Module 4

Strategy: Formulation and Choice

Introduction

In the earlier two modules we have learnt about the external and internal environment appraisal which provides the informative and analytical base for deciding about the strategy of an organisation. The two analyses reduce to some extent the information asymmetry in strategic decision making yet the decisions tend to be made under conditions of uncertainty.

Corporate strategy can be defined as – "the pattern of major objectives, purpose, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be" (Andrews, 1971). Corporate strategy identifies the direction in terms of the businesses in which the organisation should exist."

Corporate strategy decisions are top management decisions and entail defining "the business the organisation is in". The products and technology used in their manufacture and the markets to be served by these are the tangible manifestations of the business definition. It has to be made known within the organisation what products are intended to be made, the markets served, the technology base used for the operations and the synergy, if any, exploited among the proposed ventures and the on-going businesses. Corporate strategy decisions entail diverse risks and pose challenges. The basic decision about what business to be in entails a trade-off among competing options, also called the grand strategies. The grand strategies are stability, growth, retrenchment and combination. The grand strategies are also the vehicles for resource allocation among the different sectors of a multi-business organisation or between businesses of a multiple-business group. Within each of these options there are sub-options to choose from**.** For example, one company may grow within the domestic product market scope and another within the international market; another may acquire a foreign company to access a new market whereas another may have a licensing agreement to do so. Once an organisation is committed to decisions about its business then resource allocation for those decisions has to be done. Resource allocation may be done from among existing resources, or new resources are sought and created for example, a factory is created, human resources are hired or capital is raised from the market, or restructuring of resources is done. Resource allocation is an integral part of the strategic choice process and signifies the commitment to the chosen option.

Strategic choice is both an analytical and human process. The analysis drives the decision about what business we should be in, the managerial talent aspiration and motivation and commitment in conjunction with the environment conditions steer the organisation towards success. On the basis of the foregoing explanation in this module you will learn about the three important aspects of the choice process: different strategic options/grand strategies and direction to the options, (options and pathways,) the process and selection among alternatives, (decision criteria) and the process of selection among alternatives (commitment).

Upon completion of this module you will be able to:

Outcomes

- *define* environmental landscapes and their key ingredients
- *explain* the terms and concepts that are important to an understanding of the constituent elements of the business environment
- *identify* and *explain* the link between the "Strategy Equation" and the "Strategy Landscape"
- *demonstrate* an understanding of the relationships between an organisation and its environments.

Terminology

Combination strategies:	Multiple combinations of strategies are employed to cater for multiple business environments.
Corporate strategy:	The overall scope and direction of a corporation and the way in which its various business operations work together to achieve particular goals.
Cut back strategies:	The organisation cuts back on non-performing assets or functions of the company.
Growth strategies:	A substantial increase in the level of activity over the previous level.
Stability strategy:	Taking stock of the current situation and maintaining it.

Corporate strategy and options

In Module 1 we studied the definition and scope of corporate strategy – it is the essence of the strategic management process. In this module we will explore the scope of different strategy options, the resource allocation among them and the carrying forward of strategy through commitment. We will learn about strategy formulation from real life examples.

Corporate strategy developed as a concept in the early 1960s. The concept of defining the business in practice meant choosing the optimum product market scope for the business (Ansoff, 1968). The scope was determined by the external environment. Over the years the criteria of choice about the appropriate product market scope has enlarged owing to both the changes in the external conditions where products, markets, technology, resources and risks are global, local as well as go-local (local impacted by global). The early idea about corporate strategy according to Brown (1997) is "opportunity divided by capability." The option where capability in terms of the internal factors best matched the external challenges was the best one. It is the different strengths within an organisation that enable adaptation. Once the choice is made for a particular scope to be pursued, the organisation has to allocate resources to get results from that scope at the intended timing. Resources have to be complemented with the task of steering towards results tiding over managerial, strategic, and financial or governance-related difficulties. This is the commitment to strategy. The three building blocks of corporate strategy are thus defined in this module as:

- The options and the pathways to attain them (e.g. growth through expansion in global markets)
- Sustaining the strategy through resource allocation (e.g. allocate resources from business A which is mature to Business B which is emerging) and
- Committing to strategy (resolving managerial or strategic problems through the parent entity).

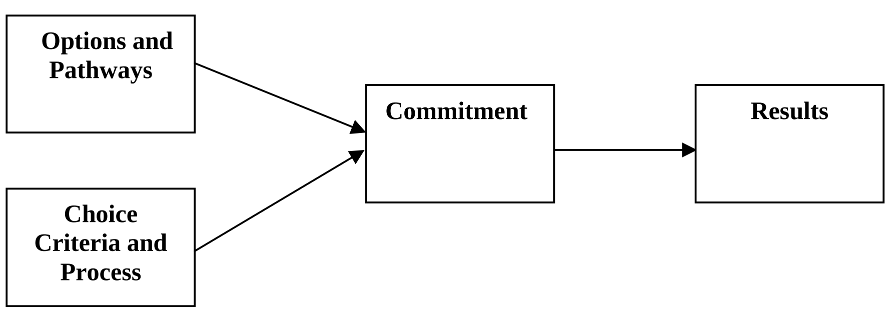

Figure 4.1: Building Blocks

The current understanding about corporate strategy suggests that an organisation's sustainability and profitability depends on the value the organisation creates for customers. One has to delineate the customers and markets one would serve and then concentrate on the value one would create. Does the organisation bring something new for the customers? How does it make a difference through innovation, service, newness, affordability? A sound value preposition attracts the customers and in turn leads to profitability.

Profitability is rooted in bringing the right combination of product, technology, price point at the right time to the right market. Organisations such as General Electric, Sony, Honda, Coke, Pepsi, Dell, Samsung, Walt Disney and Apple are successful contemporary companies. They manufacture and market their products globally. Analysing this more closely will make it clear to you that each has opted to grow in a manner different from others. Apple products may be more homogenous globally than those of General Electric or Pepsi, which have modified their products to suit the different customer needs of the diverse markets(for example United States, India, Brazil, and China) they serve. Each of these companies has followed different strategies to attain its position some have diversified extensively, some have grown in a broad segment, some have gone global, and some have been restricted to a few countries (options). Again each of the different businesses they operate in have their different strategies. For example Apple may have a different strategy for growth in North America as opposed to Asia even if it markets similar products in both continents. General Electric may choose to serve Asian diagnostic markets differently than it does the European market (pathways). From its current operations we infer the present strategy of the organisation and from the portfolio of investment it is developing, to some extent about the future markets, technologies products it might develop (future scope).

The grand strategies explain the scope of the activities, the logic and context of choice based on the premises of this reasoned evolution. The grand strategies also referred to here as the options are Growth, Stability, Retrenchment or Combination of the three. Within each of these broad options there are many sub-options which are here referred to as pathways. Among the options:

- Stability implies a state of status quo, or rather a state where activity level is significantly lower than is in growth phase.
- Growth implies an expansion in the level of operations of the organisation.
- Retrenchment implies a state of deliberate cut back in activities. It is the "pruning of activities" stage.
- Combination implies the balancing act between different businesses for sustained profitability.

Stability strategy

To put it simply, stability strategy is one of “taking stock of the situation.” Stability can be a bid time option. Stability allows an organisation to plan for reorganisation prior to growth.

