagnose the problem, analyze and evaluate alternatives, and formulate an action plan. You also try to find answers to these practical problems; you get an exposure to variety of organizational and managerial situations.

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Benefits of the case method

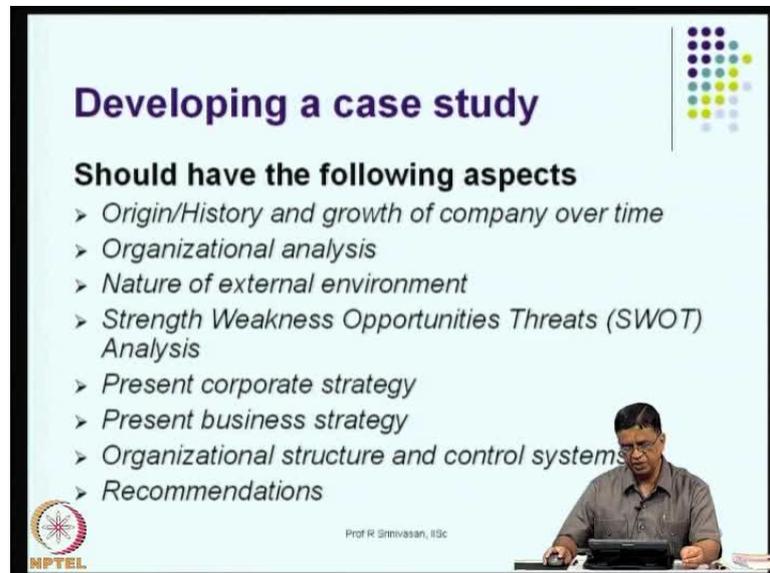
- Clear thinking in complex situations
- Devising consistent, rational and creative action plans
- Application of quantitative knowledge
- Recognizing the value of information
- Group communication
- Better written communication
- Applying personal values to the decision making process

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We look at what are the benefits of the case method; one is the clear thinking in complex situations; you can be more rational, creative also; you can apply your quantitative

knowledge; you can recognize the value of information, group communication and there can be better written communication also through the case method.

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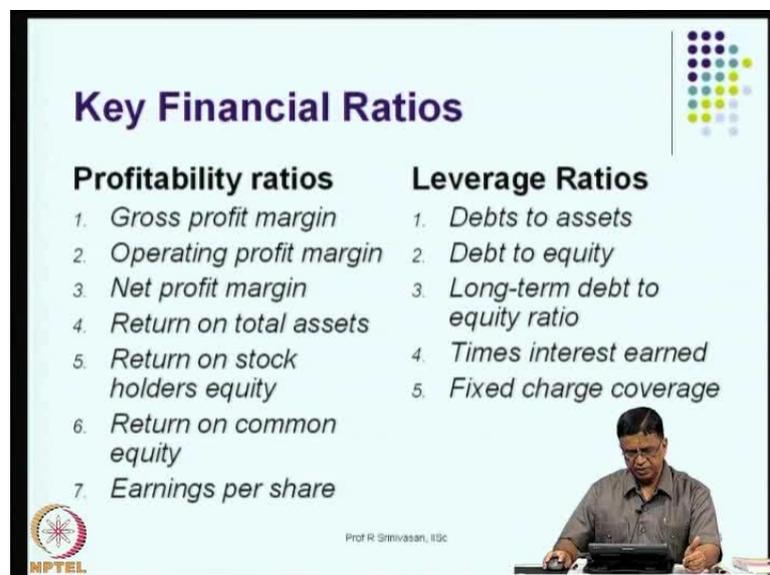
Developing a case study

Should have the following aspects

- *Origin/History and growth of company over time*
- *Organizational analysis*
- *Nature of external environment*
- *Strength Weakness Opportunities Threats (SWOT) Analysis*
- *Present corporate strategy*
- *Present business strategy*
- *Organizational structure and control systems*
- *Recommendations*

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Key Financial Ratios

Profitability ratios	Leverage Ratios
1. <i>Gross profit margin</i>	1. <i>Debts to assets</i>
2. <i>Operating profit margin</i>	2. <i>Debt to equity</i>
3. <i>Net profit margin</i>	3. <i>Long-term debt to equity ratio</i>
4. <i>Return on total assets</i>	4. <i>Times interest earned</i>
5. <i>Return on stock holders equity</i>	5. <i>Fixed charge coverage</i>
6. <i>Return on common equity</i>	
7. <i>Earnings per share</i>	

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Key Financial Ratios (cont'd)

Activity Ratios

1. *Inventory turnover*
2. *Fixed assets turnover*
3. *Total assets turnover*
4. *Accounts receivable turnover*
5. *Average collection period*

Liquidity ratios

1. *Current ratio*
2. *Quick ratio*
3. *Inventory to net working capital*

Other Ratios

1. *Dividend yield on common stock*
2. *Price earnings ratio*
3. *Dividend payout ratio*
4. *Cash flow per share*

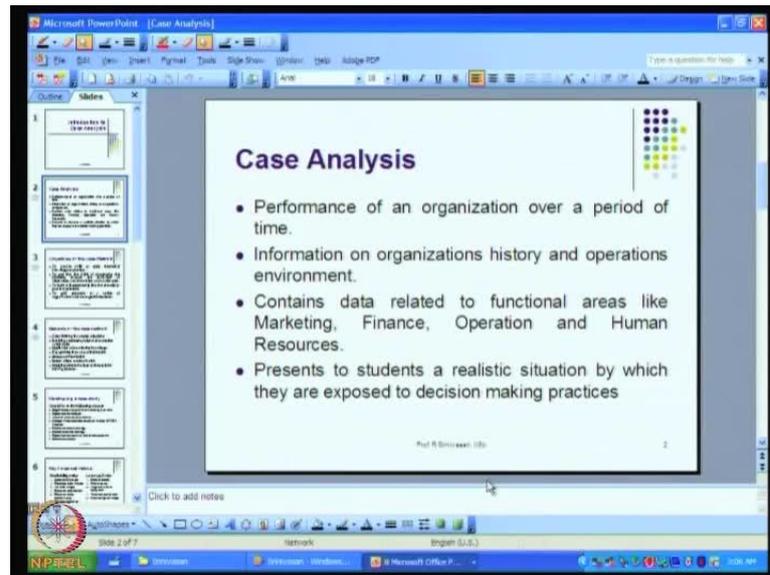
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You are also having the advantages of applying certain personal values to the decision making process. You also looked at how one can develop a case study, so going through the company. Then, we looked at what are the key financial ratios we should consider that is the profitability ratios. In that we look at seven ratios that is gross profit margin, operating profit margin, net profit margin, then the return on total assets, then the return on stock holder's equity, then the return on common equity, then the earnings per share, in the leverage issues, in the leverage ratios, debt to assets, debt to equity, long-term debt to equity ratio, then the times interest earned, then the fixed charge coverage, then in the activity ratios, inventory turnover, then fixed assets turnover, total assets turnover, then the accounts receivable turnover, then the average collection period.

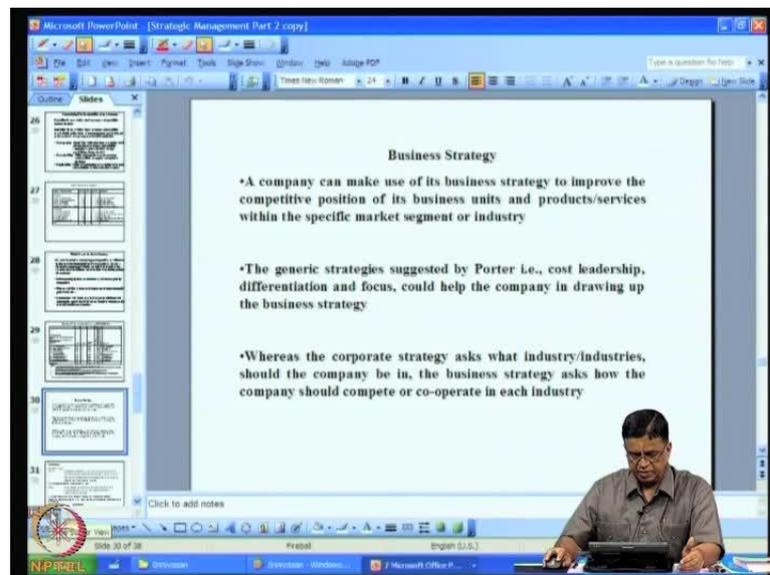
Then, in the liquidity ratios current ratio, quick ratio, inventory to net working capital, the other ratios like the dividend yield on common stock, price earnings ratio, dividend payout ratio and the cash flow per share.

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All these ratios are required to analyze a case as we could make out. So, by making use of these ratios we analyzed one case that was the case of the Infosys. When we looked at the case of Infosys, we try to apply most of these things whatever we have discussed in the case analysis.

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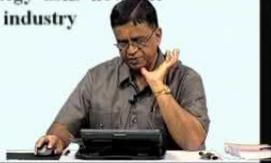
Then, we looked at the business strategy aspect of a company, what is meant by business strategy, we said a **business strategy** a company can make use of its business strategy to

improve the competitive position of its business units and product stroke services within the specific market segment or industry.

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Business Strategy

- A company can make use of its business strategy to improve the competitive position of its business units and products/services within the specific market segment or industry
- The generic strategies suggested by Porter i.e., cost leadership, differentiation and focus, could help the company in drawing up the business strategy
- Whereas the corporate strategy asks what industry/industries, should the company be in, the business strategy asks how the company should compete or co-operate in each industry

Then, we also said for this business strategy, the generic strategy suggested by porter could be helpful in drawing up the business strategy. We distinguished between the corporate strategy and the business strategy saying. Whereas, the corporate strategy asks what industries should the company be in, the business strategy asks how the company should compete or co-operate in each industry.

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Cost Dynamics

Cost Levels in India:

Textiles For comparable pre-tax RET. On invest, a typical Indian Plant with cap of 6,000 tons/yr polyester production has 8-10% higher selling price than a typical polyester plant with 30,000 tons/yr cap in USA. Even with same cap, India: 2-4% higher selling prices

Similar trends are obtained in tyre and tube, AI, Steel

Causes Excise, Customs, Sales Tax Levies, Etc, Uneco, Production levels, Obsolete technology, high B/E points, excess dependence on import of semi-finished goods

High costs narrowed Dom. Cons. Markets & competition in International markets

Larger size plants not only save on initial invest. Cost but also on operational costs (cost v/s size of production)

Cost v/s Market	<u>Sellers Market</u>
Product's Price	= Intl. Cost + desired profit margin
	<u>Buyers market</u>
Profit Margin	= Permissible price – intl. Cost
Tolerable Cost	= Permissible price – acceptable profit




So, we looked at the cost dynamics with respect to India. We took the example of textiles and then we discussed what the causes for higher selling prices in India are.

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Experience Curve:

Unit Manufacturing Cost	When Production Quantity	When Production Quantity	When Production Quantity
When Production Quantity	80%	Experience	Curve
Accumulated Production			Cost/Unit (RS)
2			100
4 (100×0.80)	-		80
8 (80×0.80)	-		64
16 (64×0.80)	-		51

Plot give 80% Exp. Curve – Hyperbola
 Causes: Improved Lab. Productivity
 Increased specialisation
 Innovation in production methods
 Value engineering & fine tuning
 Line balancing
 Rationalisation of methods & systems

Exp. Curves - Simple approximations of extremely complex real-time extreme care is to be exercised to get reliable results from exp; unit exp; consider influence of time




We also looked at the cost versus market, whether it is a sellers market or a buyers' market. Then, we looked at the effect of the experience curve; how experience curve can be useful in bringing down the cost per unit of the product.

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Sensitivity Analysis: Can be w.r.t. FC, VC, and/or price
 decrease in FC results in decrease in B-E-P. Profitability at a particular volume of production improves with lower FC
 ↑ in VC has marked effect on B-E-P & eats up profits
 ↓ in VC improves profitability
 in permissible price, B-E-P and vice-versa. At a particular volume of production profitability improves. Price-most sensitive instrument followed by VC & FC

Non-Linear B/E Analysis: When prices may be consciously reduced to gain additional sales vol. & market share or in response to competitors action

Assumptions (often unrealistic): FC Fixed for all production volumes
 VC do not fall with increasing level of production
 TC & TR vary in linear relationship with output
 Maximise profit BEF int. & tax is the desirable objective




We illustrated that taking the example of an 80 percent experience curve. We looked at breakeven analysis, the sensitivity with respect to break even analysis that is which of the

elements are important, whether it is the fixed cost or the variable cost, to what extent breakeven point gets affected.

