

## Chapter 4

### 4.0 Developing Corporate Strategy (Strategy Formulation)

Having familiarized with the basic concepts and process of strategic management, we can now start discussion on strategy formulation process covering the concepts, tools and techniques used for analysis and decision making involved in the process.

#### 4.1 Organisational Mission

The first step towards strategy formulation is a clear understanding of mission of the organisation. 'Every organisation relates its existence to satisfying some or the other needs of the society it belongs to<sup>1</sup>. An expression of the same is statement of mission of the organisation. The mission of the organisation provides the broad canvas on which the organisation proposes to work for a reasonably long period of time. It indicates the kind of economic or non-economic activities it will engage in to serve the society. For example a hospital may define its mission as health care for all. A university is created to provide education. Providing "Health Care" and "Education" respectively would be the mission of the two organisations. A mission is normally defined in a general way, to allow the organisation to take up a wide variety of product or services as its businesses. For example, providing "Health Care" gives the opportunity to include both the preventive and curative aspects of health care services. One can, thus, create a hospital, go for personal hygiene products/ services, yoga and so on. This mission statement allows one to be a manufacturer of medicines and or to open a nursing home. But all these activities are very close to each other when compared to providing "transport service". A shoe manufacturer, defining its business as "foot-care" may produce a large variety of footwear for different age groups, sex, economic strata, seasons, occasions and so on.

The organisation mission helps in binding together different business activities it takes up. Clarity of mission also helps enormously in preventing the organisation from drifting away from the path it had decided to follow. It also ensures against the swings that organisation may face if it behaves like an opportunist, engaging in activities which are not areas of its strength, but look attractive only due to favourable environmental conditions. Such a behaviour would not allow the organisation to develop necessary strengths on which it can build future businesses. It will not allow the organisation to develop any distinctive competence, a character, a personality of its own, which is essential for long term successful performance. The organisation mission also helps management in taking clear decision whenever it finds itself at the crossroads. Besides, it also helps in resolving sharp differences of opinion among the executives while taking organisational decisions. In a nutshell, organisation mission holds the evolution of the corporate strategy by default rather than development of corporate strategy by systematic and conscious design. A clear statement of mission is, thus, a very important task in strategic management. Even more important is the adherence to it in the face of short lived lucrative, tempting opportunities. It requires highest level of commitment of the top management to the organisation mission. Further, it should be buttressed demonstratively through organisational practices. Better still it may be articulated in organisational rituals so that one dare not question it in a casual manner.

#### 4.2 Objectives

Traditionally the objective of a business organisation was considered to be maximising profits. However, this treatment has long been discarded. The organisations are now assumed to have

multiple objectives, monetary as well as non-monetary ones<sup>2</sup>. They are defined in quantitative terms as well as qualitative terms. These changes in conceptual understanding of the word "objective" are of significance as they enlarge the applicability of the concept of strategic management (which originated from business organisations) to various types of organisations.

It is necessary to be clear about certain important aspects of the organisational objectives. Firstly, the word 'objective' should be understood clearly in terms of what organisation aims to achieve. It is the statement of ends not the means. The latter are expressed in terms of strategies to achieve the objective. There should be no mixing of objectives with strategies while expressing the objectives, else it leads to enormous confusion all along the organisation.

Secondly, there are long term objectives as well as short term ones<sup>3</sup>. The long term objectives may be called "Goals", which are more general statements of what an organisation is trying to achieve, which helps in gearing the organisation to achieve them (i.e., long term investments in facilities, R and D, Human Resources in changing the organisational Systems and Policies etc.). There is a need to express short term objectives in more concrete terms so that they can be used for setting targets to be achieved, for measuring performance, for taking corrective action and for rewarding good performance etc.

Thirdly, in view of the fact that an organisation may have multiple objectives, there is a need to clearly prioritise<sup>4</sup> them, so that it allows clarity and ease of decision making in situations when there is an apparent clash of objectives. This should not be left to be interpreted at the operational level.

Fourthly, the objectives are rarely decided by one person or set of persons, say management<sup>5</sup>. It is the culmination of the pressures exerted by various constituent members of the organisation forming the co-operative system. This fact must be fully realised, as refusal to do so implies the negation of the realities of the political process involved in the objectives setting process. Objectives are only as much "set" by the management of the company as they are determined by the political process.

Fifthly, any objective has two different options open, it may be expected to be maximised, or satisfied<sup>6</sup>. Taking into consideration of multiple objectives, the task may be that of optimising them. What option is to be exercised has to be carefully examined and considered before expressing the objectives?