Stability strategy is followed when the organisation decides to maintain the current level of business. It chooses not to be aggressive in its search and movement towards new markets or development of new products. There is incremental improvement in functional performance. While pursuing stability, organisations need to draw up a plan to get moving either by investments in research and development or by divesting non-performing areas to free capital for new promising areas. In fact, stability seems “a not-much-action-going-on” phase but the organisation in its functional areas is trying furtively to do something new. In today’s intensely competitive market place stability strategy this makes sense under certain conditions, such as:

- Post-merger - when an organisation has to settle the congruity issues between the different entities coming together. The organisation devotes more time to ensuring a smooth transition to the new entity before making substantive changes in the business.
- Subsequent to a prolonged duration of rapid growth, to consolidate the results and resources and take time to initiate any strategic shift. Firms expecting major environmental changes prefer to wait and consciously postpone any strategic move until a clear picture emerges. For example, Dell Computers followed the stability strategy for a while after having experienced 285 per cent growth in two years! The rapid growth leading to its presence in 95 countries, revenues of USD 2 billion and about 6,000 employees threw all the existing processes out of gear. Dell was not prepared to handle such growth. It had to stabilise to restructure its vendor management, services logistics and operations. The organisation needed time to hire ,train and put people on the job, to build new businesses to service its products, and systems to meet the demand of many associates to take care of such phenomenal expansion.
- In family-dominated organisations under predictable market conditions, stability strategy is followed for fear of loss of financial control if external funds had to be sought for further growth and expansion of the business
- When organisations service niche markets (for example, patisseries or cafes in metro stations). Once they attain a level of business they maintain that level either because there is no further growth or because the owner doesn’t have the will or resources to expand.
- Recession conditions impose the choice of stability strategy. Investments may not get the due returns so the organisation strengthens its key areas in this forced slow down.

Pathways to the stability strategy

Do Nothing Strategy

This is a stage when the organisation finds itself in placid waters. There is no appreciable change in its industry environment and there is no area in which the organisation would venture of its own so it does what it has been doing without any significant change. The organisation is reactive and this strategy serves niche small business.

Profit Strategy

Organisations facing threats and reducing margins opt for this strategy by curtailing discretionary expenditure and investment. This is a short-term strategy as in the long term curtailing investments also erodes the organisation's competitiveness. It is a strategy to be followed only to give management a breather, not as a smokescreen to hide passivity or wrong decisions.

Pause Strategy

What happens when you sprint 200 metres? You feel breathless and sit down to recoup. Similarly organisations that grow rapidly in fast-growing markets need to assess their operations, pause, and invest in developing resources commensurate with growth in order to grow further. According to Michael Dell, the founder of Dell Computers, the company grew so rapidly subsequent to its E-retailing that it had to slow down to create an organisation with systems for operations in 95countries, sales of USD 2 billion and approximately 5700 employees! This is the consolidation period before launching renewed assault.

Activity 4.1

Activity

Discuss among fellow students what the impact of stability strategy would be on managerial motivation and morale. A sample discussion answer is given here for you. (You are required to expand the last contention of reflection and planning.)

Sample Answer

The stability strategy is almost a "nothing is happening here" kind of a situation. The managers have been trained to look for challenges and give their best shot at meeting them. Apparently it seems that in the stability phase, managerial motivation may be low. This assumption on the part of the manager as well as others seems to stem from assuming stability as being a no action phase. If motivation among managers is contingent upon the multitude of tasks then stability has much to offer. Stability is the phase of analytical reflection for decisions they embed the possibilities for future action. Insightful managers would reflect on those and work on a plan developed to move from stability to growth.

Growth strategies

Growth strategy implies a substantive increase in the level of business over the previous level. There is a broadening of the scope of customer groups, customer functions, products and technologies, singly or jointly. Growth strategy is characterised by enhancement of investment, expansion of business development of new products, increased market share, development and use of new technologies through own Rand D or procurement of technology. Growth is a phase of hectic activity. A firm pursuing growth strategy finds enhancement from its activities such as marketing, procurement, hiring, selling, advertising, manufacturing, and launching new products. It aggressively explores new markets. Managers believe growth implies organisational and managerial effectiveness. To be efficient the organisation also buys/develops technology that makes its operations easier and efficient. It is also a time when ideally the organisation must add to the quality of its human resources and technology improvements.

Organisations pursue growth strategy because:

- It is assumed to lead to profitability which in turn leads to increase in shareholder wealth.
- Is a necessity for survival in volatile industries.
- Is a route to reducing arising because of concentration in one or select areas.
- Is favoured by external conditions external conditions such as requirement of moderate investment, low competitor rivalry, less or nonexistent entry barriers and opportunity for growth.
- It is seen as a sign of success and equated with effective performance.

There are many pathways to growth. Broadly, organisations have to decide first upon the direction of growth at home or overseas, with the same or different products, by manufacturing raw materials or taking up distribution or by being in many unrelated businesses. Second level of decision pertains to the manner in which the organisation will grow – would it go solo or would it seek partnerships, if it would, to what extent? The pathways to growth have been discussed from Module 2 onwards for ease of understanding by the student.

Cut back strategies

Cut back strategies are those where the organisation curtails or, in extreme cases, divests nonperforming assets/products/divisions/businesses/functions. When there are short-term changes in the external environment that reduce demand (for example, because of recession or increasing unemployment) or erode short term profits (for example, non-availability of a key raw material due to a natural disaster), the organisation opts for strategies that improve profitability by tactical or strategic means. If, however, the erosion in the profitability is because of irreversible changes in the external environment (for example, introduction of technologically superior products such as mobile phone over the pager) or strategic errors of the organisation (for example, having too many ”likely- to- make profit products” over “making- profit” products in portfolio), then the cut back is more widespread and drastic. In such cases the managerial decision hinges on whether the resources can be freed to be used more productively elsewhere, if in the current situation return is below expectation. Cut back strategies call to test the general manager’s interpersonal skills and emotional intelligence when drastic options are followed (such as layoffs).Organisations can retrench in phases or, depending on the situation, decide to divest or totally liquidate the business.

Other than these reasons organisations opt for cut back strategies when the:

- Cash flows are negative leading to losses.
- Industry profitability is declining.
- Operational efficiency has deteriorated.
- Competitors are efficient and steadily increasing market share.
- Products are technologically inferior and productive assets are locked in their manufacture.
- Physical facilities and assets deteriorate.
- Future profitability depends on allocating resources from unproductive to productive areas.
- The organisation is hard pressed for cash.

There are a number of pathways to effect cut back**.**

Turnaround strategy

This is the “infuse efficiency strategy”. Underperformance is an outcome of operational inefficiency and neglect. There is a possibility that the situation may be reversed with managerial perseverance. The organisation tries to increase productivity by restoring employee morale, introducing quality control mechanisms with reward systems, exercise a strict control over expenditure, elimination of unproductive functions, outsourcing of non-critical functions, up-grading of technology and use of technology to reduce costs (for example, email instead of print mail, install ERP to track costs and exercise control). In addition to this the organisation also improves its debtor collection, reschedules its loan payments, and shifts towards low-cost funds, improvisation in product quality and after-sales service. Overall, the organisation tries to improve its financial health because divesting from the business may not be strategically wise. In summation this is a strategy followed when the industry outlook is promising but organisational inefficiencies have crept in. The organisation tries through cost reduction and revenue generation measures to come on track and be profitable in the long run.

Retrenchment strategies

This is a strategy to reverse the "thin spread" made by the organisation of its resources without adequate returns. Retrenchment strategies are followed when the organisation's businesses do not have a return on investment as expected. The organisation may have entered into many businesses and now finds that those do not contribute significantly to the portfolio. Instead they are detracting value and tying up resources. Businesses have not become profitable even after many efforts and years. Resources are tied up and the organisation cannot reap the results from promising areas as they are resource-starved.

In such a situation the organisation divests any businesses that form a small fraction of its portfolio and may not be related to its major businesses and are not profitable.

Divestment strategies

Divestment strategies involve the sale of a portion of business or a major division/profit centre. It is usually a part of a restructuring plan and it is adopted when a turnaround strategy has been attempted but proved to be unsuccessful. The option of a turnaround may be overlooked if it is obvious that divestment is the only answer in the given situation. Divestment strategy may be adopted in the following situations:

- There is a cultural mismatch between an acquired entity and parent company.
- The business is unable to compete in the marketplace leading to diminished profitability.
- Huge investment is required to revive the business and the organisation/division/unit is cash-strapped.
- To balance its strategic portfolio and transfer funds from poorly performing divisions to more attractive ones.
- The industry the organisation/division competes in is in decline phase and no further growth is possible.