The sensitivity analysis was done with respect to fixed cost, variable cost and/or price. As could be seen, decrease in fixed cost results in decrease in B-E-P. Profit at a particular volume of production improves with a lower fixed cost. Then, when you have an increase in variable cost, it has a marked effect on B-E-P and eats up profits, whereas a decrease in variable costs improves profitability. Similarly, with respect to price, we said, increase in permissible price, your breakeven point, what happens to breakeven point. Similarly, with respect to a particular volume of production, what happens to profitability with respect to price.

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Experience curve relationship

- Good framework for marginal considerations for predicting industrial scenario w.r.t. future costs, profit margins and corresponding cash flows for own & competitor's ops
- Has done very well in segments such as PC mkt; implications – a few large plants with standardised productions would be able to supply global market marketing efforts SH. Be fully coordinated with manufacturing plans; lowering prices SH. Not be inferior quality; more applicable when dem is elastic
- Limitations: detn. of cost; data reg. competitors; a late market entrants has to operate at lower initial prices to survive

B/E Analysis

$$TC = FC + VC * Q \quad (VC - \text{Unit Var. Cost-R/M, electricity, } \dots \text{ stacking etc})$$
$$TR = P * Q$$

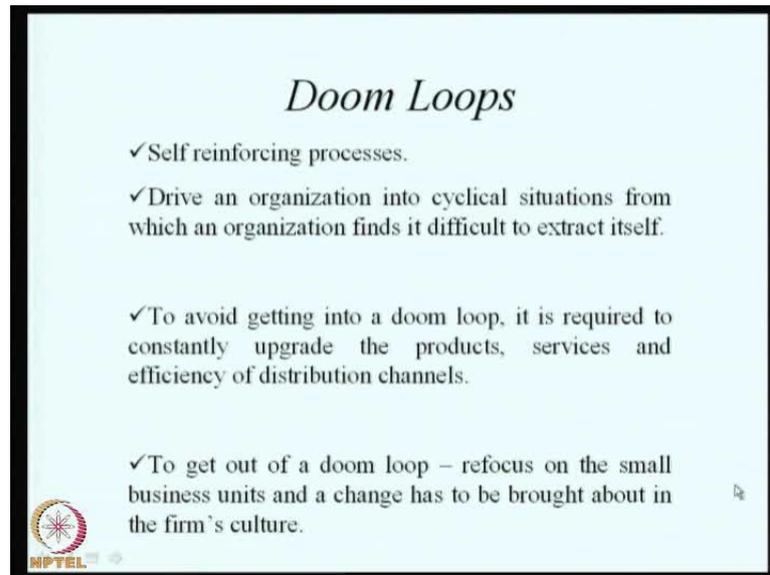
At B/E point $TR = TC$

$$p * QB = FC + VC * QB \quad QB = FC / (P - VC)$$

[P - VC = Unit Contribution]

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Doom Loops

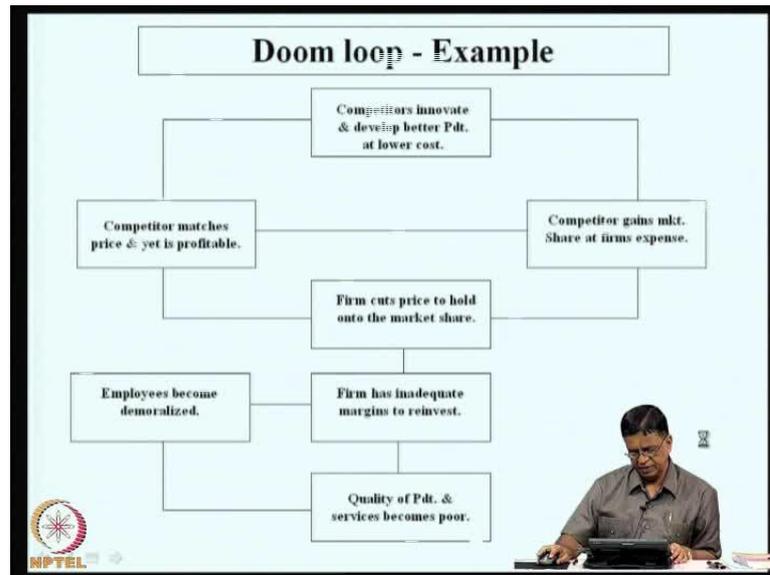
- ✓ Self reinforcing processes.
- ✓ Drive an organization into cyclical situations from which an organization finds it difficult to extract itself.
- ✓ To avoid getting into a doom loop, it is required to constantly upgrade the products, services and efficiency of distribution channels.
- ✓ To get out of a doom loop – refocus on the small business units and a change has to be brought about in the firm's culture.

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We also looked at non-linear breakeven analysis. We moved along from the breakeven analysis down to further steps that is what is meant by a doom loop in an organization. We said an organization should avoid getting into a doom loop, in order to do that it should constantly upgrade the product services and efficiency of the distribution channels.

Suppose it has got into the doom loop, to get out of it, it can think of refocusing on the small business units and a change has to be brought about in the firm's culture. We explain this doom loop by taking an example, how it can demoralize an organization.

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Corporate Strategy

The important issues involved in Corporate Strategy are:

- ⊛ The company's orientation towards growth, stability or retrenchment. This is referred to as directional strategy.
- ⊛ The markets in which the company competes through its products or business units. This is referred to as Portfolio strategy.
- ⊛ Activity co-ordination and transfer of resources for achieving capabilities among product lines and business units. This is referred to as parenting strategy.

Sometimes even a good organization also – so, this is the typical diagram of a doom loop which we presented and discussed. Then, we came to the issue of corporate strategy, what are the important issues involved. Then, what is meant by portfolio strategy that is the market in which the company competes through its products or business units.

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Relative Cost advantage & Competitive Strategy

Examples	Modi Tyres	
		- Initially entered largest product segment i.e., truck with latest technology & lower prices (good value for money). Subsequently matched market leader's price and displaced him by capturing higher market share
	Hero Cycles	- Dropped irrelevant product attributes; subcontracted production of parts

Portfolio Analysis and Display Matrices

Portfolio Analysis

- Corp. Investments in different products or industries (SBUs)
- w.r.t. net cash flow
- Stake of development
- Risk

Display Matrices:

- BCG Matrix
- McKinsey Matrix
- Strategic Planning Institute's Matrix (Profit impact of Market Strategy)
- Arthur D. Little Co's Matrix
- Hofer's Product/Market evolution Matrix

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Then, we looked at what is meant by relative cost and competitive strategy, we took some examples. We looked at portfolio analysis and display matrices. The important aspect of portfolio analysis, which we presented, was the balancing of the portfolios.

The balancing of the portfolios with respect to three aspects; that is, the net cash flow, the state of development and the risk. We looked at several display matrices like the BCG matrix, the McKinsey matrix, the strategic planning institute's matrix or the profit impact of market strategy, then the Arthur D Little companies matrix, to name a few.

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Strategy Implementation

Strategy implementation refers to the sum total of the activities and choices required for execution of a strategic plan. The implementation process has to answer these questions:

- Who will carry out the strategic plan?
- What should be done to align the company's operations in the new direction?
- When and how everyone concerned, should respond?

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Then, when we looked at – then, we came to the strategic implementation side. When we looked at the strategic implementation side, we tried to sum it up by saying the implementation process as to answer these questions. That is who will carry out the strategic plan, what should be done to align the plans, companies operation in the new direction and when and how everyone concerned should respond.

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Strategy Implementation

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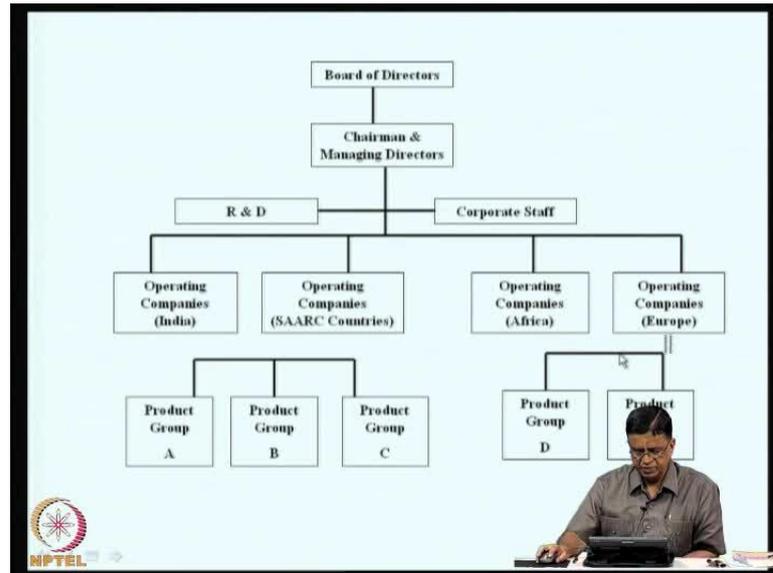
Then, we also came to different organization stage 1, stage 2 and stage 3 with respect to companies.

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Function	Stage I	Stage II	Stage III
1. Sizing up: Major problems	Survival and growth dealing with short-term operating problems	Growth, rationalization, and expansion of resources, providing for adequate attention to product problems	Trusteeship in management and investment and control of large, increasing and diversified resources. Also, important to diagnose and take action on problems at division level
2. Objectives	Personal and subjective	Profits and meeting functionally oriented budgets and performance targets	ROI, profits EPS
3. Strategy	Implicit and personal; exploration of immediate opportunities seen by owner-manager	Functionally oriented moves to "one product" scope; exploitation of one basic product or service field	Growth and product diversification; exploitation of general business opportunities
4. Organisation: Major characteristic of structure	One unit, "one-man" show	One unit functionally specialized group	Multilunit general staff office and decentralized operating divisions
5. (a) Measurement and control	Personal criteria, relationships with owner, operating efficiency ability to solve operating problems	Functional and internal criteria such as sales, performance compared to budget, size of empire, status in group, personal relationships, etc	More interpersonal application of comparisons such as profits, ROI, PIE ratio, sales, market productivity, product leadership, personal development, employee attitudes, public responsibility
6. Reward Punishment System	Informal, personal, subjective; used to maintain control and divide small pool of resources to provide personal incentives	More structured; usually based to a greater extent on agreed policies as opposed to personal opinion and relationships	Allotment by wide variety of punishment and automatic apply of

What are the factors differentiating stage 1, stage 2 and stage 3. Stage 1, mostly entrepreneurial; stage 2, functional areas coming into focus; stage 3, a real company operation comes into focus. So, whereas, **in stage 2, it can** stage 1, it can be 1 unit one man show; stage 2, it can be one unit functionally specialized group; whereas in stage 3, it can be multi unit general staff office and decentralized operations.

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Classification

According to Risk :	Low Moderate High
Courses of Action	: Niche Vertical Integration – Backward and Forward Horizontal expansion Diversification
According to desired rate of growth:	Alternatives are - Internal Expansion. (adding more capacity) - Internal Stability (by augmenting resources) - Internal retrenchment or turnaround (eg: Hind. Photo-Films) - External Retrenchment or Divestiture (ITDC- decided to close Hotel Akbar some years ago) - External expansion through mergers - Combination of the above strategies
Selection of Strategy	: Based on growth objects, resources, State government policy & best method to close the gap between current performance and desired performance of product/SBU could also be helped by various factors (attitudes towards risk) also in

Then, we looked at the different structures that can be made use of for operations, so we presented it as a geographical structure, then a network structure. Then, we said how

be related - in related, it can be constrained or controlled. We looked at examples for this.

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Planned diversification
Options to Management

- Status Quo
- Sail with the wind
- Go on moving in the direction
- Move in new direction in a planned manner

Diversification in an ongoing process

- Define your bus
- SWOT analysis
- GAP Analysis
- Competition & Risk analysis

Corporate diversification in India – Now actively pursued due to

- Liberalization
- Indian Entrepreneur willing to think big and grow big
- higher risk bearing attitude by financial institutions
- Middle class confidence in equity market
- shrinking demand for Indian consumer goods abroad; so joint ventures in India
- scheme for technology & financial assistance
- Massive market expansion (domestic & international)

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Integration

- Horizontal** – Owning (or controlling) a number of similar but separate activities in the same industry of business
- Vertical – Backward** – Diversifying into R/M & other supplies for the company's products – may enable a co. to improve the quality of final product Eg: Vimal
- Forward** – Diversification further down the line to final consumer – direct control on distribution and logistic channel Eg: Nirlon

Diversification & Synergy

- Production Synergy:** Co. mfg coolers, refrigerators ACs, getting into room heaters, ovens
- Marketing Synergy:** Cricket balls & bats; tennis balls and rackets
- Financial Synergy:** Fan manufacturers offering discount in winter
- Organisation Synergy:** Manufacturing organisation starting consulting services

Diversification V/s Expansion: Before diversifying company can & SH. Consider expansion in existing product line

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Then, we looked at the aspects of mergers and acquisitions as well in the Indian context. When we looked at this mergers and acquisitions, we looked at the different integrations, horizontal, vertical, backward, forward and the different types of synergies that can be had with respect to diversification.

