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Strategy Alternatives

Stability Expansion Retrenchment Combination
Intensification Diversification

Market Penetration

Market Development

Product Development

Vertically Integrated

Concentric Diversification

Conglomerate Diversification

Forward Backward

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Strategy Implementation

A technically imperfect plan that is implemented well, will achieve more than the perfect plan that never gets off the paper on which it is typed. Change comes through implementation and evaluation and not through the plan.

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Strategy formulation is fundamentally different from strategy implementation :

Positioning forces before the action

Guiding forces during the action

Focuses on effectiveness Focuses on efficiency Primarily an intellectual process Primarily an operational process

Requires good intuitive and analytical skills

Requires special motivation and leadership skills

Requires coordination among few individuals

Requires coordination among many individuals

Strategy formulation concepts and tools do not differ greatly for small, large, for-profit or non-profit organisations. However, strategy implementation varies substantially among different types.

Strategy & Corporate Culture

Corporate Culture is a system of shared values, assumptions, beliefs, and norms that unite the members of an organisation.

Culture functions like an operating system of a computer, thereby providing definite process environment for operability of strategy.

"Culture eats Strategy for breakfast"

- Peter Drucker

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Management Team

Hierarchy

Rituals &
Routines

Values
work
Commu
nication

Connecti
-vity

Org.
Structure

Control

CORPORATE
CULTURE

Systems Beliefs

Social

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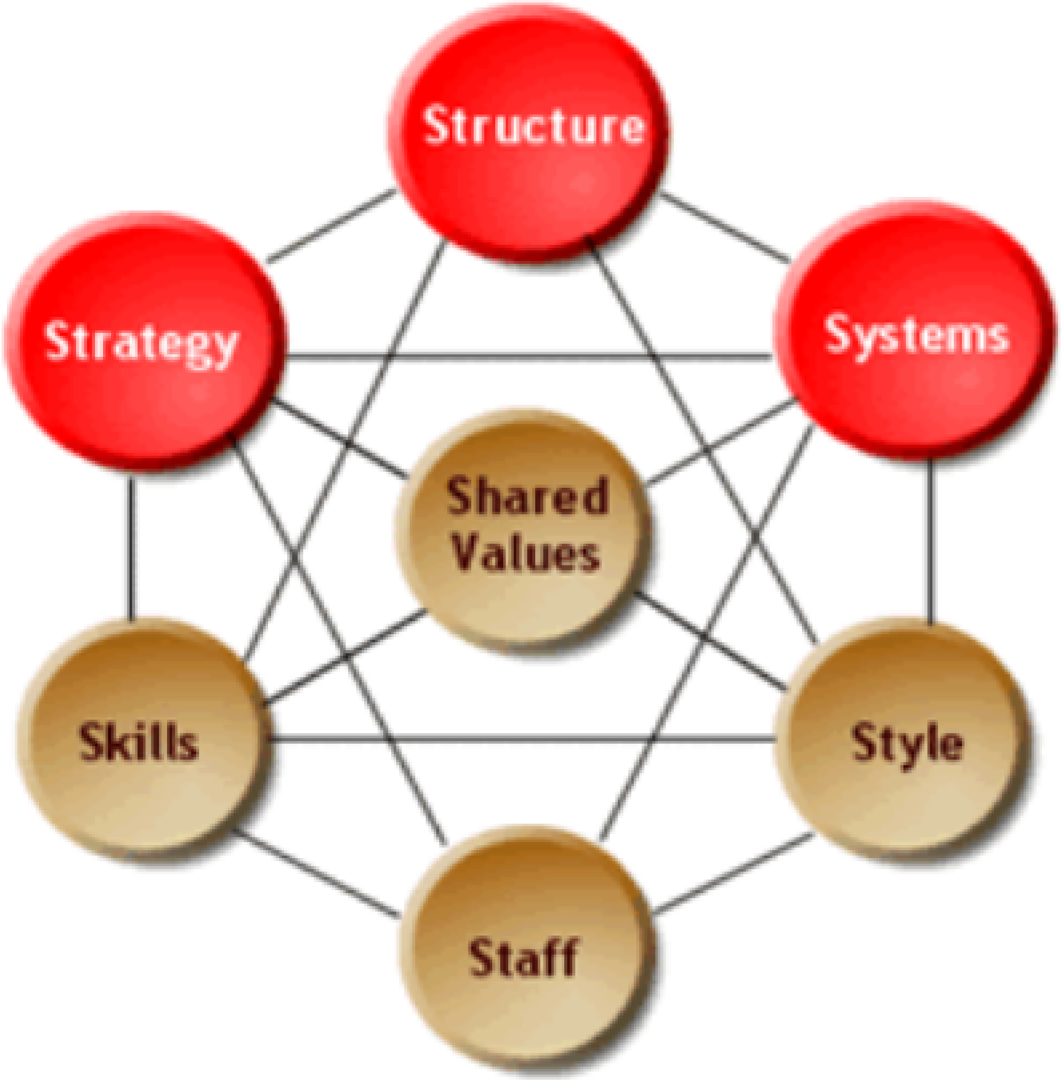
Developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company.

The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

The 7S model can be used in a wide variety of situations where an alignment perspective is useful, for example to help :

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.



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McKinsey's 7 S Framework

The McKinsey 7S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements:

HARD ELEMENTS	SOFT ELEMENTS
STRATEGY	**SHARED VALUES**
STRUCTURE	**SKILLS**
SYSTEMS	**STYLE**
-	**STAFF**

- Strategy: the plan devised to maintain and build competitive advantage over the competition.
- Structure: the way the organization is structured and who reports to whom.
- Systems: the daily activities and procedures that staff members engage in to get the job done.

- Shared Values: these are the core values of the company that are evidenced in the corporate culture and the general work ethic.