Either a part of the company is divested as financially and managerially independent company (split-off) or the firm may sell a unit outright (sell-off). Split-off involves a divorce of two approximately equal-sized business units or divisions. They also opt for retrenchment to free locked resources which are put to use in more profitable areas. Divestment may not be a standalone strategy in multi business organisations such as GE. Instead, divestment may be a route for resource diversion from non-profitable to profitable businesses. Organisations such as GE have achieved their current position not only by vigorously pursuing growth but also by divesting from some businesses that, either weren't profitable or where GE did not enjoy a commanding position. Divestment leads to loss of jobs and prestige for those who were responsible to manage. For these reasons divestment is as much a behavioural issue as it is a financial one.

Liquidation strategies

Liquidation strategy is an extreme retrenchment strategy. It involves closing all operations and selling assets. Liquidation is the least-preferred among the cut back strategies because it leads to large-scale job losses and is seen a manifestation of managerial failure. To liquidate an organisation requires the involvement of banks, financial institutions other debtors, labour unions and government agencies. Liquidation may be implemented by the court, voluntary liquidation by the firm or under the supervision of the court. At times, the liquidation of the company may dissolve the legal entity but the business with the same managers/owners, products/markets may resume under a different name and entity. Liquidation may be voluntary or forced by an enforcement agency.

Combination strategies

Multi-business organisations adopt the combination strategy. Their various businesses may operate under different environmental conditions; have varying industry profitability and life cycles. Organisations have to choose strategies that fit the environment, their own resources and competitive position. It is possible to have different routes to growth within the broad grand strategy or have different strategies for different businesses. For example, a shoe manufacturer may seek growth for fashion footwear in the domestic market but for sports shoes may seek to be the dominant supplier to a more known global brand for sportswear. A multi-business organisation may decide to divest from unprofitable areas and focus on profitable ones, diverting funds from one to another business. An organisation may pursue combination strategy:

- When different businesses of a multi-business organisation need different level of resource, attention and focus.
- To meet different managerial aspirations.
- To enable different businesses within the fold to contribute maximally to profitability.
- To balance the differing requirements for funds and other resources.

Pathways to combination strategy:

- Grow, stabilise, retrench
- Grow, retrench, stabilise
- Stabilise, retrench, grow
- Retrench, stabilise, grow.

Even among the broad strategies, an organisation may choose so many different options. Combination most often depends on how an organisation perceives its balanced portfolio to be. It would need resources to grow that may come from businesses past their prime.

Growth strategies and pathways

Growth is one of the most discussed and lauded strategic option. It is equated with managerial success and achievement**. Figure 4.2** shows the many strategic possibilities/pathways for growth.

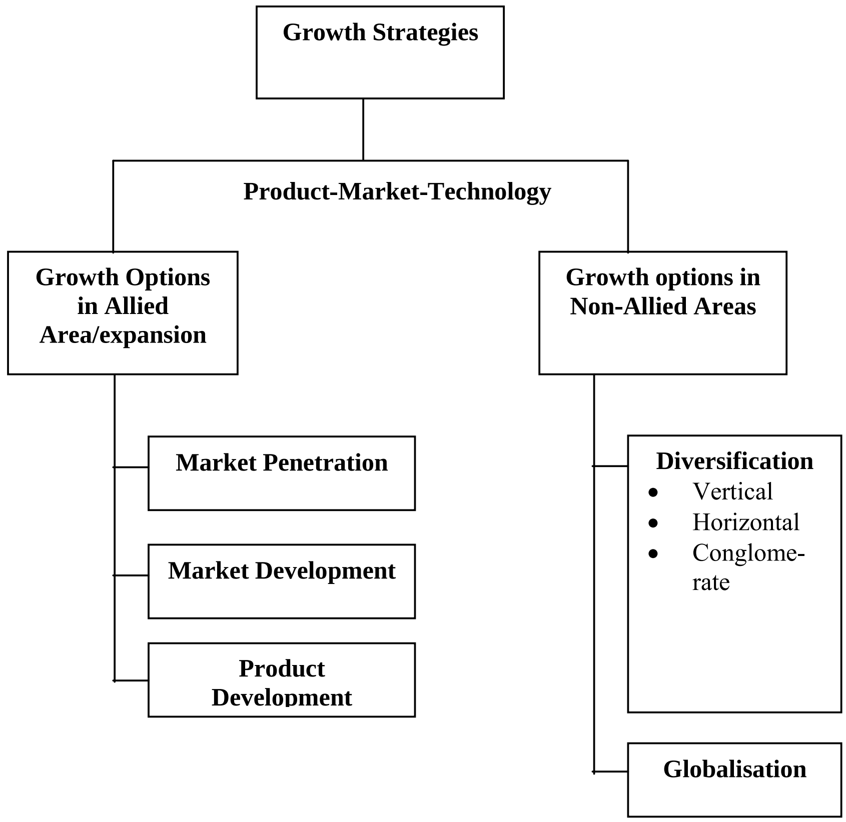

Figure 4.2

An organisation may grow by expansion (when it concentrates within a broad allied product market scope). Technology plays an important underlying role in growth in today's context. It enables companies to design, develop and manufacture better products. Communication technology also enables the organisation to meet un-served needs in unreached markets. Alternatively, an organisation may grow beyond its product market scope. The organisation can move into new markets, offer products that are totally different from its present ones, based on a new technology and manufacturing (the organisation explores a totally new line of business). It can even tap overseas markets for the same new or differentiated products (diversification).

Expansion strategies

The product market scope refers to the industries to which the organisation confines itself. When an organisation follows the expansion strategy the marketing or the production function underlie some degree of commonality between the different businesses it operates in. Expansion and thereby growth results from concentrating the resources within the domain of one or more businesses allied in terms of customer needs, functions or technology. **Figure 4.3** enlists the main routes to expansion, such as market penetration (For example, lowering the price of a combo meal in fast food restaurant to compete with local offers), market development (Malaysia Tourism's aggressive "Malaysia Truly Asia" campaign to attract tourists), and product development (skin care products in addition to the eye care products by a pharmaceutical company; non-beef, non-pork products by McDonald's in parts of Asia**).**

		Product	
		Existing	**New**
Market	**Old**	**Market Penetration**	**Product Development**
	New	**Market Development**	**Diversification**

Figure 4.3: Ansoff's 2x2 Matrix

Market penetration, market development and product development strategies can be followed by an independent business or by a strategic business unit of a multi-business organisation. A strategic business unit is for all purposes an independent identity and capable of conducting business on its own, which is a part of a larger multi business organisation. The option for a particular strategy will depend upon the returns expected, nature and scope of the industry whether the industry is in the growth, maturity or decline phase, and the resource return trade off.

Table 4.1 describes the main characteristics of the different routes to expansion.

Market Penetration	Market Development	Product Development
Objective is to increase market share in existing market. Volume-based strategy.	Product with some variations is marketed to different geographical/demographic markets	Existing product is in the maturity phase. New/different/ altered products are introduced in the market.
Concentration on existing market pushes sales aggressively through existing/new segments.	New unsaturated markets exist. Organisation has the resources to tap new markets.	Customers known. Leveraging of knowledge of customers reduces associated marketing costs.
Higher sales volume enables cost reduction leading to price reduction and higher market share.	New markets have low entry barriers. Demand is high and sales are brisk. Use of prior knowledge possible.	Market and its dynamics are known; prior knowledge gives tactical advantage.

Table 4.1

Activity 4.2

Activity

In your own words distinguish between the three market expansion strategies and give three examples for each of the expansion strategies from your country.