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Balanced Score Card

- Strategy Evaluation - 4 Parameters:
 - a) The Financial perspective.
 - b) The Customer perspective.
 - c) The Internal business perspective.
 - d) Learning and Growth.
- Managing the Strategy - 4 processes:
 - a) Translating the Vision.
 - b) Communicating and Linking.
 - c) Business Planning.
 - d) Feedback and Learning.
- BS as a tool:

Using BS companies-

 - a) Clarify and update Strategy.
 - b) Communicate throughout the company.
 - c) Align unit and individual goals throughout the company.
 - d) Identify and align Strategic initiatives.
 - e) Conduct periodic performance reviews.



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Mergers and Acquisitions:

Merger - Takes place when two or more Cos roughly of equal size or strength formally submerge their corporate identities into a single one in a friendly atmosphere; a holding Co. may be formed and its shares are exchanged for shares held by the share-holders of the merging Cos

Acquisition - When a Co. offers cash or securities in exchange for the or take over the majority shares of another co. - happens when merger is not agreed upon - when the battle is severe, tgt price may be 100% above market price

Merger motivations - Improving Economies of scale, gaining managerial expertise, market supremacy, acquiring a new product or technology, name, diversifying the portfolio, reducing risk and borrowing costs, taxation or investment incentives



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Screening Process:

- Identify industries – Medium scale investment / large scale investment
- Select sectors: based on data w.r.t., sales T/O, ROI, market shares, competition, asset turn over, etc
- Choose Cos – by sales turnover & asset level- determines acqn. Cost
- Cost of acquisition & returns: Compare candidates
- Ranking: Concept of Fit
- Identifying good ones:
 - High market share
 - Growing market
 - Good management system
 - Diversified portfolio
 - ROI above bench mark level

Assembling suitability of a proposal

- Funds availability
- Likely positive synergies
- Negative synergies & Weaknesses
- Is timing appropriate
- Is required management style available

Valuation for mergers and acquisitions:

P/E Ratio: $\frac{\text{Market price per share}}{\text{Net earnings after tax per share}}$

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Then, we looked at how the balanced score card can improve performance in an organization. When we looked at mergers and acquisitions, again we said what are the methods of screening the industries for this merger and acquisition process, what could be the method that could be adopted to assess the suitability of a proposal.

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- P/E Ratio & EPS (Market price of Share / P/E ratio) SH. Be compared with balance sheet & P&L A/C

Acquirer should

- Divest loss making opns
- Use ratio analysis (to compare with ind. Avg)
- current ratio (reduce C.L.)
- Stock Level = $\frac{\text{Stocks}}{\text{Cost of Goods sold}} \times 12 \text{ months}$ (reduced stock level)
- Avg. Age of debtors (in days) = $\frac{\text{Debtors}}{\text{Sales}} \times 365$ (Reduce avg age of Debtors)
- Revise B/S & P&L A/c
- Incorporate growth & expectation rates
- Calculate replacement value of assets = $\left[1 - \frac{\text{age of assets}}{\text{Tot. Eco. Life of asset}} \right] \times \text{current value of asset}$

Managing after merger:

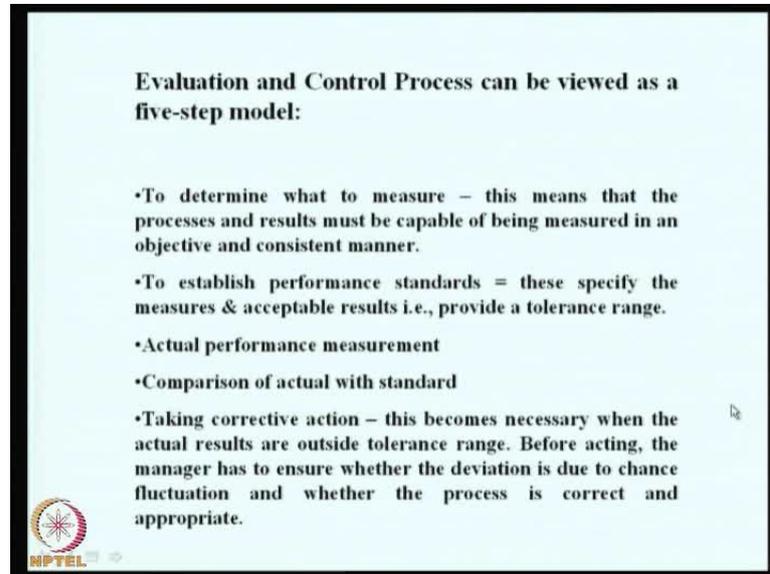
- Indian scene - NRI status is helping in mergers (to get out of FERA)
- Likely to become more dominant in future

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Then, what could be the valuation methods that can again be adopted by companies for these acquisitions and mergers, what are the different types of ratios one could consider.

So, we listed some of the ratios which the company could consider. Then, we gave the formula for what is the replacement value of assets.

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Evaluation and Control Process can be viewed as a five-step model:

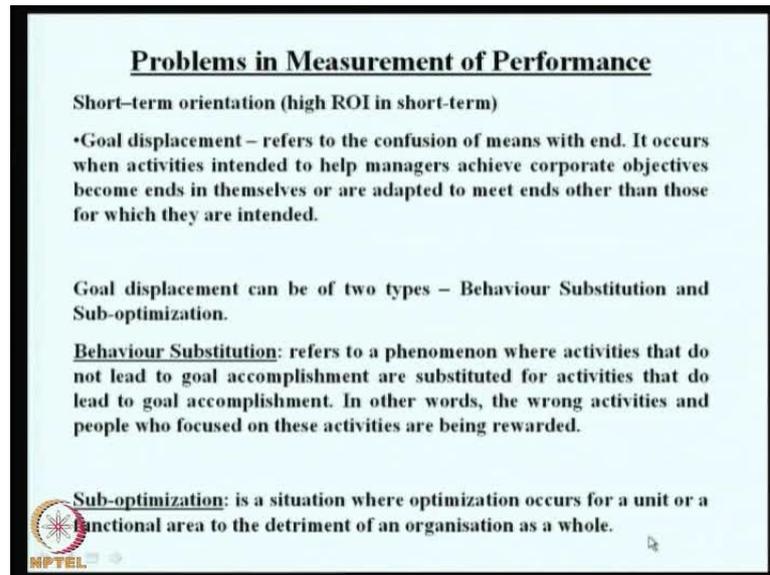
- To determine what to measure – this means that the processes and results must be capable of being measured in an objective and consistent manner.
- To establish performance standards = these specify the measures & acceptable results i.e., provide a tolerance range.
- Actual performance measurement
- Comparison of actual with standard
- Taking corrective action – this becomes necessary when the actual results are outside tolerance range. Before acting, the manager has to ensure whether the deviation is due to chance fluctuation and whether the process is correct and appropriate.



We also looked at the scenario of managing after merger and how this merger process is likely to become dominant in the Indian scene. Then, we looked at the evaluation and control process with respect to strategic management. We said it can be viewed as a five step model. The first step, we look at to determine what to measure. Then the second step, to establish a performance standard that is where you give a tolerance range.

Then the third one, the actual performance measurement, then comparison of the actual with the standard becoming the 4th step and the 5th step, is the taking corrective action. So, the 5th step that is taking corrective action becomes necessary when actual results are outside the tolerance range. So, before acting, the manager has to ensure whether the deviation is due to chance fluctuation and whether the process is correct or appropriate.

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Problems in Measurement of Performance

Short-term orientation (high ROI in short-term)

•Goal displacement – refers to the confusion of means with end. It occurs when activities intended to help managers achieve corporate objectives become ends in themselves or are adapted to meet ends other than those for which they are intended.

Goal displacement can be of two types – Behaviour Substitution and Sub-optimization.

Behaviour Substitution: refers to a phenomenon where activities that do not lead to goal accomplishment are substituted for activities that do lead to goal accomplishment. In other words, the wrong activities and people who focused on these activities are being rewarded.

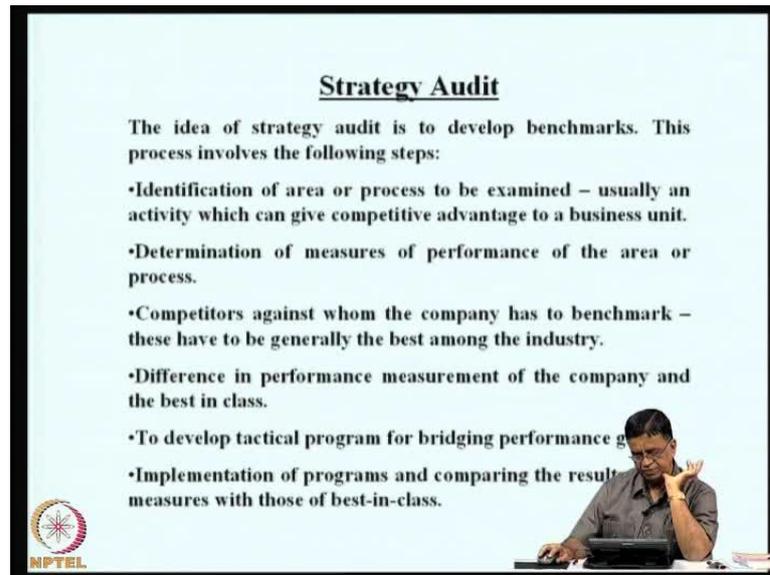
Sub-optimization: is a situation where optimization occurs for a unit or a functional area to the detriment of an organisation as a whole.

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So, we also looked at the problems which can come in measurement of performance. We said goal displacement could be one, coming in due to short term orientation, because the insistence on high ROI in the short term can result in goal displacement that is the confusion of means with the end. Occurs when activities intended to help managers to achieve corporate objectives, become ends in themselves or are adapted to meet ends other than those for which they are intended.

We looked at the two types of goal displacement that is the behavior substitution and sub optimization. Behavior substitution refers to a phenomenon, where activities that do not lead to goal accomplishment or substituted for activities that do lead to goal accomplishment. In other words, the wrong activities and people who focused on these activities are being rewarded. Sub optimization is a situation, where optimization occurs for a unit or a functional area to the detriment of an organization as a whole.

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Strategy Audit

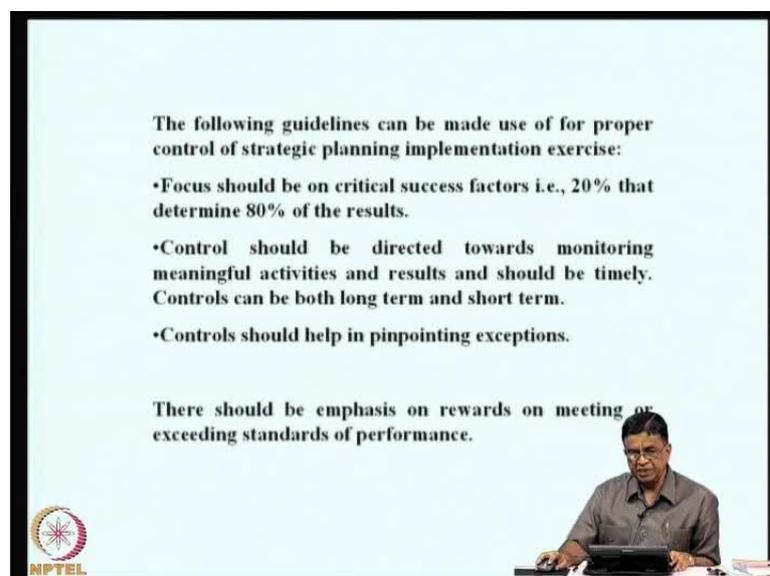
The idea of strategy audit is to develop benchmarks. This process involves the following steps:

- Identification of area or process to be examined – usually an activity which can give competitive advantage to a business unit.
- Determination of measures of performance of the area or process.
- Competitors against whom the company has to benchmark – these have to be generally the best among the industry.
- Difference in performance measurement of the company and the best in class.
- To develop tactical program for bridging performance gap.
- Implementation of programs and comparing the results of new measures with those of best-in-class.

You also looked at what is meant by strategy audit. The main idea of the strategy audit is to develop benchmarks, so for that it involves identification of the area or process to be examined. Then, the determination of the measures of performance, then the competitors against whom the company has to benchmark, these have to be generally the best among the industry, then difference in performance measurement of the company and the best in the class, then to develop tactical program for bridging performance gap, then the implementation of programs and comparing the results of new measures with those of best in class.