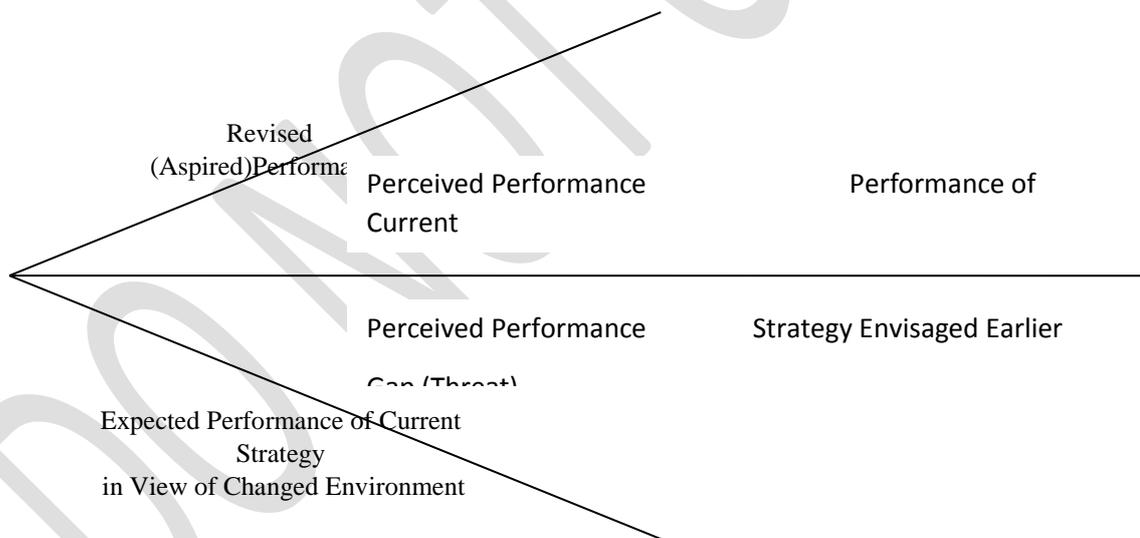
Sixthly, it must be noted that the declared objectives<sup>7</sup> at times differ from the actual or the operating objectives. This happens on account of such things as the management of the company being unable to negate explicitly and openly the expectations of some important constituent members. However, while taking downstream decisions like resource allocations, rewarding performance, developing functional policies, they effectively kill one or more of such objectives. It, however, creates enormous confusion in coordination and integration of organisational effort. There should be clarity (which may be informally brought about at least among the top management) about the objectives and their priorities, so that different executives do not give wrong signals to the levels below.

Finally, it should be noted that the objectives are not only an input for generating the strategic alternatives, they also become one of the key criteria for final selection of strategy.

### **4.3 Strategic Performance Gap**

The drive for environmental analysis is the actual or the perceived gap (see fig. 4.1) between the desired performance of organisations in the future and the expected performance of the organisation following the current strategies<sup>8</sup>. The gap may be with reference to the performance of current strategies envisaged earlier or due to enhanced aspiration for performance. The larger the gap perceived the more the pressure and concern for action. It would be realised that the longer the time-frame considered, the more magnified is the perceived performance gap, and hence more the pressure for action for doing something. If only a short period of one year or less is considered, the trends and events that may have negative effect (threats) or even positive effect (opportunities) may not be visible enough to work as a strong driving force for change in the strategy. The consideration of longer time period is, thus, a key element in strategic management.

Since time period is a key element in strategic management, the long term orientation is a prerequisite for the strategist. Since members of top management especially the chief executive constitute the "strategist", their tenure in the office, and, thus, their commitment to the future of the organisation becomes a key requirement in the strategic management. This becomes all the more important in view of the requirements of clarity and commitment to strategy and the resourcefulness required during the strategy implementation. Organisations, which do not have strategists in place for a term of 5 years or so may find it extremely difficult to realise the benefit of strategic management for shaping its future.



**Fig. 4.1 Strategic Performance Gap**

While the pressure for superior performance in the future emanates from the perceived strategic gap, it depends mostly on the strategist and the insiders like top management. Sometimes pressure for improving performance from poor past performance also develops from other stakeholders like suppliers, owners, financial institutions, government etc., who in normal course display a rather dormant behaviour, contented with just a reasonable performance. In poor performance situations, they also get concerned. Hence they start exerting pressure for change. The pressure may be so strong that it may even throw out the people who were expected to play the role of the strategist.