Diversification strategy

Diversification rationale: Can an organisation continue to manufacture the same product/service forever? In the history of man-made institutions universities are the only organisations that have survived through the same product-knowledge for more than 11 centuries! However the content packaging and delivery of knowledge has changed immensely and not all universities have survived. This exception only proves the rule that organisations have to develop new business as they grow even unrelated businesses. Another pathway to growth is to venture away from the known turf. The premise of diversification is to explore attractive business opportunity areas unrelated to present business. Ponder an analogy here. As an individual investor you are advised to spread your risk. Why? Because a diversified portfolio insulates you from risk more than a single product investment portfolio does. Similarly an organisation cannot expect the conditions in which it may have done good business to last forever. It spreads its risks by venturing into new and different areas of business with better prospects.

When an organisation moves away from its known and tested product market technology sphere to offer new products (related/unrelated) or enter new markets (related/unrelated) using new/modified/allied technology it is said to be following the diversification pathway. Diversification is endemic in the corporate world; almost all the fortune 1,000 organisations are diversified. You will observe that most family-held businesses are also highly diversified. The diversification is an attractive option to meet the growing aspirations of an increasing number of family members. The relentless pursuit of diversification as strategy has given way to reasoned diversification. Instead of many businesses in unrelated areas it makes sense to have a portfolio of related or aligned businesses. The logic is that such a diversification allows an organisation to harness linkages to create competitive advantage. Still, the diversification patterns in the Asian countries suggest unrelated diversification to be common among larger business groups.

Organisations diversify to:

- Circumvent government policy restrictions on growth as was the case with pre-liberalisation caps on capacity expansion in India. These led Indian companies to diversify in many unrelated areas.
- New technologies/substitute products may have made existing domain unprofitable or likely to be so. Diversification may offer better opportunities.
- Utilise fully the depth and breadth of managerial skills and competencies.
- Utilise surplus or retained cash for a higher rate of return.
- To enter a hitherto virgin area of immense potential. For example, in India the privatisation of higher education has attracted many players from fields as diverse as steel manufacturing to foods business to set up broad-based and specialty universities.
- Information asymmetry in the existing business may be too high to permit new plans.
- Spread Risk. In a diversified, portfolio risk is distributed among multiple businesses.
- Leverage the commonalty among businesses. This leveraging creates economic benefits.

Diversification risks

Diversification is an interesting but complicated strategy. First, the skills needed to run the diversified entity may be totally different and at variance with the parent entity Diversification poses a challenge to the managerial skills/aspirations of managers. It provides an opportunity to exhibit personal mettle at the same time as it requires managers to be open to learning and quick at adaptation.

Each business requires different skill sets provided by professionals and supervised by an independent board of directors. The common thread running through such diverse business is the ethical and governance standards of the corporate parent. Diversification is risky. It entails *decision risk (*choice and means of diversification may be wrong), *implementation risk* (structure, processes, systems, leadership, talent may be inadequate) and *financial risk* (the return to stockholders may be considerably reduced.) According to Michael Porter (1987) the three tests should applied before diversification decisions is taken.

Industry attractiveness test	**Cost of entry test**	**Better off test**
Is entry business high? Are competitive conditions favourable? Is market conducive to growth?	Is cost of entry low? What is the sunk cost of specific equipment? What are proprietary and other blocks to entry?	To what extent does synergy exist with on-going operations? Can managerial skills, capability brand equity be leveraged?

Table 4.2 :Tests that guide diversification decision

Diversification pathways

Diversification is an investment-intensive option and it is possible for an organisation to diversify through different pathways. The different pathways have different levels of risk and resource requirements. The organisation has to decide which pathway to take and whether to go it alone or seek some kind of partnership options (licensing, joint ventures, and strategic alliances). **Figure 4.5** explains that the higher the relatedness in domain of products, customer segments, technology, transference of management skills in diversification, lower is the risk from diversification, (this does not preclude the risk of the wrong strategic choice) and lower the relatedness, the higher is the risk from diversification (this does not take in to account the depth of the managerial skills that can steer diversification.).

High **Extent of Relatedness** **Low**

Low ← **Risk** → **High**

Figure 4.5

There are four broad routes to diversification concentric, horizontal, vertical and conglomerate. The salient features of each of these are discussed in the **Table 4.3**.

Features	**Examples**
Horizontal diversification Organisation takes over those organisations which manufacture same/ similar product or marketing functions. Increase in size expected to infuse economies of scale and scope. Expected increase in market share.	Entertainment industry. Film production houses also distribute movies through DTH networks. Walt Disney(movies and distribution)
Vertical integration Organisation takes over production of raw material, (backward) intermediary or key process (forward) to realise cost advantage. Lower costs lead to lower prices which lead to higher market share. Reduces flexibility. Extensive barriers that may limit to one industry are created.	Cement, steel and textile companies are vertically diversified. In India cement manufacturers have captive power generation plants. Excess power is sold to either state-run utilities or other industries. Soap/detergent manufacturer setting up linear alky benzene (LAB a key ingredient for soaps) plant for supply side advantage.
Concentric diversification. Diversification into broadly related areas (product market/ technology). The market is regarded as a domain of related but heterogeneous needs that organisation can meet with heterogeneous but allied offering.	Pharmaceutical companies' product range includes Prescription drugs, non prescription drugs, drug delivery systems, eye and skin care products. There is s difference between the products and technology but broad marketing scope enables to leverage brand value. Rolls Royce(cars, engines)

Conglomerate diversification. Diversification in totally unrelated areas. New areas may present better growth options, entry barriers may be low as must be the investment required. Resource/ capabilities are spread across. Organisations can diversify globally also.	General Electric, Samsung Electronics, Tata.

Table 4.3: Diversification options

Activity 4.3

Activity

Two different situations from the contemporary business world are presented for your analysis and discussions. Present your analysis as a report covering some aspects of SWOT (you may refer to official websites), and review of option in the light of course material. Be specific in your recommendation.

Google and diversification

Google founded in 1998 is a leading search engine. Google wrested its dominant position in the search engine from Alta Vista, which was taken over by Yahoo. Google's diversified portfolio of businesses includes YouTube, Picasa, Google+, Gmail, Google earth, Chrome, and Android. Almost 90 per cent of its revenue comes from advertising on Google. So far Google does not face any major imminent threat in this area. The slowdown of the economy does indicate that the Internet advertising will be down and the revenues for Google may dip. According to www.buzzom.com Google may fail. It sees the Gmail and Chrome business as risky, the data privacy and customer support as being inefficient with respect to customer demand.

Google is also planning a foray into the mobile handset and e-books market. Is this diversification in consonance with Google's strengths is a big question. Does Google have the capacity to out-compete rivals such as Apple?

Goggle's core business is its search engine. Is its diversification into the smartphone really a smart move? Would this diversification make Google lose focus on its core business? Should Google rather focus attention on the search engine and scale up its capabilities for better services and privacy?

Armani's diversification

The house of Armani is an Italy-based international fashion house whose products spell ultra-luxury. It products include men's and women's clothes (some worn by Hollywood celebrities), eyewear, cosmetics, perfumes, and accessories. Armani clothes and other allied products are sold through Armani Exclusive Stores spread over most cities associated with glitz and glamour and very high end departmental stores. Armani men's clothing has so far been sought after, however in the U.S., which is one of Armani's main markets, the loyal male customer base is shrinking and the women who supported Armani are getting older. The U.S. and Japan which were Armani's main markets are now shrinking. The economic downturn and the rising rate of unemployment in its main markets forced Armani to look for new markets The Chinese luxury market growing at 30 per cent per annum may be the new Armani market and attention area. Can Armani, who is older than new crop of designers, hold his own?

In 2010 Giorgio Armani extended his luxury line to include the unrelated business of hotels. In 2010, Armani opened his first hotel at Burj Khalifa having166 guest rooms and suites and 144 residences. The idea was to extend the association of luxury to houses to somehow make it appear that your address can also spell luxury. Burj Khalifa's exclusivity matched Armani's. Armani plans to associate with the aesthetics and interior design of ultra premium properties across the world. It already has a tie up with Lodha Builders for their upcoming property in South Mumbai. Can the foray of Armani in the ultra luxury housing segment pay off? Is luxury the criteria for a buyer or is it an idea with novelty appeal. If Armani was to be associated with luxury housing across the emerging economies, would the appeal last?