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The following guidelines can be made use of for proper control of strategic planning implementation exercise:

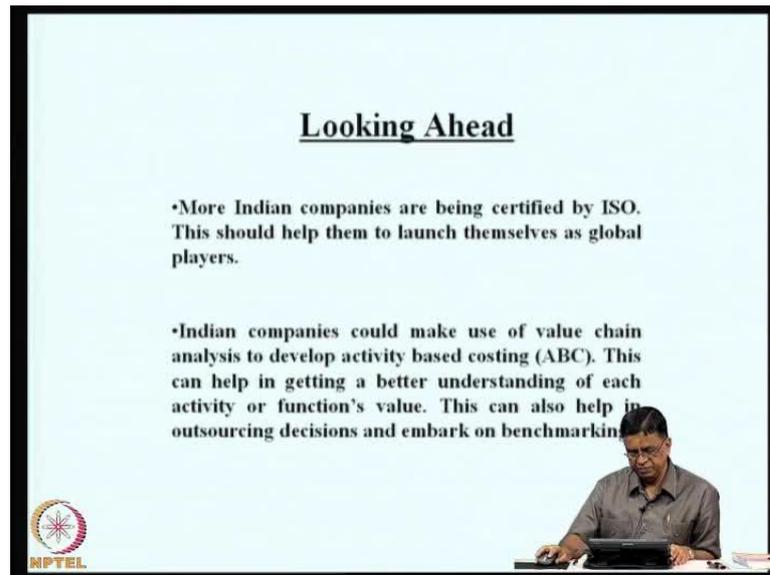
- Focus should be on critical success factors i.e., 20% that determine 80% of the results.
- Control should be directed towards monitoring meaningful activities and results and should be timely. Controls can be both long term and short term.
- Controls should help in pinpointing exceptions.

There should be emphasis on rewards on meeting or exceeding standards of performance.

So, we also gave some guidelines that are what could be used for the strategic planning implementation exercise. We said focus should be on critical success, a factor that is 20 percent that determine 80 percent of the results. Then, control should be directed towards monitoring meaningful activities and results, should be timely controlled, can be both long term and short term.

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Looking Ahead

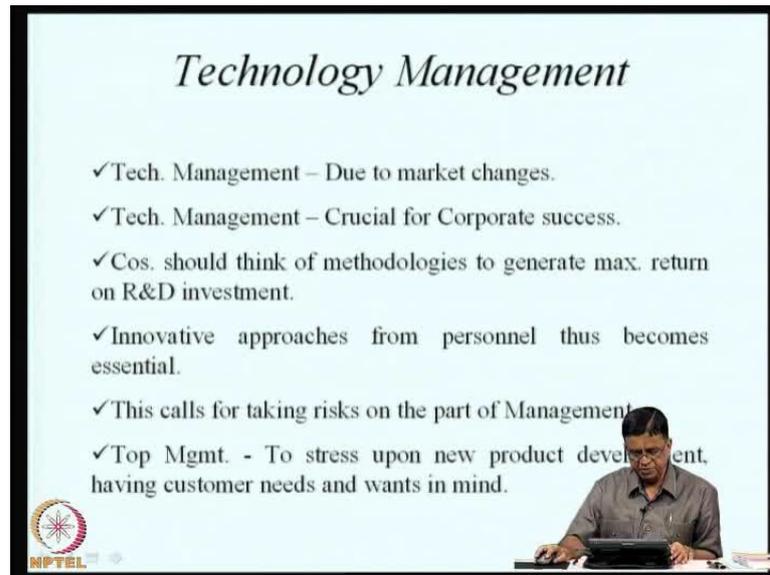
- More Indian companies are being certified by ISO. This should help them to launch themselves as global players.
- Indian companies could make use of value chain analysis to develop activity based costing (ABC). This can help in getting a better understanding of each activity or function's value. This can also help in outsourcing decisions and embark on benchmarking.

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The slide is presented by a man sitting at a desk with a laptop, visible in the bottom right corner of the frame.

So, we also looked at what is the scenario with respect to Indian companies, where we said more Indian companies are being certified by ISO. This should help them to launch themselves as global players; they can make use of this activity based costing, which can help in getting a better understanding of each activity or functions value.

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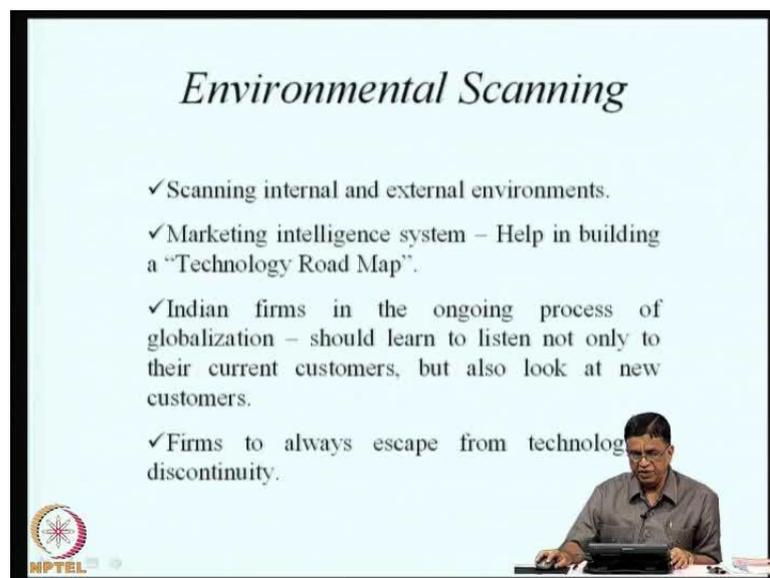
Technology Management

- ✓Tech. Management – Due to market changes.
- ✓Tech. Management – Crucial for Corporate success.
- ✓Cos. should think of methodologies to generate max. return on R&D investment.
- ✓Innovative approaches from personnel thus becomes essential.
- ✓This calls for taking risks on the part of Management.
- ✓Top Mgmt. - To stress upon new product development, having customer needs and wants in mind.

It can also help in outsourcing decisions and embark on benchmark. We then looked at what are the aspects of technology management, whether technology is driving the market or market is driving the technology. We said initially it appears as the technology is driving the market, market takes over and it looks as the market is driving the technology. But, the important aspect of it is technology management is crucial for corporate success. The top management has to devote considerable time for management of technology.

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Environmental Scanning

- ✓Scanning internal and external environments.
- ✓Marketing intelligence system – Help in building a “Technology Road Map”.
- ✓Indian firms in the ongoing process of globalization – should learn to listen not only to their current customers, but also look at new customers.
- ✓Firms to always escape from technology discontinuity.

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Strategy Formulation

A Company has to decide –

- ✓ Whether it will go in for product/process R&D.
- ✓ The source technology and
- ✓ Whether it has the technological competence to make use of sourced technology and product portfolio.

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We looked at what is called the technology road map and we said an Indian company should go in for this. Then, we said with respect to strategic formulation also, the company with respect to technology has to decide whether it goes in for product or process R and D. What is the source technology, whether it has the technological competence to make use of the source technology and product portfolio.

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Corporate Entrepreneurship

Also known as Corporate Intrapreneurship.

Guth & Ginsberg: “The birth of new businesses within existing organizations, that is, internal innovation or venturing; and the transformation of organizations through renewal of the key ideas on which they are built, that is, strategic renewal.”

Three measures of R&D success are –

- ✓ Improving technology transfer from research to business units.
- ✓ Accelerating time to market for new products or processes.
- ✓ Institutionalizing cross-functional participation in R&D.

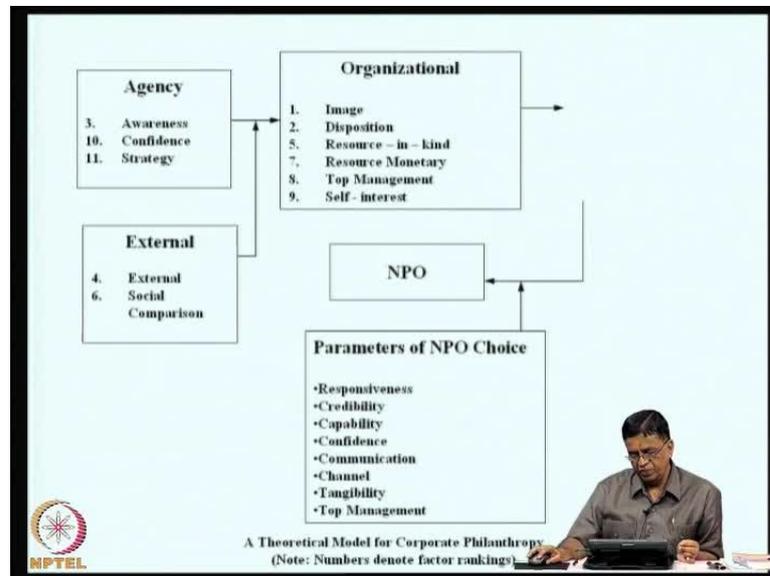
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We looked at corporate entrepreneurship. What are the three measures of R and D success that is improving technology transfer from research to business units, then

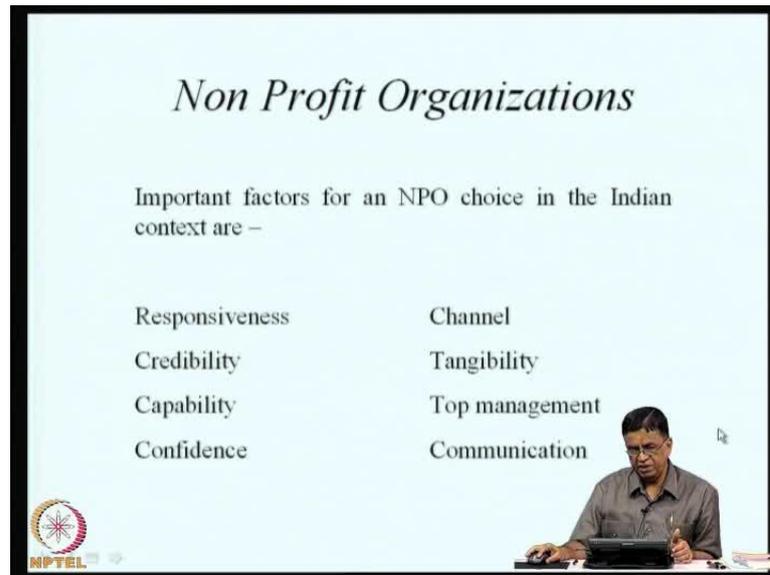
accelerating time to market for new products or processes, then institutionalizing cross functional participation in R and D.

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We also looked at nonprofit organizations to come out with a theoretical model for this corporate philanthropy, because in the Indian context, now so many organizations, typically NGO's and other nonprofit organizations, they are getting or they are being lent money by donor organizations. So, what do the donor look for in the agencies and how the agencies themselves should look inside and outside; that is toward when they take up these types of programs, all these was explained to you.

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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

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Small and Medium Enterprise (SME)

•Small and Medium Enterprise (SME) employs less than two hundred People with an annual turnover of Rs.5 cores.

SMEs in India have to develop entrepreneurial characteristics in order to survive in the changing market scenario. Four important characteristics which are key to the success of the firm are:

- Ability to identify potential opportunities better.
- A sense of urgency making them action oriented.
- Knowledge of key to success in the industry.
- Supplementing through outside help skills, know and ability

The slide features a light blue background with a black border. In the bottom right corner, there is a small inset image of a man in a grey shirt sitting at a desk with a laptop. The NPTEL logo is visible in the bottom left corner.

So, using this different organization, what are the important factors that NPO should consider? We listed down the important factors in the Indian context as eight of them responsiveness, credibility, capability, confidence, channel, tangibility, top management and communication.

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Guidelines

- Focus on industries facing sustained technological or regulatory changes, especially those which witnessed exits by established competition
- Seek industries whose smaller firms have relatively weak competitive position
- Seek industries that are in early, high-growth stage of evaluation
- Seek industries in which it is possible to create high barriers for subsequent entry
- Seek industries with heterogeneous products that are relatively unimportant to the customers overall success
- Seek to differentiate your products from those of your competitors in ways that are meaningful to your customers
- Focus differentiation efforts on product quality, marketing approaches and customer service – and charge enough to cover the costs of doing so
- Seek to dominate the market segments you compete in. If necessary, segment the market differently, or change the nature and focus of your differentiation efforts to increase the domination of the segments you serve.
- Stress innovation, especially new product innovation, that is built on existing organizational capabilities
- Seek natural, organic growth through flexibility and opportunism that builds on existing organizational strengths.

Some guidelines for new venture success

Source: C.W. Hofer, and W.R. Sandberg, "Improving New Venture performance: new venture success", *American Journal of Small Business*, pp.17, 19, Summer 1982

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Then, we looked at what is this role of SME's in India and what are the guidelines for these SME's which can be adapted to see that the venture succeeds. We also looked at some new aspects, one with respect to knowledge management; we explained what this knowledge management is.