## 4.4 Environmental Analysis

The increased performance gap triggers environment analysis to bridge it. There are several important points to be noted to retain clarity in this most hazy management task and process. The primary reason of the environmental analysis is to identify the threats as well as the opportunities developing in the organisation's environment. But one may wonder about "threat" to what? The analysis of "threat" is to examine the developments in the environment that may render the current strategies ineffective or irrelevant and, thus, jeopardise the short/long term survival of the organisation. Thus a perceived performance gap emerges (see fig. 4.1), which demands search for new opportunities to bridge the perceived strategic gap so developed. This is one type of identification of opportunities which is guided more by satisfying criteria.

On the other hand, the search for opportunities may start on account of increase aspiration of the strategist for superior performance marked with such concerns like "exploit the opportunities developing, as much as possible".

How do the threats or opportunities develop? Paradoxically the same basic trait of human beings is responsible for creating both the opportunities as well threats. It is our short sightedness or parochial view that hinders our way to tackle them smoothly. Maslow<sup>9</sup> had long back argued that the driving force for all the human action is the urge for satisfaction of one or more needs. These needs go on changing. Thus a customer who was happy with a product say black and white TV at some point of time, now wants smart colour TV with computer, multimedia and internet connectivity. An employee who was willing to work for 1000 rupees when he was not getting it, wants more, once he gets it. Since the expectations of all the stakeholder change from one point of time to another, the boundary relationships with organization change and the organisation face threat. It must be remembered that while the changes in expectations of each of the stakeholder of the organisation may pose a threat to the organisation's survival, the same development also provides opportunity to cope with the threats. The customer is prepared to pay a different price for the improved products and the employees are prepared to work even harder with improved rewards. This requires readjusting the boundary relationship. Hence the need for constant perusal of the environment.

### 4.4.1 Approaches to Environment Analysis

There are two different approaches to the environmental analysis viz., the resource based or inside-out approach and the outside-in approach<sup>10</sup>. In the first approach popularly known as SWOT analysis<sup>11</sup>, the strategist looks at the environment for opportunities and impending threats (if the current strategies alone are pursued in the future), using a map of organisation strengths and weaknesses. This approach is often followed by the organisations, which have a lot of internal strengths like R & D, marketing etc., on which they wish to build up the business. They typically want to move in a related area only, even if there were bountiful of opportunities in another field or industry.

On the other hand, organisations that have some non- R & D strengths (like ability to raise finance, project management strength or ability to manage licenses) and are very successful in a particular field, (and have a lot of cash or profits) are guided by objective of high growth (even if it means moving into uncharted areas), look out for industries having high growth potential, following outside-in approach. For them any particular industry does not matter since

they have to acquire or develop a good number of newer strengths whichever industry they enter. They develop environmental threat and opportunity profile (ETOP) independently and prior to strength and weakness analysis. In this approach of analysis, firstly an analysis of environment is done. This leads to identification of few new areas of major interests. Once this is completed more intensive analysis is undertaken for forecasting the demand, to have a closer look at competitors, input suppliers and industry regulations, entry barriers etc. This is followed by strength and weakness analysis to identify strengths to be developed or acquired to meet the demands of business. This approach is very popular in developing countries like India, with a large market and the core strength is generally, not R & D (which leads to relatedness<sup>12</sup>).

It may be noted that neither approach can be called definitely superior to the other, as strategists following either of the approaches have been observed to have achieved good and bad results alike.

Although it is important and necessary to note the developments/ changes in the organisation's environment to be able to ward off threats to performance and to identify an exploit/ create opportunities for improving the performance, not all the developments are relevant for every organisation and one selectively focuses analysis on relevant part of the environment. Thus there is a focal zone formed for analysis see section 4.4.5

Whichever approach (inside-out or outside –in) is followed it leads to identification of few strategic alternatives. More intensive analysis is then done in those industry sectors to narrow down the choice. After that detailed analysis vis-à-vis the key competitors is done to select most appropriate corporate strategic options, which are to be tested on various parameters (discussed in section 7.7) before finally selecting corporate strategy.

The environment developments can be classified into two major categories. One the broad, general environment and the other immediate or unique, specific industry sector environment relevant to the organisation.

#### **4.4.2 Analysis of Broad Environment**

The broad environment has several components or sectors as indicated below<sup>13</sup>.

##### **a) Economic**

General economic conditions, GDP growth rate, monetary and fiscal policies, balance of trade and payments, forex rates and reserves etc.

##### **b) Socio-cultural**

Includes demographic factors such as change in population patterns, shifts in age, literacy and income levels, social stability, occupational patterns, social relations, general discipline, law and order conditions etc. It also includes religious/ caste patterns, socio religious setting, religious sensitivities, tolerance and harmony, customs and festivities etc.

##### **c) Political**

Political stability, and heterogeneity, pre-disposition and harmony, international relations.