Armani, in association with Samsung, also launched the Armani-Samsung phone which didn't take off as expected. The phone was available at outlets different from other Armani products. Perhaps the concept of luxury to a mobile phone was better captured by Apple. Perhaps Armani sought to leverage in a segment that wasn't ready for it yet. The luxury appeal did not work.

Armani is a closely family-held company, its patriarch is old and the world around it is changing.

What is the option for it to sustain the growth?

How does an organisation diversify?

This is the second option that an organisation has to decide on, whether to go it alone and set up a green field project or develop a diversified entity through mergers acquisitions/alliances or joint ventures. Most of these options are similar in the sense they are based on the principle of creating collaboration for growth of two different entities. The differences among them are more of degree than direction. The subtle differences between joint venture alliances and between mergers and takeovers are more for conferring the legal status on the entity as well as transfer of funds and resources.

Merger – Acquisition

Mergers and acquisitions (also called M and A) are very common to strategy as well as strategic financial decisions. When organisation A which might be bigger in terms of market size than the organisation B decides to acquire the whole or a part of assets/divisions/brand/unit/product of the organisation in return for cash it is called a merger. Merger actually means coming together. Two organisations may come together in a manner when one is totally or partially acquired by another and the acquiring entity retains its identity. Alternatively they may come together to form a new entity altogether. The objectives of mergers can be strategic (growth in new markets technology transfer/infusion), financial (increase earnings per share of owners), or organisational (enhance the status of the management.)

Mergers and acquisitions are a very popular route for infusing foreign investment in a country. When an organisation takes over another organisation with all its assets and liabilities in return for outright payment for these as per mutual valuation it is called a takeover. At times takeovers are hostile, such as when an organisation bids for the controlling ownership for vested interests. In the case of hostile takeover, the motive of the takeover attracts the attention of the regulatory authorities. In Table 4.4 the benefits from the perspective of the seller and the buyer are detailed.

Merging entity (Seller)	**Buying entity (Buyer)**
Increase value of owner's stock To trade over resource crunch Sell off is more attractive than stay option. To improve the growth prospects Succession / learning	Investment Access to resource/ technology Improve growth prospects Avail tax concession To offer a more complete line of products Facilitate diversification.

Table 4.4: Rationale of Mergers-Acquisitions

Joint Venture

Joint ventures come into existence when two or more firms mutually decide to create a new firm (with a new name and legal status) in collaboration/ partnership specified purpose. Joint ventures can be legally dissolved. Joint Ventures are useful to gain access to a new business or a new market in following situations:

- When a singular organisation cannot muster all the resources.
- Sharing among the organisations reduces risks.
- When two different organisations have complementary resources.
- When environmental/government/regulatory restrictions make it difficult for either firm to exploit the opportunity.

- The venture entity can eliminate/ reduce competition.
- When expansion in a new market is possible leading to a dominant position.

Joint ventures are possible within industry, across industries within organisations belonging to two different countries or even among countries. Joint ventures are a favoured way to enter new markets. For example, foreign companies may have joint ventures with Afghanistan organisations for the development of infrastructure. The foreign company brings the capital and expertise whereas the Afghan company brings the local knowledge and logistical support to the joint venture. The arrangement is mutually beneficial. Joint ventures have been the preferred way for companies to enter the Indian and Chinese markets. The joint venture entity may also create jobs in the foreign country.

Activity 4.4

Activity

List joint ventures created by Indian/Chinese and Malaysian companies. (Five such ventures have to be explored.) You must mention the following;

- The name of the venture
- The scope of business of the new entity
- The strengths of the two companies
- The physical location country and region wise of the venture
- The benefits of the venture to the local community (jobs/business/skill upgrades).

Strategic Alliance

In a joint venture, takeover and acquisition the organisation does not retain its identity. If the organisation wants to retain its identity yet have a partnership then strategic alliance is the way out. According to Yoshino and Rangan (1995) the characteristic features of an alliance are:

- Two or more organisations unite to pursue a set of agreed-upon goals but remain independent subsequent to the alliance.
- The partnering forms share the benefit of the alliance and control over the performance of the assigned tasks.
- The partners contribute on an on-going basis in some or the other key area such as technology product development.

Strategic alliances are possible between two organisations and can be between organisations belonging to the same industry, different but allied industries or totally different industries. Alliance management is difficult.

Fuzzy outcomes, ego and cultural clashes, unclear definition and perception of the alliance relationship are the reasons for alliances going sour. If managed well, alliances can lead to creation of competitive advantage, risk mitigation and blocking of competitive threat.

Globalisation

An overseas move to market or manufacture is an attractive option because:

- The intended market has customers for the existing products/ services leading to growth in volume or size.
- The intended location offers benefits of lower costs
- Leverage to capabilities can be gained across markets
- Access can be gained to the natural resources in the intended location
- Possible improvement in the profitability by entering into overseas markets in early growth stages.
- Synergies can be leveraged the between the foreign units and domestic units in terms of research and development, and economies of scale.

The world has been asymmetric in technology and economic development. When the organisation's dominant technology is about to become obsolete in its home market then the aging technology can be transferred to a market where the technology has yet to develop. In India the introduction of colour television sets trailed the U.S. and European markets. It was an opportunity for television makes such as Telefunken (Germany) and National Panasonic (Japan) to market their television sets in India when colour television was introduced in the early 1980s. By 1980 the technology used to manufacture television sets had been well established. New technology was making way in the market in the developed world. It was an opportune time to transfer the older technology to the new market. In 1983, the colour television was introduced in India and many brands that had been successful in the west were launched there. In 1983 India had hosted the Asian Games. In **Figure 4.6**, country 1 can be taken as the U.S. and country 2 as India. However, with subsequent products such as the video recorder, the CD-ROM and Blue Ray players and even the Internet, the time gap between the introduction in the developed world and developing world was reduced from 40 years to five years.

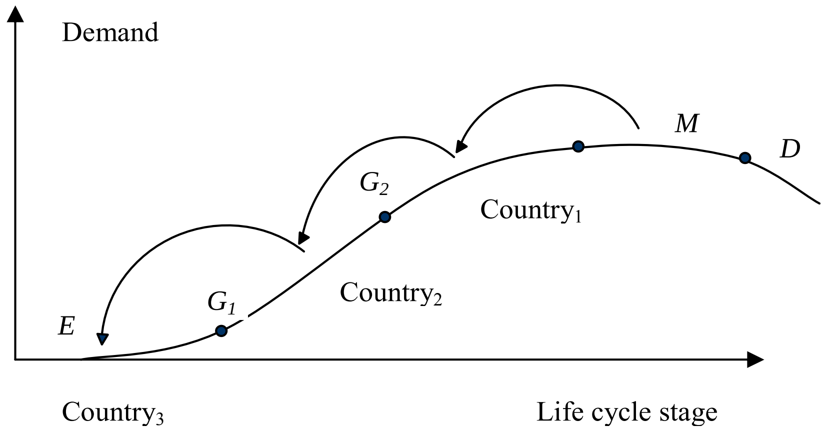

Figure 4.6

Source: Ansoff, H.I and Edward McDonnell (1990) *Implanting Strategic Management.* 2nd Edition. Prentice Hall; London, pPp220.