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Driving and impeding forces of KM

- **Customer oriented Trends**
 - Faster service, for the customer, time is money
 - Self-service, empowered customers
- **E-service Trends**
 - Integrated sales and service, customization and integration
 - Increased process visibility
- **Organizational trends**
 - Outsourcing management, flattening the organization
 - Contract manufacturing, become broad intensive
- **Employee mega trends**
 - Hiring the best and the brightest workers
 - Keeping talented employees

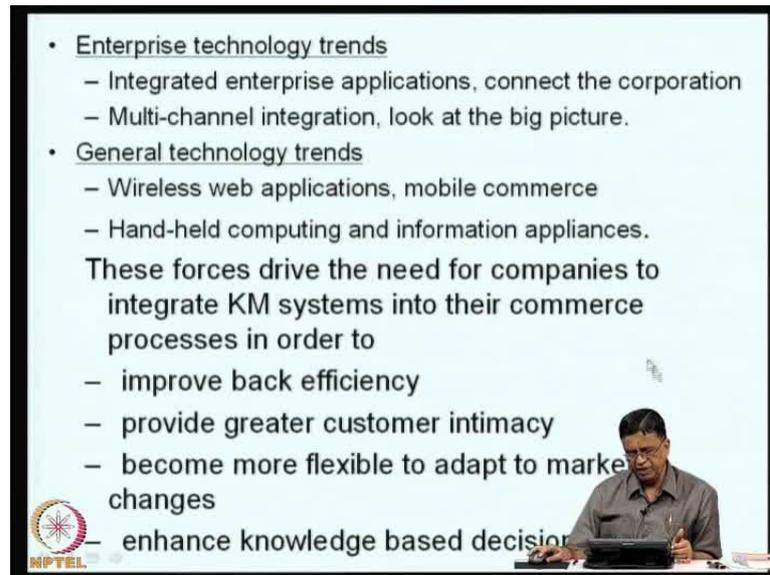
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Slide 4 of 14

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What were the factors of this knowledge management, how it is coming, how it is influencing that is the customer oriented trends or the e-service trends or the organizational trends, the employee mega trends.

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• Enterprise technology trends

- Integrated enterprise applications, connect the corporation
- Multi-channel integration, look at the big picture.

• General technology trends

- Wireless web applications, mobile commerce
- Hand-held computing and information appliances.

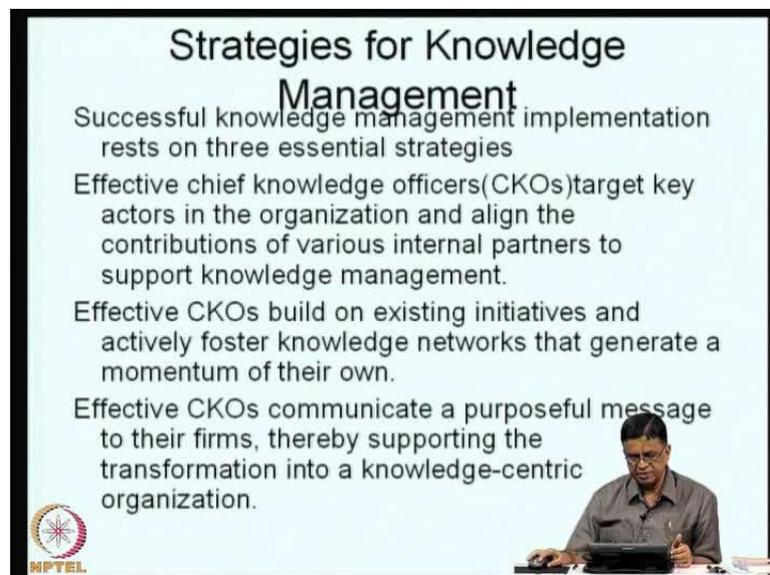
These forces drive the need for companies to integrate KM systems into their commerce processes in order to

- improve back efficiency
- provide greater customer intimacy
- become more flexible to adapt to market changes
- enhance knowledge based decision making



Then, what are the enterprise technology trends and then the general technology trends, how these forces are driving the need for companies to integrate KM systems into their commerce process.

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Strategies for Knowledge Management

Successful knowledge management implementation rests on three essential strategies

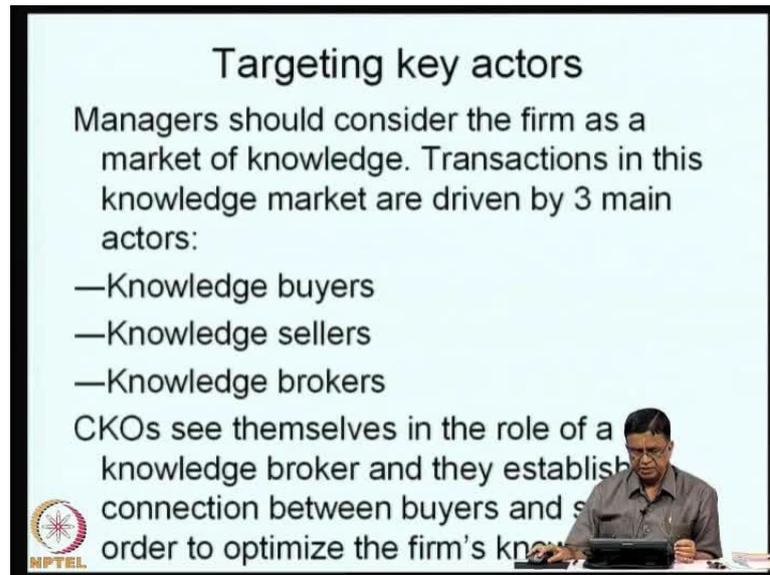
Effective chief knowledge officers(CKOs)target key actors in the organization and align the contributions of various internal partners to support knowledge management.

Effective CKOs build on existing initiatives and actively foster knowledge networks that generate a momentum of their own.

Effective CKOs communicate a purposeful message to their firms, thereby supporting the transformation into a knowledge-centric organization.



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Targeting key actors

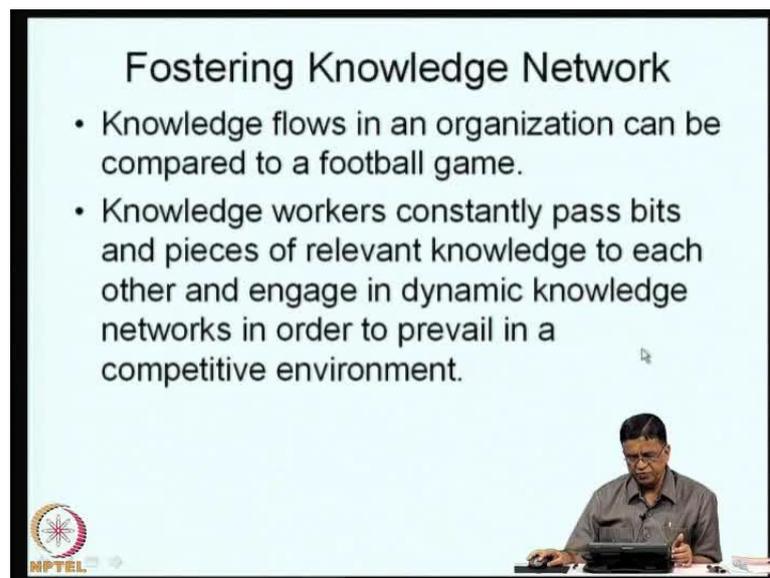
Managers should consider the firm as a market of knowledge. Transactions in this knowledge market are driven by 3 main actors:

- Knowledge buyers
- Knowledge sellers
- Knowledge brokers

CKOs see themselves in the role of a knowledge broker and they establish connection between buyers and sellers in order to optimize the firm's knowledge.

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Fostering Knowledge Network

- Knowledge flows in an organization can be compared to a football game.
- Knowledge workers constantly pass bits and pieces of relevant knowledge to each other and engage in dynamic knowledge networks in order to prevail in a competitive environment.

What are the strategies for this KM, the role of these chief knowledge officers, then who the key actors are, how they can be targeted in the KM system, what is the type of - how can one foster a knowledge network.

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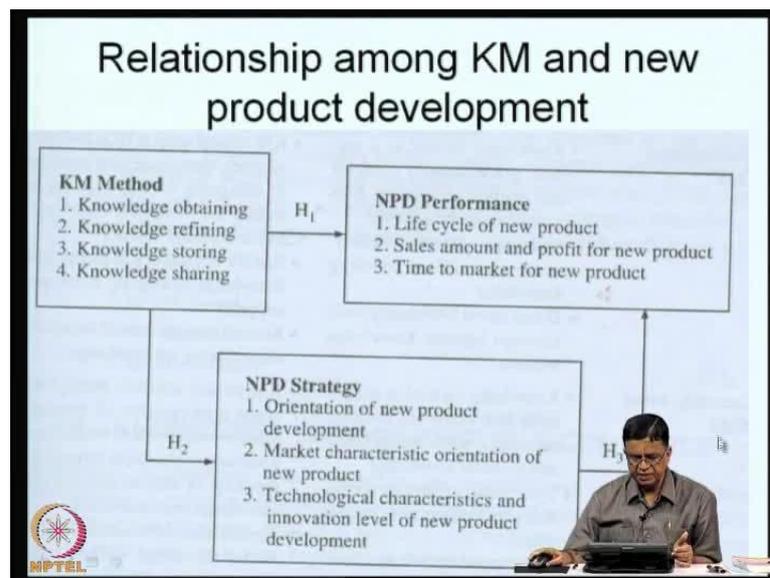
Delivering Purposeful Message

- Like every change management initiative, KM requires intensive communication.
- CKOs must deliver a compelling message in order to gain support from key organizational actors and to build effective knowledge networks.
- Most of the CKOs mention internal marketing as their main objective.

Efforts range from publication of flyers and information booklets, information meetings and introductory workshops to full-fledged KM road shows.

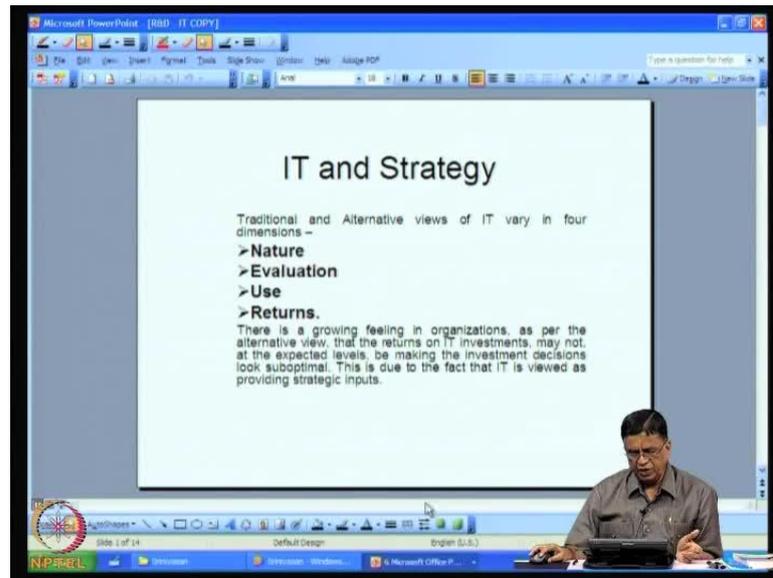


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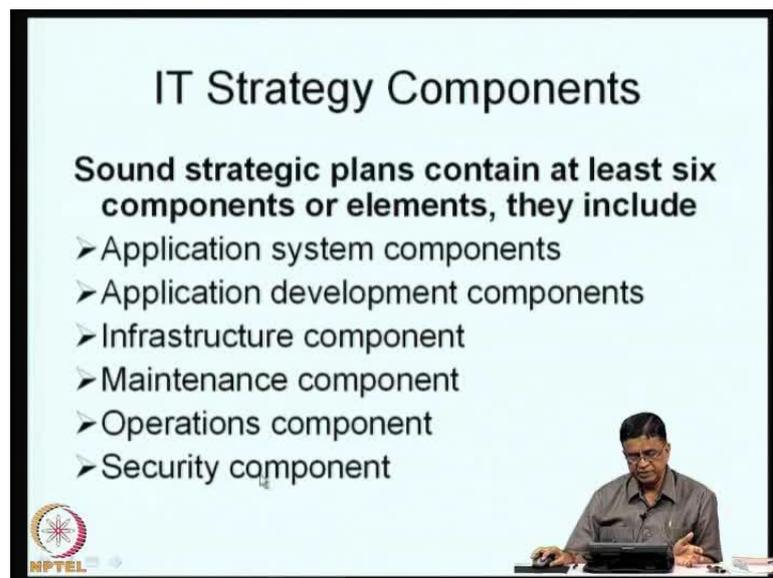


What is the method of delivering a purposeful message, all this was considered. We also looked at how we can look at knowledge management and new product development.