**d) Technological**

Level of technological sophistication, advances to create and sustain new product development, ability to manufacture and scale up, supplier base for raw material and components etc.

**e) Regulatory**

Degree of regulations governing business, reservations, licensing, control over cross border flow of technology, funds and manpower, tax and duty rates, subsidies, control over mergers and acquisition, complexities and difficulties in starting and exiting business etc.

**f) Ecological**

They include such factors as climatic conditions, environment laws and general concern for ecology etc.

**g) Judicial**

Enforcement of laws, ensuring justice and fairness, intolerance to corruption attitude and so on.

The broad environment also covers such factors as the general societal expectations of not only being good law abiding corporate citizens but also to be socially responsible corporate citizens who take up activities that help social cause like education, health and hygiene, helping disabled etc. which are not in the domain of business.

It may be noted that each of these environmental sectors influence all the constituent members (discussed above) albeit, in varying degrees. Therefore, a critical analysis is required to see the development with reference to all the stakeholders. Care should be taken that environmental analysis is not lop-sided (centred around the customers alone) and other factors such as the inputs suppliers' environment are not attended properly. One must be careful of such oversights which may prove costly, especially in the Indian context.

**4.4.3 Environment Threat and Opportunity Profile (ETOP)**

The analysis of environment leads to development of environment threat and opportunity profile (ETOP). This can be done by assigning a positive sign to factors that are likely to have positive impact and a negative sign to factors that may have adverse impact on the business of the organization (see table 2). It may be better if a rank (high, low or medium) is also assigned.

TABLE 2  
Environmental Threat and Opportunity Profile (ETOP) for  
Vindhya Pradesh Matysa Vikas Nigam (Fisheries Corporation)<sup>14</sup>

Environmental Sector	Impact on the Company
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SOCIO-ECONOMIC	<ul style="list-style-type: none"> <li>- Low purchasing power of fish farmers</li> <li>- Low awareness of scientific fish farming</li> <li>+ Large demand-supply gap in feed seeds</li> <li>- Increasing power of intermediaries e.g: contractors</li> <li>- Land-locked state.</li> <li>+ Abundant natural water resources</li> </ul>
TECHNOLOGICAL	<ul style="list-style-type: none"> <li>- High perishability</li> <li>- Water pollution increasing.</li> <li>+ Cold-water fisheries possible</li> <li>- Deep-sea fishing absence</li> <li>+ Integrated (paddy field) fishing possible</li> <li>- Difficulty in producing 'A'category fish seed.</li> </ul>
GOVERNMENT	<ul style="list-style-type: none"> <li>+ High stress on fisheries as Export area</li> <li>- Interference in day to day functioning</li> <li>+ Financial institutions support</li> <li>- Policy shifting towards privatisation</li> </ul>
CUSTOMER	<ul style="list-style-type: none"> <li>- Fish Farmer development Agent's increasing control</li> <li>+ Fish farmers/societies in need of amenities and housing</li> <li>+ Private sector in need of hatcheries</li> <li>+ City-dwellers with fish eating habits.</li> </ul>
SUPPLIER	<ul style="list-style-type: none"> <li>- Increase in cost of construction material</li> </ul>
COMPETITOR	<ul style="list-style-type: none"> <li>- Entry of private sector</li> <li>- Lower cost fish seed import from another state</li> <li>+ Increase in the cost of end products of fishes in restaurant's and hotels.</li> </ul>

It may be noted that these developments may not be there already but likely to happen. As a further refinement therefore, the probability of development actually materialising may also be assigned. For example, if expectation is that the economy is likely to grow at 7%, what is probability of it materializing? Accordingly a probability score may be given (high, low or medium), to get a better picture.

#### **4.4.4 Sources of Information for Environment Analysis**

How the information is gathered about the environment developments? There are primary and secondary sources of information. An important primary source is the company executives themselves (at the top, senior and middle levels), who are in constant touch with various stakeholders like the customers, suppliers, financial institutions, government officials, regulatory authorities, industry association etc. Their firsthand experience and perceptions are good source of information. The other sources are consultants who can undertake specific analysis for the issues which are most important to the organisation.

The secondary sources are published specific and general reports in newspapers, trade journals and papers, independent research papers by scholars etc.

It may be noted that more precise information is required for unique or immediate environment. More precise quantitative estimates are also required and possible for this.

#### **4.4.5 Focus of Analysis**

Environment analysis and its interpretation is a costly and time consuming affair and one has to keep this factor in mind while undertaking the analysis<sup>15</sup>. Because of the costs and time involved on the one hand and the organisation's limited financial and specialist human resources on the other, the degree of environment analysis gets more focus on certain sectors than others as shown in the figure 4.2 below.