Organisations need to partner to set up shop overseas whether to manufacture or market. To market they have the option of franchising (McDonald's in many countries of the world), Joint Venture (Starbuck's with Tata in India), direct entry (multi brand retail, exclusive stores), and exports. According to Bartlett and Ghoshal (1989) organisations can either reap cost advantages of global scale or differentiation depending on the industry they cater to. Banking is highly differentiated across countries. There is no single banking industry. Each country has its own regulations and norms and banking needs of the population are different. Such fragmentation cannot be served by a single strategy and therefore for each market the strategy would be differentiated. This is called a multi domestic strategy. On the other hand, most electronic products can be manufactured in a low-cost location and exported to their respective markets. This is a global strategy. Yet there are some organisations that may choose to match cost advantage with differentiation. They may opt for a low-cost manufacturing hub, transport the product and add the differentiating factor elsewhere or at the same place but offer different products in different markets. This is the transnational strategy.

Moving across borders requires an extensive knowledge of the intended location in terms of regulation, politics, and demography, institutions such as judiciary, infrastructure, labour trends, economic trends, dispute settlement mechanisms education and skill levels of people. Organisations which have experience of operating and adapting to changes in the social, political, economic, and technological environment are better prepared for internationalisation than those which have no such prior experience. Once the decision to expand across borders has been taken, the organisation can opt for joint ventures alliances, contractual arrangements or mergers to move.

General Electric is a highly globalised company. Its operations are spread over 160 countries. Its main areas of business are: energy (oil and gas, power and water), technical infrastructure (aviation, healthcare and transportation), energy financial services and aviation financial services. It operates region-wise in the Americas, Asia Pacific, Europe, Middle East and Africa. Similarly the Walt Disney Company is in the business of theme parks, resorts, merchandise, animation studios and film making. Its products are marketed globally, suited to local cultural sensitivities; its movies are seen globally and dubbed in regional languages.

Contemporary organisations do not grow by pursuing one exclusive strategy. Environmental conditions and demand for resources available exclude this possibility. Arcelor Mittal is the world's largest producer of steel. It has pursued aggressive growth for global scale operations by amalgamation of pathways as explained in the box below. Growth has been through geographic expansion of capacity through takeovers, turnaround of the taken-over mills, emphasis on operational efficiency and capacity utilisation, vertical integration of coal mines and marketing on a global scale.

Arcelor SA was merged in 2006 with Mittal Steel to create Arcelor Mittal Steel. Arcelor Mittal Steel is the world's largest steel producer with a presence in 60 countries. It is a Dutch Company whose CEO and Chairman is Indian businessman L.N. Mittal. The other dominant players in the global steel industry are Nippon, POSCO, JFE (Japan) and Baosteel (China). It is a leader in major markets regionally or sector wise. Arcelor-Mittal did not grow overnight. It has attained the present scale of operations through sequential incremental steps that established Mittal Steel as a cost-efficient producer adapt at turning around sick steel mills. It took over underperforming steel mills in different countries spread across continents, such as in Germany, U.S., France, Romania, Estonia, Macedonia and Poland. Simultaneously it also acquired coal mines across countries. Some major acquisitions being acquisition of Baffinland Coal Mine in Canada (2011), three Russian coal mines (2008) and agreement with the Liberian Government for coal supply (2005). The global spread of steel manufacturing and access to coal supply from different countries translates into a cost advantage for Arcelor Mittal. It can bargain with both buyers and suppliers. It is a leader in major markets regionally or sector wise. The steel industry was globally fragmented and Mittal estimated that it was time for consolidation. His strategy was aimed at creating size and first mover advantages for the organisation. Diffusion of production in many locations with a focus on efficiency increases Arcelor Mittal's manufacturing share in the steel industry. The organisation also enjoys cost advantages. The nature of the product at the moment does not entail marketing related differentiation. Perhaps the dispersal of manufacturing may enable Arcelor Mittal to develop specialty products and sustain the advantage. At the same time the organisation has to contend with loss of strategic flexibility by investing in one particular industry as well as the political, logistical risks associated with extensive global sourcing.

As the global economy slows Arcelor Mittal is likely to face a tough time. It may resort to closure of some of its operations. You are required to study the decisions taken by Arcelor Mittal post slowdown.

Decision criteria

In order to understand the many aspect that are considered in the decision process leading to strategy, it is better to run through the sequence of emerging criteria as strategy is made, to have a better understanding of the process. The key decision points are highlighted in bold for your attention and understanding.

Decision situation: Pharmaceutical manufacturing organisation portfolio of businesses includes pharmaceutical products with prescription as well as non-prescription drugs, with domestic market share of 23 per cent in tuberculosis drugs and in medical diagnostics with diagnostic labs across major cities and smaller towns.

Decision to be made: What should be the strategic choice from among the options listed above in the text?

Step 1. Scan the **SWOT analysis** prepared prior to the strategic choice and assess if there are any changes that are to be made to the assumptions of the SWOT.

Step 2. Assess the **comparative industry structure** for the two. Pharmaceuticals may have a higher growth rate than diagnostics but may have high entry barriers and diagnostics may have low entry barriers and relatively lower growth rate. What is the long-term outlook for both pharmaceutical manufacture and diagnostics?

Step 3. We will assess the **resource position** of the organisation. We will also assess our position in the industry. (Let us suppose we have a very strong position for manufacture of drugs for tuberculosis and gastrointestinal diseases in terms of capacity and costs and to some extent brand, can export be a lucrative option if we expand capacity?) What are our costs, overheads, supply side and selling side bottlenecks? (The organisation has sufficient data to help us in this analysis in terms of the different operational data and reports that are filled in from time to time We will consider the internal sources, market reports, competitors' profiles to asses our resource position.

Step 4. Conduct a thorough review of options and processes prior to internationalisation, Having raised the issue of exports we must now examine if the strategy of exports would add more revenue than growth at home, what are the resources and regulatory compliances we need to put in place should we export? Do we have the expertise to take care of exports? What are the government incentives for exports if any? Explore the possibility of synergy between the export option and domestic operations. What are the commonalities that can be leveraged? Will we export directly or are some other routes also available?

Step 5. Portfolio balancing decisions are taken on the basis of step 4. Are there any activities/divisions/businesses that can be divested and resources diverted to strengthening other business? If yes, then to what extent will we divest, what are the procedures for what and who will be in charge. Our resource allocation decisions are linked to this. Our top management must decide strategically what our dispersal should be both businesses in growth (risk assessment high for pharmacy); or one in growth, one in profit. Here the management may run into issues that are inconsistent with each other, such as: even though pharmaceuticals are in growth phase, shake out is imminent and buying a smaller organisation enhances capacity. We can leverage some strength but to management it seems too risky a strategy. This inconsistency can be resolved by analysis and perspective building.

Step 6. Involve key operation managers in decision making. Changes in the assumptions, information can still be made if the input is new researched and correct. We discuss the possibility of **takeover** of a smaller organisation, it's likely value, the capital expenditure needed to modify, the likely sources of capital for the takeover, the possibility to tie up bulk exports to a developing country. We also discuss the cutting back in the number of our diagnostic centres. This being a more competitive business with low entry barriers we debate if it is possible to specialise in fewer diagnostics with low-cost equipment and offer least-price services for some of the most common tests such as X rays, blood tests and use information technology to provide faster cheaper service to the customer? In other words can we **reposition and reconfigure the value chain of one of our businesses.**

Step 7. We prepare a **cash requirement and a Performa balance sheet for both the options**. By what time do we expect important decisions to be implemented, whom do we hold responsible for implementation and what are the key results we expect and for those results which resources are to be apportioned in writing?

Step 8. We develop plans to consolidate our competitive position and draw up plans to **change the structure, develop** a strong culture that drives performance and create a strong centre from which our maiden internationalisation foray is governed. We work with our different vendors for the reconfiguration of the value chain and **develop the key performance indicators** for the new businesses. **Figure 4.7a and 4.7b** show the basic sequence of events and decisions and criteria in the strategic choice process.