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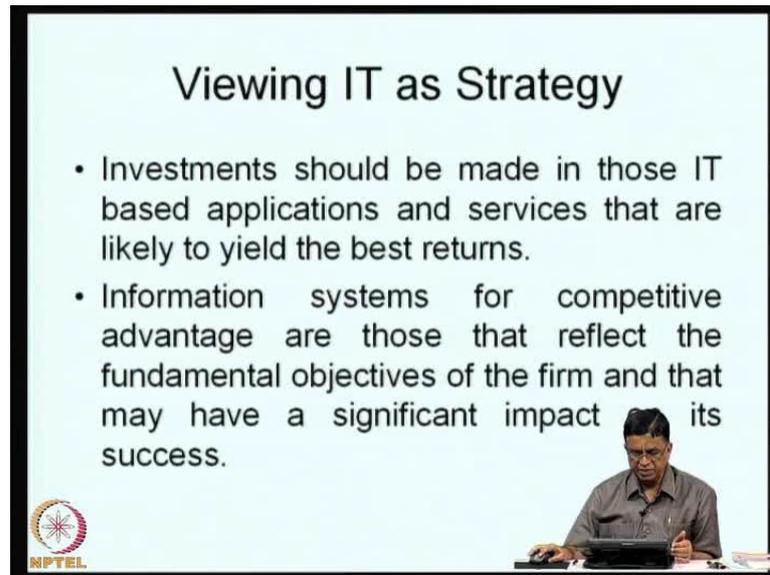


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We also looked at IT and strategy with respect to the four dimensions that is the nature evaluation use and the returns. What could be the IT strategy components? We said it should contain at least six components that are application system components, then application development components, infrastructure component, maintenance component, operations component, security component, and then we looked at why we should view IT as a strategy.

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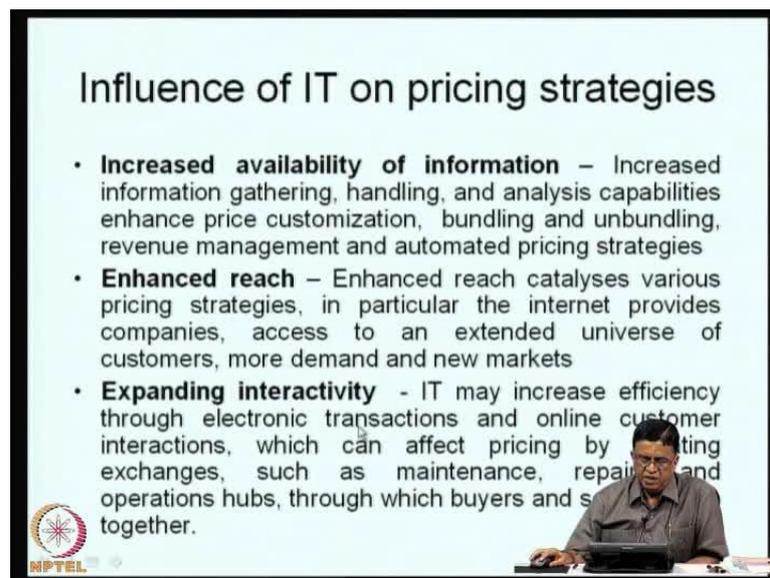
Viewing IT as Strategy

- Investments should be made in those IT based applications and services that are likely to yield the best returns.
- Information systems for competitive advantage are those that reflect the fundamental objectives of the firm and that may have a significant impact on its success.

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A small inset image shows a man in a grey shirt sitting at a desk with a laptop, looking at the screen.

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Influence of IT on pricing strategies

- **Increased availability of information** – Increased information gathering, handling, and analysis capabilities enhance price customization, bundling and unbundling, revenue management and automated pricing strategies
- **Enhanced reach** – Enhanced reach catalyses various pricing strategies, in particular the internet provides companies, access to an extended universe of customers, more demand and new markets
- **Expanding interactivity** - IT may increase efficiency through electronic transactions and online customer interactions, which can affect pricing by creating exchanges, such as maintenance, repair and operations hubs, through which buyers and sellers come together.

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A small inset image shows a man in a grey shirt sitting at a desk with a laptop, looking at the screen.

How you are viewing, IT is being viewed as a strategy - what is the influence of IT on pricing strategies? So, you listed down the important aspect that is the increased availability of information, enhanced reach expanding interactivity.

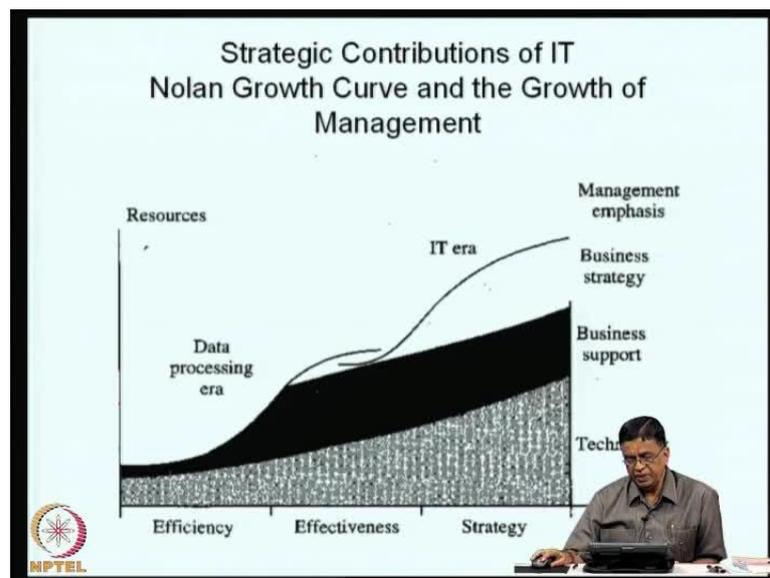
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Emphasis on Strategy for IT

- Organizations with more experience in automation, realize that IT can not only improve the efficiency and effectiveness, but also play a decisive role in the company's success thus acquiring a strategic quality.



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Then, we also said organizations are emphasizing on strategy for IT. We looked at the Nolan's curve that is the strategic contribution of IT the Nolan growth curve and the growth of management.

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R & D and Strategy

R&D has a direct impact on the company's relationships with other companies

Elements of an explicit R&D Strategy

- *The nature of products developed*
- *The nature of markets sought*
- *The nature of technology employed*
- *Orientation and nature of new product processes*

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Then, we looked at R and D strategy that is, what are the elements of an explicit R and D strategy, it should look at the nature of products developed, the nature of market sought, the nature of technology employed, then orientation and nature of new product processes.

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R&D Development within Industrial Network

Companies and other organizations are tied together and form sets on the different levels of the production and distribution chain

Six main types of bonds between companies

- *Technical*
- *Knowledge based*
- *Temporal*
- *Social*
- *Economic*
- *Legal*

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Co Operation Strategies

National companies

- **Introvert R&D Strategy** – all activities within company
- **Extrovert R&D Strategy** – all activities in cooperation with external units

International companies

For national companies pursuing an extrovert strategy the companies can co operate with

- Partners in several different countries
- Domestic partners only
- Only foreign partners in few leading countries

Then we looked at what is this R and D development within the industrial network, what are the characteristics and issues, what is meant by the co-operation strategies between R and D of national companies and international companies, and what are the factors which are influencing R and D. So, when we said, when we are looking ahead on this R and D, we said the framework on R and D needs to be further worked upon, marketability and profit angles need to be built in.

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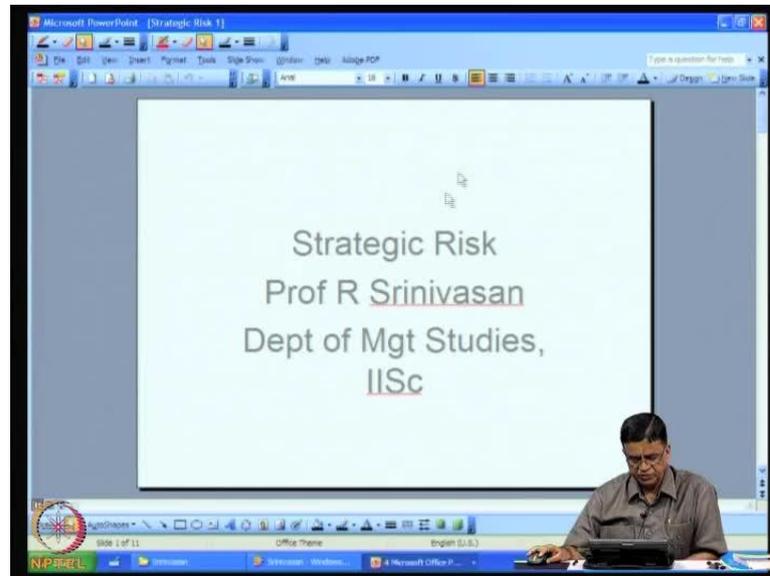
Looking Ahead

- The framework on R&D needs to be further worked upon. Marketability and profitability angles need to be built in
- There is a need to build in technology relationships in the technology roadmap framework. Organizations should orient themselves towards strategic management of technologies

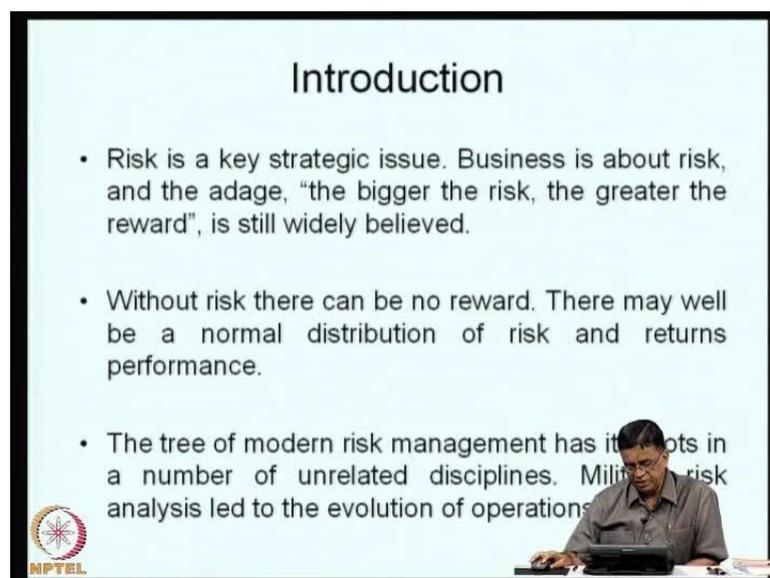
There is a need to build in technology relationships in the technology road map framework. Organizations should orient themselves towards strategic management of technologies.

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Then, we looked at some more aspects on what is this strategic risk with respect to a company. We defined risk as a key strategic issue and said business is about risk, so the bigger the risk, the greater the reward, is still widely believed.

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Risk – A Strategic Issue

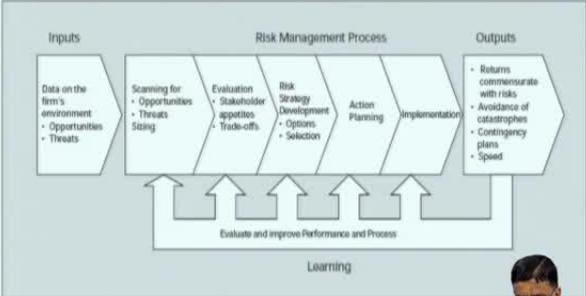
- Often the management focuses on the negative consequences rather than on such questions as,
 - How does risk affect capital allocation?
 - What risk-based information do we need?
 - How do we create a risk culture?
 - How do we ensure that our risk profile is commensurate with returns and shareholder risk appetites?
- A variety of tools have evolved to support companies in managing discrete types



We also looked at how military risk analysis lead to the evolution of operations research. And how companies should cop up with this risk that is, what is the variety of tools that have been evolved to support companies in managing discrete types of risk.