- Style: the style of leadership adopted.

- Staff: the employees and their general capabilities.

- Skills: the actual skills and competencies of the employees working for the company.

It is easier for managements to influence 'hard' elements, since they are easier to define or identify. They include reporting systems, procedures and IT systems.

'Soft' elements, although equally important, are intangible and more related to culture. They are difficult to control or influence.

Strategy & Organisation Structure

Changes in strategy often require changes in the way an organization is structured :

- Structure largely dictates how objectives and policies will be established. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.
- Structure dictates how resources will be allocated. Eg. Allocation of resources will be determined by whether structure is based on customer groups or along functional areas

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Strategy & Organisation Structure

When a firm changes its strategy, the existing organisational structure may become ineffective.

performance
declines

New Strategy is
formulated

Improved

New administrative
problems

New

Organisational

Organisational
Performance

Organisationa
l Structure

Chandler's Strategy-Structure Relationship

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It is essential for managers to systematically review, evaluate and control the execution of strategies, <u>because even the best formulated and best-implemented strategies can become obsolete as the internal and external environments change</u>.

Strategy evaluation is essential to ensure that the stated objectives are being achieved.

Strategy evaluation is important because organisations face dynamic environments in which key external and internal factors often change quickly and dramatically.

Strategy evaluation includes three basic activities :

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Strategy Evaluation

goals and policies.

1. Consistency : 2. Consonance :

Strategy must be consistent with

A strategy must represent an adaptive response to the external environment and to the critical changes occurring within.

3. Feasibility :

The strategy should be attempted within the physical, human and financial resources of the enterprise.

4. Advantage :

The strategy must provide for creation and/ or maintenance of a competitive advantage in a selected area of activity (Resource, skill or position).

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The process of strategy evaluation consists of the following steps :

1. Fixing benchmarks of performance – qualitative & quantitative

2. Measurement of performance

3. Analysing variance

4. Corrective action

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Difficulties in Strategy Evaluation : Strategy evaluation in modern business environment has become a difficult and complicated process because of certain factors :

- Increase in environment complexity
- Difficulty in predicting the future accurately
- Increasing number of variables
- High rate of obsolescence of even the best laid plans
- Increase in domestic world events

- Decreasing time span for planning certainty

Most common ways to evaluate strategic performance :

- Change in assets
- Change in profitability
- Change in sales
- Change in productivity
- Change in profit margins

Balanced Sorecard is a strategy performance management tool that can be used by managers to keep a track of the execution of activities by the staff within their control, and to monitor the consequences arising from these actions.

The concept involves creating a set of measurements for four strategic perspectives. These include :

1. Financial
2. Customer

3. Internal Processes
4. Learning & Growth

As a model of performance, the Balanced Scorecard is effective since "it articulates the links between leading inputs (human and physical), processes, and lagging outcomes, and focuses on the importance of managing these components to achieve the organization's strategic priorities."

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Balanced Scorecard lets executives see whether they have improved in one area at the expense of another. Knowing that will protect companies from posting sub-optimal performance.

A Balanced Scorecard defines what management means by "performance" and measures whether management is achieving desired results.

The characteristic of the balanced scorecard and its derivatives is the presentation of a mixture of financial and non-financial measures each compared to a 'target' value within a single concise report.

What Balanced Scorecards Do :

- Articulate the business's vision and strategy
- Identify the performance categories that best link the business's vision and strategy to its results (e.g., financial performance, operations, innovation, employee performance)
- Establish objectives that support the business's vision and strategy

- Develop effective measures and meaningful standards, establishing both short-term milestones and long-term targets

Contd..

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What Balanced Scorecards Do :

Contd..

- Ensure companywide acceptance of the measures
- Create appropriate budgeting, tracking, communication, and reward systems
- Collect and analyze performance data and compare actual

results with desired performance

- Take action to close unfavorable gaps

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Balanced Scorecard

The emphasis is on establishing a 'balance' between four types of measurements :

1. Short term & Long Term

2. External & Internal

(External factors include shareholders and customers and Internal include critical business processes, innovation, learning and growth)

3. Performance Drivers *(Leading indicators)* & Outcome measures *(Lagging indicators)*

4. Objective measures and Subjective measures.

(Objective measures are mostly financial while Subjective measures are mostly non-financial)

Managementc **FINANCIAL**

BALANCED

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SCORECARD FRAMEWORK

VISION &

CUSTOMER

INTERNAL

How do we appear to the shareholders?

How should our customers perceive us?

STRATEGY

At which processes should we excel?

LEARNING & GROWTH
What should we learn to grow & prosper?

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Balanced Scorecard

PERSPECTIVE GENERIC MEASUREMENTS FINANCIAL **Return on capital employed, Economic value added, Sales growth, Cash flow etc.**

CUSTOMER **Measurement of : Customer satisfaction,**

INTERNAL BUSINESS PROCESS

cycle time, cost controls, after-sales service, measures of warranty, repairs, customer returns etc.

LEARNING & GROWTH

Retention, Acquisition, Profitability, Market share etc.

Measurements for : People (Employee retention, training, skills, morale) Systems (Availability of critical real-time information needed for front-line employees)

Measurement along internal value chains for: Existing and future technology, measures of quality,

want to be

Scorecard

VALUES

What is important to us

MISSION

Why we exist

Business Policy & Strategic Managementc Strategy

STRATEGY MAP : Translate the strategy

VISION

What we

and Balanced

STRATEGY
Our game

<u>**STRATEGIC OUTCOMES**</u>

SATISFIED SHAREHOLDERS

DELIGHTED CUSTOMERS

EXCELLENT PROCESSES

MOTIVATED WORKFORCE

plan

BALANCED SCORECARD : Measure & Focus