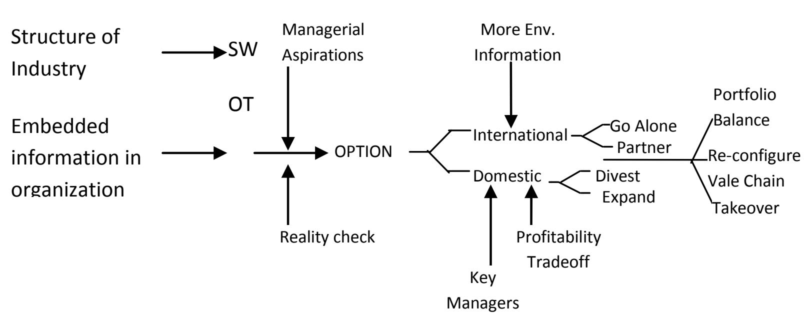

Figure 4.7a

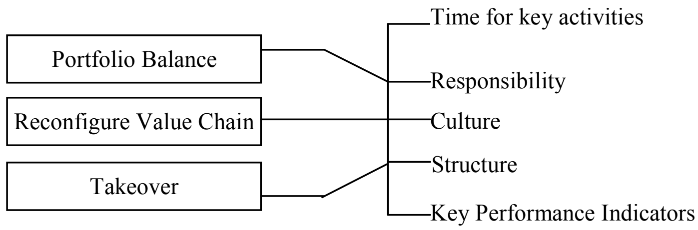

Figure 4.7b

Having run through the narration of a very basic level strategy-making process you can appreciate that during the choice process some well-established criteria are to be applied. The criteria are evaluated on the basis of the following:

- Is it consistent with the direction/plan of the organisation? Does it plug the gap between where the organisation is and where it wants to go?
- Is it feasible within the constraint of the existing resources and capabilities? Choosing an option because it will build capability when those needed are scarce may not be a wise move.
- Will it be acceptable within the organisation across managerial levels? Do the options address the aspirations of the managers?
- Does the option take into account the acceptable level of risk?
- Is the timing of the strategy appropriate? A very late or a very early strategy may not be profitable.
- Are any internal inconsistencies observed and if so can they be reconciled. The desire to grow globally may be hampered by the desire to retain family control. Can the two be reconciled?
- Is the strategy based on the understanding of the industry life cycle?
- Is the strategy consistent with the attitude skill and knowledge level of the key managers?

The choice of a strategy is shaped by both **subjective and objective factors**. The objective factors include the gap analysis (which informs about the performance gap that the chosen strategy must fill). Industry analysis, operational data from the organisation's past operations, financial assessment, cost of funds, sources of funds and so on. Most of these are a part of the SWOT analysis conducted prior to the choice. The strategy process has moved out of the board room in many progressive organisations. Most organisations understand that it is not the strategy alone which differentiates but also the implementation. Involvement of those managers who have a key role in implementation with strategy formulation adds qualitatively to the analysis and also creates ownership of strategy among them.

The subjective factors include organisation's culture, managerial attitude to risk, political coalitions within the organisation and pressure from the stakeholders to perform. The allocation of resources is done by using the

Boston Consulting Group Matrix or the General Electric Spotlight matrix. These are the approaches you would have studied as part of the marketing course and are therefore not repeated here. You must remember that these approaches are applicable to different divisions of the organisation and are not suitable to allocate resources among totally different businesses because they have mechanisms to factor the differences and the requirements of business that are as different as chalk and cheese.

Commitment

For a strategy to deliver, enabling conditions have to be provided by the top management. The enabling conditions are timely availability of resources in adequate measure and to develop a framework that facilitates synergies across the board**. Resource Allocation** and **Corporate Parenting** are the two means of ensuring the enabling conditions.

Resource allocation

Note: You would have studied the BCG and the GE matrix in the marketing course and therefore they are not being discussed here separately, though the main portfolio analysis is discussed below.

In a multi business, different businesses have different resource requirements. Some businesses are net resource generators and some are resource consumer. To construct a visual depiction of its various businesses, the organisation uses the Portfolio matrices**. Figure 4.8** shows the popular Boston Consulting Group matrix.

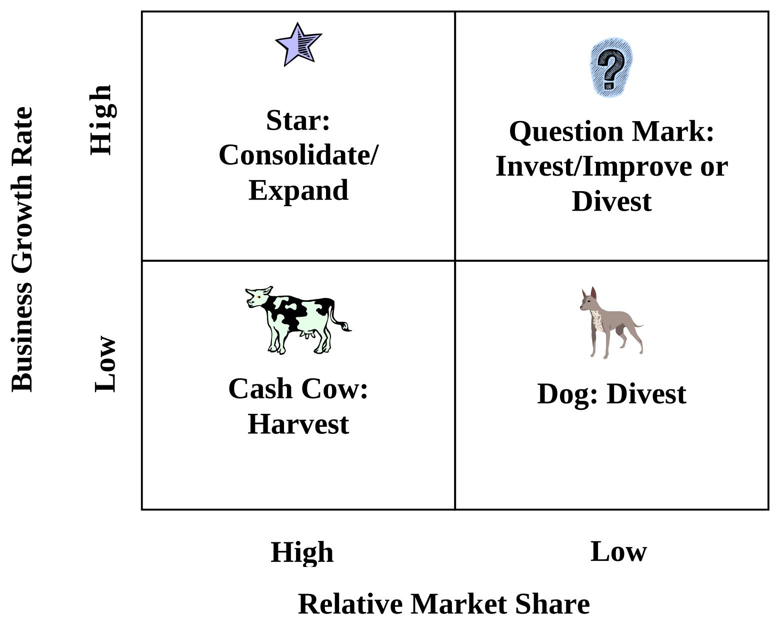

Figure 4.8: BCG Matrix

The portfolio matrix plots the different businesses on two axes: one that shows the attractiveness of the industry the business is in with respect to the strength of the business on the basis of chosen indicator such as relative market share (in case of the BCG matrix as shown above and Business Strengths in the nine-cell GE Matrix) In order to allocate resources, the decision maker must assess the resource requirement of the different businesses plotted on the matrix. The portfolio has to be balanced in terms of those businesses that generate revenue and are likely to generate revenue versus their resource consumption. In the BCG matrix the resource generation positions of the different businesses are:

- *Cash Cow:* From the matrix it is clear that these businesses operate in the industries which are in the maturity stage and hold a very strong competitive position in their respective industry. They generate far more cash than they consume. The surplus cash can be used to nurture those businesses that are in the star quadrant or in the question mark quadrant.
- *Stars:* Stars are in the high growth rate and therefore highly competitive markets. They have a potential to be the cash cows only if they are able to consolidate their competitive position. They generate as well as consume revenue. Their net contribution to the kitty of the organisation is not very substantive.
- *Question Marks:* Question marks lie in the high business growth rate segment with weak competitive position. This means that the organisation has to develop some competencies to make the best use of the high growth rates. To sustain these business resources, the organisation has to be committed to develop them in the select areas.
- *Dogs:* Dogs are in the low attractiveness, low competitiveness (low relative market share) quadrant. They are not generating revenue, nor does it make sense to develop them as their competitive position would remain weak. It is best to divest these businesses.

The use of the BCG Matrix lies in estimating which businesses are the net cash generators and which are the net cash consumers. The businesses which are the cash consumers must also exhibit the potential to be the leaders in their business with a highly competitive position so that in future they can contribute enough cash to nurture future businesses.

Strategic choices are concerned with resource allocation among businesses so that the ones with potential are nurtured and the ones without are divested. The decisions to retain and divest are top management decisions.

What should an ideal portfolio of business be like? An ideal business portfolio developed using the GE nine-cell matrix with industry attractiveness and business strengths as the two measures is shown in F**igure 4.9**. In reality, an organisation may have the portfolio where there are too many profit producers which means no cash users (young businesses that in future will be profit earners), or too many losers (low possibility of growth/profits), or too many developers (demand too much cash leading to unstable growth). In such situations the organisation has to balance its portfolio. Those businesses that are in strong position and are growing need cash, to be harvested from those that are in a weak industry position You will notice that it is recommended to avoid being in those quadrants where the business strength and industry attractiveness are low. In figure 4.9, businesses B, C, F, G and H. A, D, E and I could be winners in large markets or have a very dominant position in smaller markets. Notice that businesses are concentrated in the upper left hand quadrant of the figure. An organisation may not have an ideal portfolio. The figure indicates the direction in which the corporate strategies must be fashioned to shift the portfolio towards the left hand upper two quadrants.