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Risk Management is a Strategic Business Process



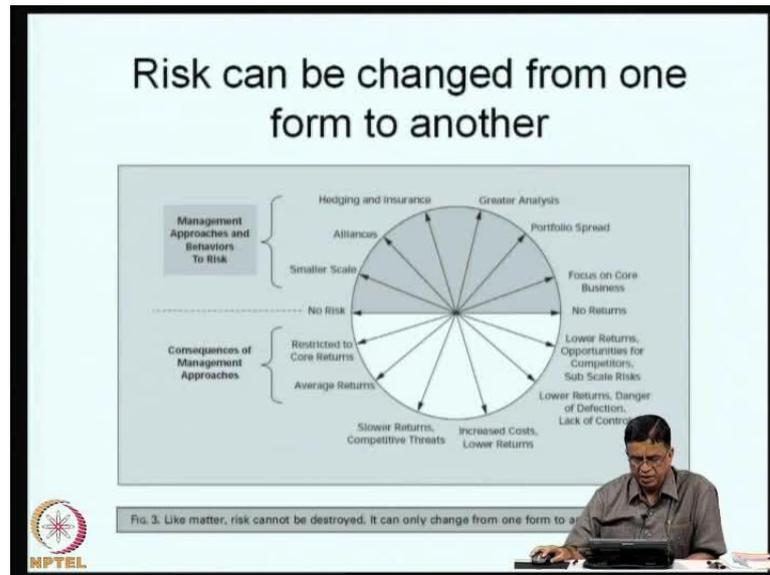
The diagram illustrates the Risk Management Process as a strategic business process. It is structured as follows:

- Inputs:** Data on the firm's environment, Opportunities, Threats.
- Risk Management Process:** A sequence of five steps: Scanning for Opportunities/Threats/Sizing, Evaluation (Shareholder appetites/Trade-offs), Risk Strategy Development (Options/Selection), Action Planning, and Implementation.
- Outputs:** Returns commensurate with risks, Avoidance of catastrophes, Contingency plans, Speed.
- Learning:** A feedback loop labeled "Evaluate and improve Performance and Process" that feeds back into the process.

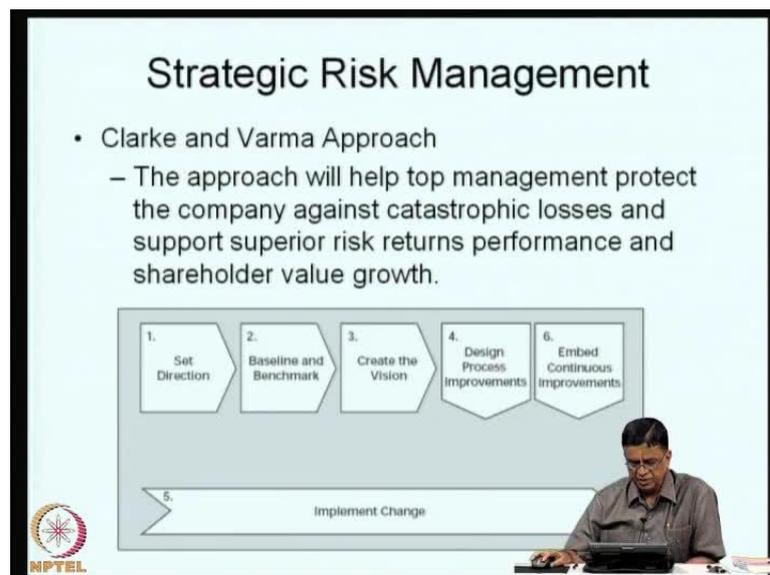
Fig. 2. Risk management is a strategic business process.



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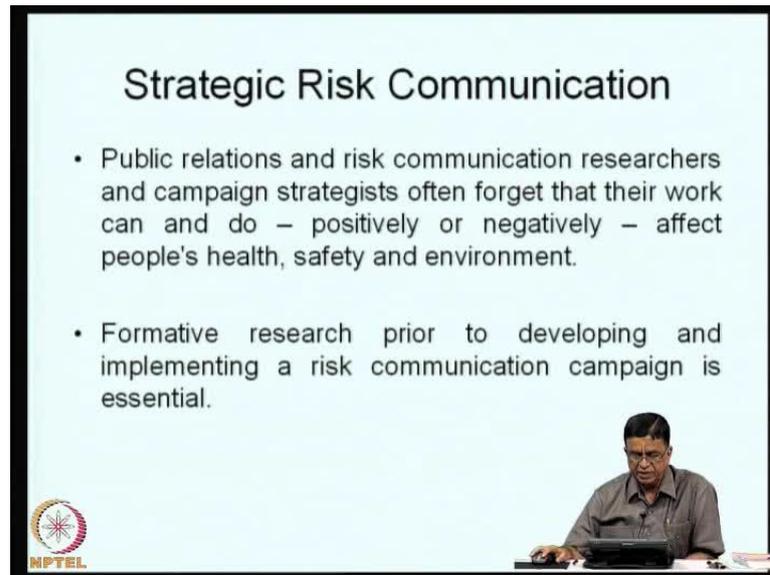


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We explained all these through different diagrams; we looked at one model which can help a company in managing risks. This is the Clarke and Varma approach, which can help the top management, protect the company against catastrophic losses, support superior risk returns performance and shareholder value growth.

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Strategic Risk Communication

- Public relations and risk communication researchers and campaign strategists often forget that their work can and do – positively or negatively – affect people's health, safety and environment.
- Formative research prior to developing and implementing a risk communication campaign is essential.

How the public relations and risk communication researchers, their role, how it can affect people's health, safety and environment that is the strategic risk communication, so, how it becomes a vital tool in this whole process.

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Looking Ahead

- There is a need to achieve a delicate balance among the risk communication efforts and technical information availability.
- A comprehensive understanding of strategic risk is required. An integrated risk management methodology must be used for identifying and evaluating risk.
- Development of strategic risk management can maximize shareholder value.

Then, we said there is a need to achieve a delicate balance between risk communication efforts and technical information availability. A comprehensive understanding of strategic risk is required, an integrated risk management methodology must be used for

identifying and evaluating risk. Development of strategic risk management models can maximize shareholder value.

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The Boston Consulting Group's Growth-Share Matrix

Market Growth Rate	High (Stars)	Low (Question Marks)
High	1	2
Low	3	4

SRU Objectives:

- Build (For Question Marks)
- Hold (for strong Cash Cows)
- Harvest (for weak Cash Cows; can also be used with Question Marks and Dogs)
- Divest (for Question Marks and Dogs which are a drag on company profits)

Strategic Planning

Planning: Viable fit between organization's objectives and its changing market opportunities

Key: investment portfolio, future profit potential, strategy

Source: B. Hilde, "Strategy and the Business Portfolio", Long Range Planning, February 1977, p. 12. Reprinted with permission from Long Range Planning, © 1977, Pergamon Press Ltd.

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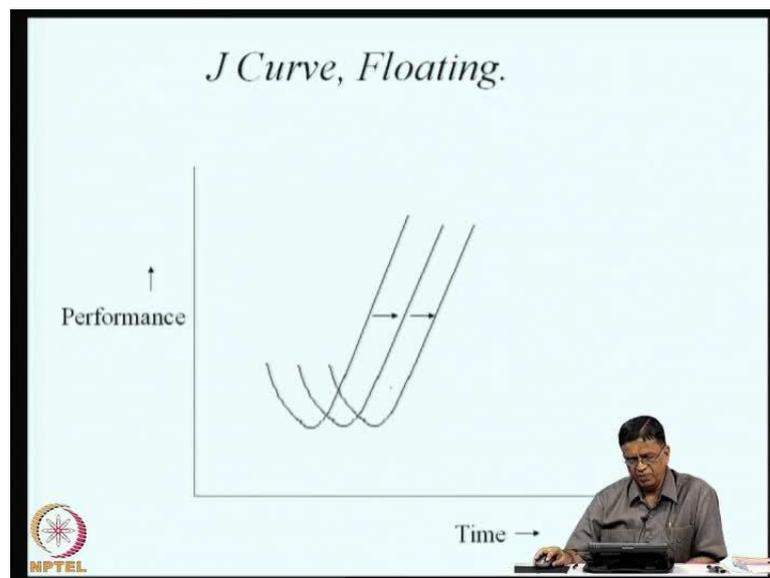
The screenshot shows a Microsoft PowerPoint presentation titled "Balanced Score Card". The slide content is as follows:

Balanced Score Card.

- Strategy Evaluation - 4 Parameters:
 - a) The Financial perspective.
 - b) The Customer perspective.
 - c) The Internal business perspective.
 - d) Learning and Growth.
- Managing the Strategy - 4 processes:
 - a) Translating the Vision.
 - b) Communicating and Linking.
 - c) Business Planning.
 - d) Feedback and Learning.

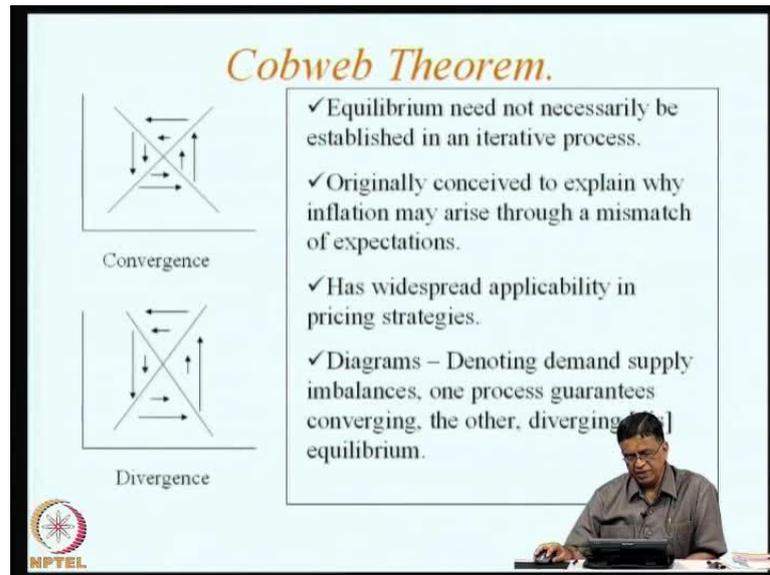
The presentation interface includes a slide show toolbar at the top, an outline pane on the left, and a taskbar at the bottom. An NPTEL logo is visible in the bottom left corner of the slide.

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So, these were the aspects we looked at with respect to strategic risk. We also looked at the different matrices that could be adopted for portfolio as you know. We have explained each of these matrices. We also looked at some aspects like the J curve, how it can be useful in an organization.

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Cobweb Theorem.

✓ Equilibrium need not necessarily be established in an iterative process.

✓ Originally conceived to explain why inflation may arise through a mismatch of expectations.

✓ Has widespread applicability in pricing strategies.

✓ Diagrams – Denoting demand supply imbalances, one process guarantees converging, the other, diverging [till] equilibrium.

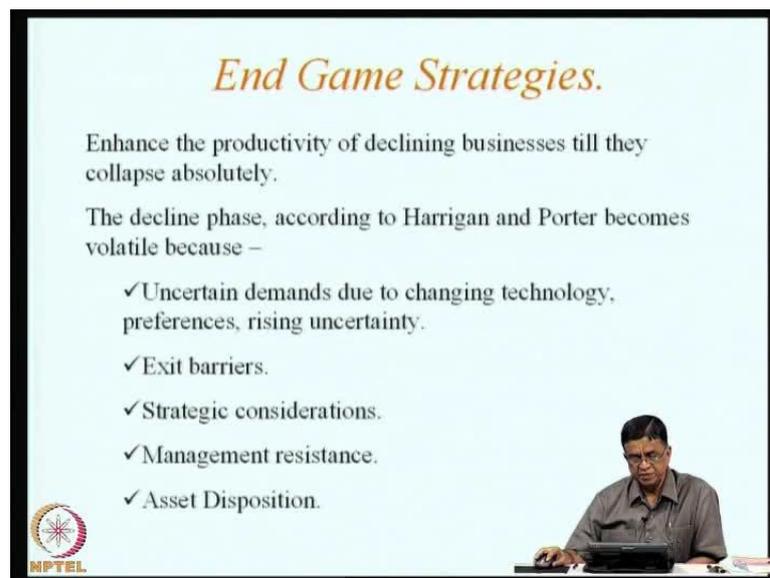
Convergence

Divergence

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The slide features two diagrams. The top diagram, labeled 'Convergence', shows a cobweb pattern where the distance between successive horizontal and vertical lines decreases towards a central equilibrium point. The bottom diagram, labeled 'Divergence', shows a similar cobweb pattern but where the distance between successive lines increases away from the center. A small inset image of a man sitting at a desk with a laptop is visible in the bottom right corner of the slide.

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End Game Strategies.

Enhance the productivity of declining businesses till they collapse absolutely.

The decline phase, according to Harrigan and Porter becomes volatile because –

- ✓ Uncertain demands due to changing technology, preferences, rising uncertainty.
- ✓ Exit barriers.
- ✓ Strategic considerations.
- ✓ Management resistance.
- ✓ Asset Disposition.

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The slide contains a list of five factors that make the decline phase volatile. A small inset image of a man sitting at a desk with a laptop is visible in the bottom right corner of the slide.

We looked at some aspects of this convergence and divergence theorem, then the end game strategies, what are these end game strategies. So, when do you look at the end game strategy, when you are looking at a declining business, when the business is declining, the objective should be, to see whether the life can be prolong.

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End Game Strategies. (Contd.)