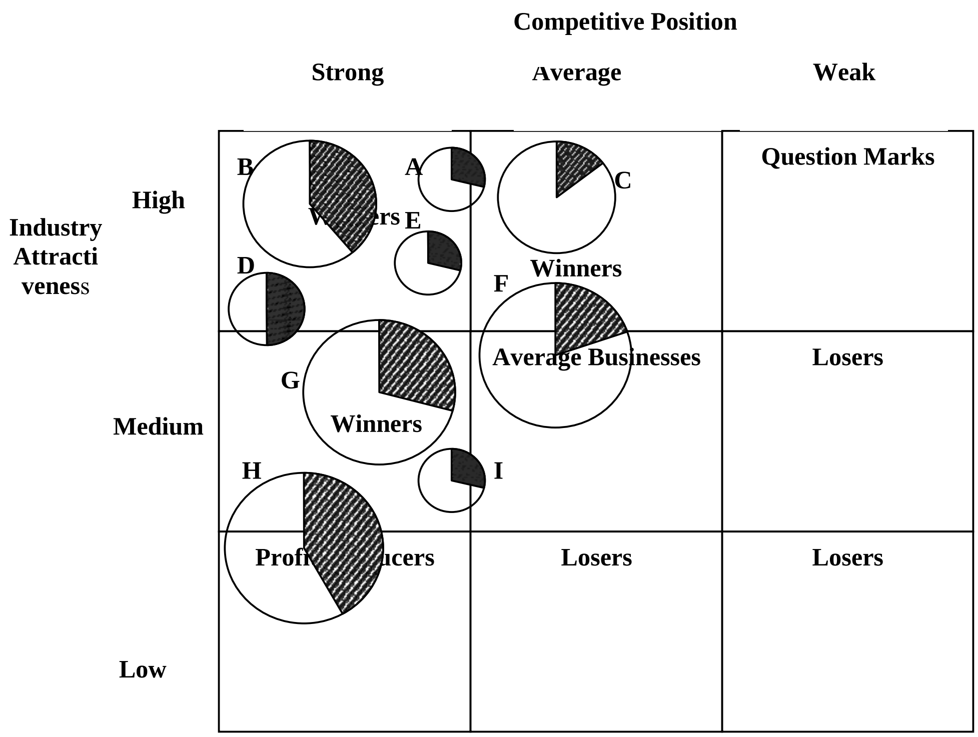

Figure 4.9

Source: Hofer, Charles.W and Dan Schendel (1977) *Strategy Formulation: Analytical Concepts*. West Publishing. pp 83.

According to Hofer and Schendel (1977) the portfolio analysis should yield a statement of the firm's current portfolio position as well as a forecast of its future position under the existing strategy. In order to develop a portfolio analysis, an organisation may follow the following steps:

- Choose the matrix to plot its position.
- Assess the **relative** attractiveness of industries it determines the long run performance of the business.
- Assess the organisation's competitive position in each industry. Can it derive benefits from the industry?

- Assess the unique opportunity and threats the organisation faces in each industry.
- Assess the unique resources of the organisation to match the opportunities/threat. This may alter the competitive position assessment.
- Plot the organisation's current portfolio.
- Plot a future performance portfolio.
- Assess what results business will attain with current situation.
- Assess the gaps and take decisions to either change the competitive strategies of some businesses or, remove some businesses from the portfolio or add some businesses to the portfolio or reduce the performance targets.
- Prune/strengthen/consolidate businesses as required.

Having allocated the resources, the organisation must also ensure that any problems that may have been caused or are likely to be caused by inadequacy or shortfall in managerial skills foresight and capabilities are removed by the corporate parent by sharing of skills, transference of learning and mediation. In multi-business companies, corporate parenting enables the headquarters to focus on core competencies and tries to create value among various business units by establishing relationships and a good fit between needs and opportunities of units and resources and capabilities within the firm. In corporate parenting, the corporate headquarters tries to achieve synergy among business units by allocating resources, transferring critical skills and capabilities among various units and coordinating the activities of shared units in order to attain economies of scope.

Developing a corporate parenting strategy involves three analytical steps.

1. Assess the critical success factors which are the basis of the unit's competitive advantage.
2. Are there any areas that need improvement? Can the parent contribute?
3. What is the fit between the parent's capability and that of the unit's? To what extent can they complement?

The parent's role is not to interfere but to develop. Therefore, corporate parenting requires restraint, exercise of mature leadership, and discretion.

Module summary

Summary

In this module you learned about the nature and scope of strategic choice. Strategic choice extends beyond merely deciding about which strategies to follow. The post-choice commitment is integral to the strategic choice process. The process of strategic choice process is both analytical as well as behavioural. It is as important to retain the managerial enthusiasm as it is to judiciously select the optimum strategy. There are four alternatives from which an organisation chooses its strategy stability, growth, retrenchment and combination. Within each of these options are various sub-options. Further, the organisation can develop a functional strategy to support its options and sub-options. This explains how different organisations can follow widely differing strategies leading to varying profitability in the same industry, other conditions being equal. There is no fixed manner in which an organisation decides upon strategies there are only indicative recommendations.

The process of strategic choice also entails commitment of financial and other resources through portfolio analysis and access to the cumulative knowledge and learning of the corporate parent through corporate parenting. Overall, as is the case with other aspects of strategic management, strategic choice too is an analytical process backed by managerial foresight commitment and vision.

Assignment

Assignment

Given below are the businesses in which Honda and Johnson & Johnson operate

Honda	Johnson & Johnson
Cars	Over the counter
Lawn Mower	Personal Care Products
Motorcycles	Prescription Drugs
Power Generations	Eyewear
Snow Mobiles	Cosmetic and Skin Care Products
Snow Blower	

You are required to identify:

a) The core competence on which the businesses may have been built.

b) The synergy the organisation may exploit

c) The markets in which the organisations operate

d) The pathways the organisations have adopted for growth.

Assessment

Assessment

Which organisations in your country are global and which have a regional leadership. Can the regionally dominant ones become global? What can be the possible hindrances to their becoming global organisations? List the factors under the heading of organisation factors, resource factors, risk factors, regulatory factors, and government factors. Assign weight to factors to be able to evaluate them in relative terms. You may add other factors.

References

Reading

Andrews, K. (1971). *The Concept of Corporate Strategy*. Bombay: Taraporevale Publishing Industries Private Limited.

Ansoff, H.I. (1968). *Corporate Strategy: An Analytic Approach to Business Policy*. Harmondsworth, Middlesex: Penguin.

Barlett, C.A. & Ghoshal, S. (1989). *Managing Across Borders*. Boston. Mass: Harvard Business School Press.

Brown, T. "The Essence of Strategy" *Management Review* (April 1997) pp. 8-13.

Hofer, C.W. & Schendel, D. (1977). *Strategy Formulation: Analytical Concepts*. Eagan, Minnesota: West Publishing.

Kenichi, O. (2005.) *The Next Global Stage: Challenges and Opportunities In Our Borderless World*. New Delhi: Pearson Publishing (Indian Reprint).

Porter, M. "From Competitive Advantage to Corporate Strategy". *Harvard Business Review* 45, no 3 (May-June 1987), pp 46-49.

Yoshino.M.Y. & Srinivas Rangan, U. (1995). *Strategic Alliances – An Entrepreneurial Approach to Globalization*. Boston, Mass: Harvard Business School Press.

Further Reading

Reading

Ghemawat, P. (2007). *Redefining global Strategy: Crossing Borders in a World Where Differences Matter*. Boston, Mass: Harvard Business School Press.