Harrigan and Porter's four strategic options -

	Has competitive strengths for remaining demand pockets.	Lacks competitive strengths for remaining demand pockets.
Fav. Industry structure for decline.	Leadership Or Niche	Harvest Or Divest
Unfav. Industry structure for decline.	Harvest Or Niche	Divest Quickly

4 Strategies: Leadership, Niche, Harvesting, Divest



So, we looked at this matrix given by Harrigan and Porter. Said, four types of strategic options could be considered that is leadership, niche, harvesting and divest.

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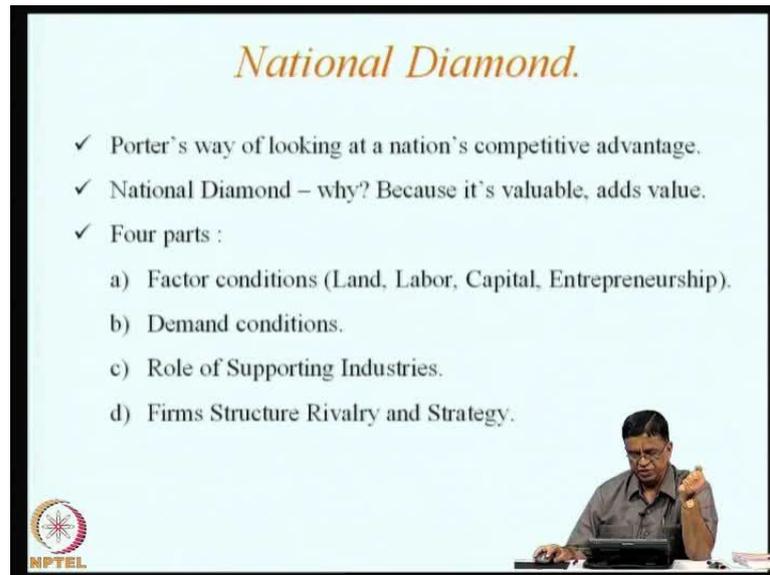
Economic Value Added (EVA).

- ✓ EVA = The after tax cash flow generated by a business - cost of capital it has deployed to generate that cash flow.
- ✓ Can be employed to evaluate the performance of a company.
- ✓ Important role is Strategy formulation.
- ✓ EVA – 4Ms in Implementation:
 - Measurement
 - Management system
 - Motivation
 - Mindset



We looked at some aspects of economic value added, we said the economic value added or the EVA is the after tax flow generated by a business; that is, cost of capital; it has employed to generate that cash flow.

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National Diamond.

- ✓ Porter's way of looking at a nation's competitive advantage.
- ✓ National Diamond – why? Because it's valuable, adds value.
- ✓ Four parts :
 - a) Factor conditions (Land, Labor, Capital, Entrepreneurship).
 - b) Demand conditions.
 - c) Role of Supporting Industries.
 - d) Firms Structure Rivalry and Strategy.

The slide also features the NPTEL logo in the bottom left corner and a small inset image of a man sitting at a desk with a laptop in the bottom right corner.

How it can be useful is, it can help in evaluating the performance of a company, makes use of 4Ms that is measurement, management system, motivation and the mindset. We also looked at what porter has said with respect to national diamond that is his way of looking at a nation competitive advantage.

He said, he looks at - this national diamond is looked at in four parts that is the factor conditions, demand conditions, role of supporting industries, then the firms' structure rivalry and strategy. In the factor conditions, land, labor, capital, entrepreneurship are taken into account.

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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.

Conservative

CA

Defensive

FS

IS

ES

Aggressive

Competitive



Then, we looked at this space matrix, which can help in looking at this strategic position and what is the type of action, evaluation that can be done. A 4 quadrant framework was represented for determining an organizations overall strategic performance.

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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 –

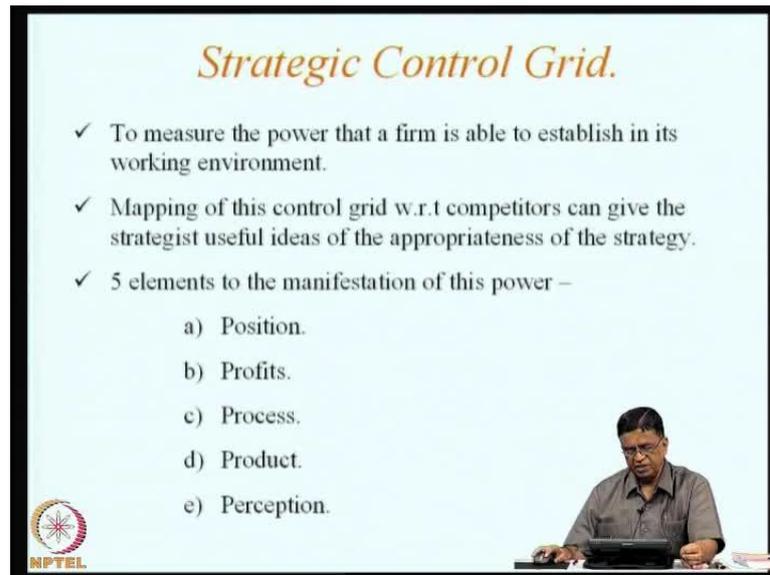
- ✓ Environmental Stability(ES) – Technological changes, Rate of inflation, Demand variability etc.
- ✓ Industry Strength – Growth potential, Profit potential, Technological know-how etc.



This 4 quadrant framework could be looked at as aggressive, conservative, defensive and then competitive. We did this with respect to the internal dimensions of the organization; basically two of them that are the financial strengths, takes into account the cash flows, liquidity or return on investment, ease of exit from the market.

Then the competitive advantage takes into account the market share, product life cycle and customer loyalty, etcetera. Then, the two external dimensions are environmental stability that is the technological changes, the rate of inflation and demand variability, etcetera, then the industry strength that is the growth potential, profit potential and the technological know-how etcetera.

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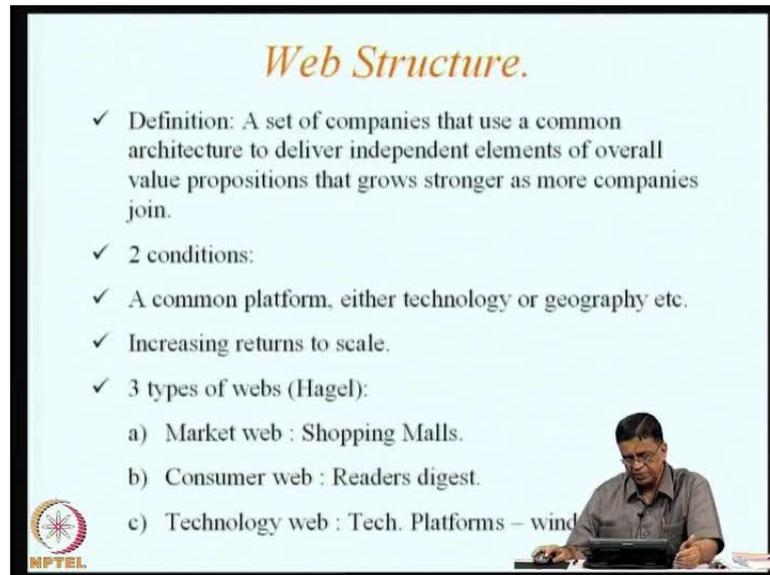
Strategic Control Grid.

- ✓ To measure the power that a firm is able to establish in its 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.

We also looked at what is the strategic control grid, so it can help to measure the power that a firm is able to establish in its working environment. Mapping the control grid with respect to competitors can give the strategist useful ideas of the appropriateness of the strategy. So, five elements for this manifestation of power namely position, profits, process, product and perception. You also looked what are meant by this web structure when it can be brought into play, the types of webs, namely the market web, the consumer web, the technology web.

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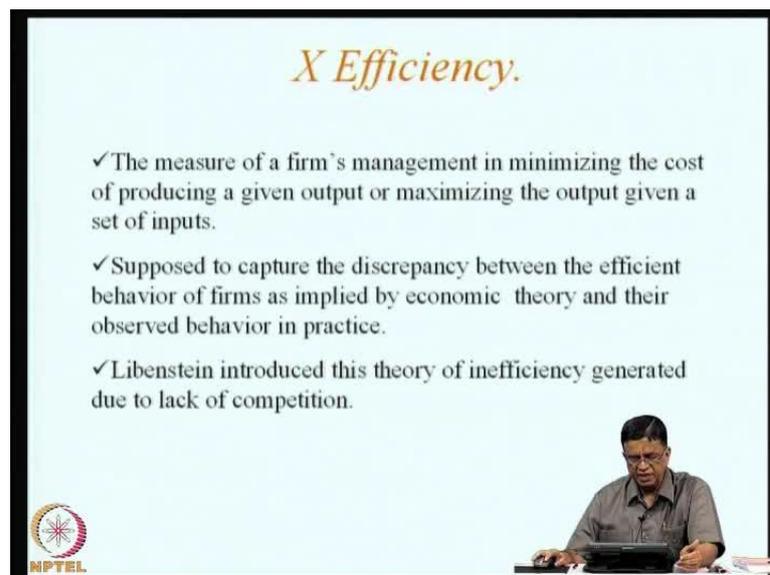


Web Structure.

- ✓ 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, either technology or 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

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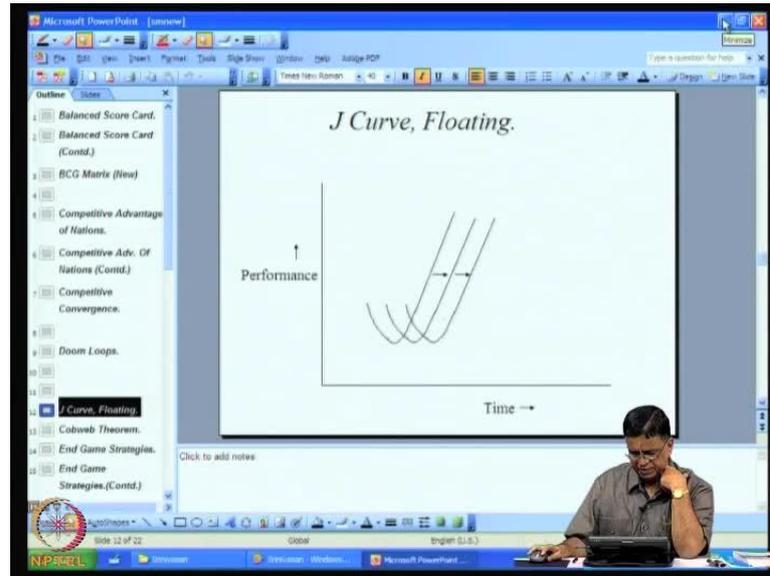
X Efficiency.

- ✓ 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.

What is this x efficiency, refers to the measure of a firm's management in minimizing the cost of producing a given output or maximizing the output with given a set of inputs. What is the idea of the x efficiency, is to capture the basic idea of the x efficiency, is to capture the discrepancy between the efficient behavior of firms as implied by economic theory and their observed behavior in practice.

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Basically introduced by these gentlemen Libenstein, all this to make use of with respect to organizations, then with respect to the sectors, the industries in which the organization is adopting, is operating. Then, the sector is which industries are coming in, then the nation at large. We look at the primary sector, the secondary sector, then the tertiary sector. We looked at what are the types of influences the primary sector is having on the economy and what is the type of influence which the Indian economy is facing, basically with the in the present day context.

When we looked at the present day context, we said services are contributing quite substantially for the Indian economy. As reported last, it was contributing nearly 54 percent to the GDP, so takes into account the IT and the IT enabled services and all the other services, whether it is travel hospitality, all those things put together.

So, how the country is moving towards services? Basically, if you look at the post independent era, it was initially an economy which was dominated by agriculture. Then, we started having the influence of manufacturing industries and then we said industries should come in and contribute to GDP.

Then, the role of agriculture started to diminish to a certain extent, with the industries also contributing. Then, what is the scenario in the present day? You have the other sector that is the services sector contributing majorly to the development of the economy. So, this is the trend which is sustaining in developed countries also. If you look at a

country like the United States, the contribution of services to the GDP is close to about 74 percent.

Whereas in India, we are at 54 percent, it is very possible that the contribution of services in the Indian context is also likely to go further. So, these are all the aspects that we looked at in this subject on strategic management. We went through all these aspects and all these aspects are crucial for the functioning of a company.

Then, when a company functions well, it can help the industry at large, when the industry at large functions well, it can help the sector at large, when the sector at large helps to function well, it can give a fillip to the economy. When the economy develops well, automatically the standard of living and all the other aspects also go up, making the country strong in the comity of nations.

So, this is where the whole aspects of strategy competitive advantage can be useful not only for a firm, it can be useful for the industry at large, it can be useful to the sectors in which they are operating. It can be useful to the country - it can be useful to the country to really have a competitive advantage among the group of nations, in which we really want to have a place as we are looking at India to become a developed country soon. So, this is where strategic management could be very helpful. Thank you for listening, we stop here.