The factors that lead to creation of focal zone are:-

1. Dependence on the sector
2. Extent of development of the sector
3. Level of hostility in the sector
4. Level of volatility/ uncertainty in the sector
5. Time pressure for analysis and cost of it
6. Complexity of environment

#### **4.4.6 Analysis of Unique/ Industry Environment**

After analysis of broad environment and general strength and weakness analysis, broad strategic alternatives may be identified. More detailed analysis of industry sectors relevant to which those strategies alternatives can then be undertaken.

The environment unique to the organisation comprises such factors<sup>16</sup> as the

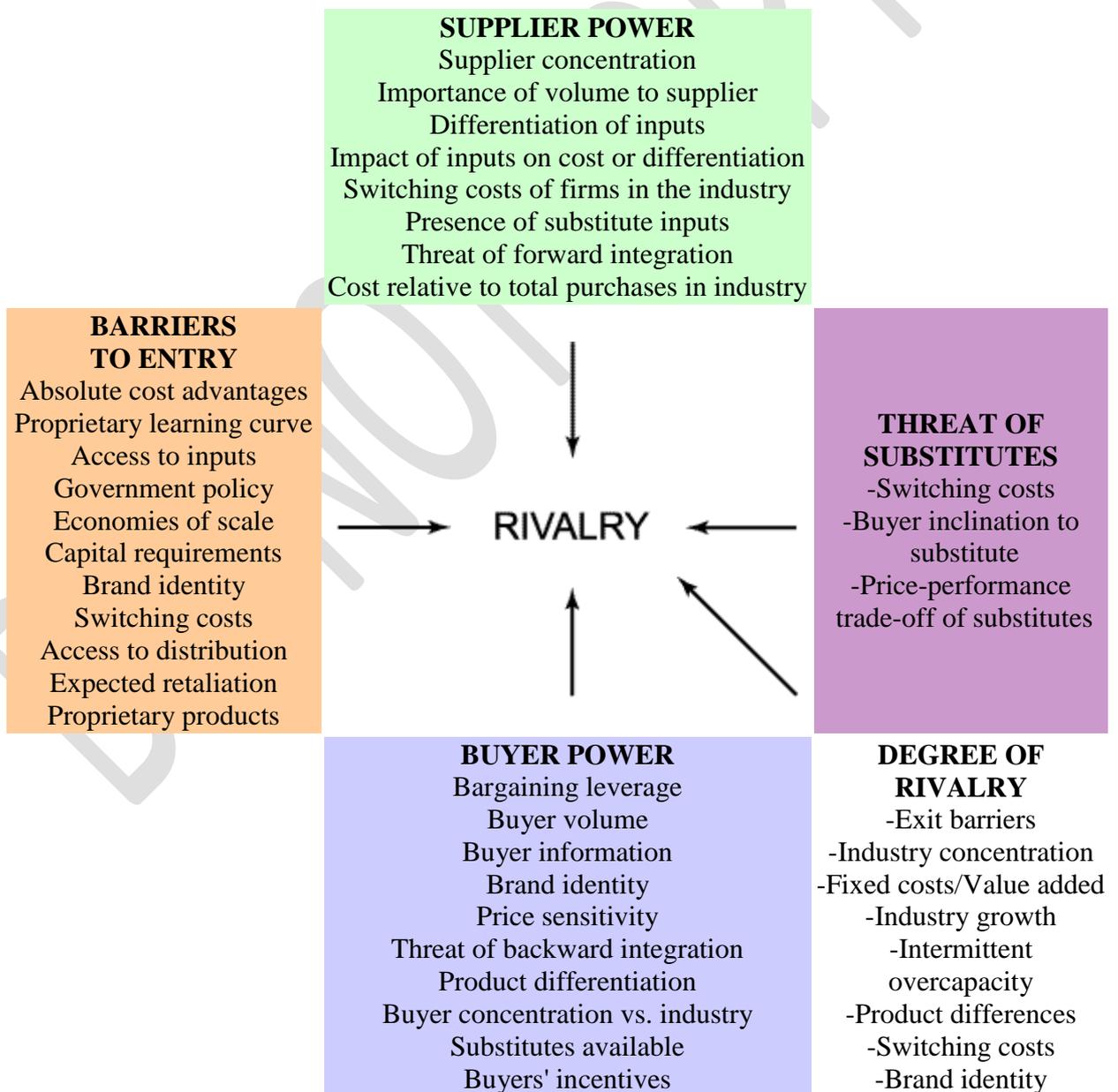
- Condition of industry to which it belongs.
- Its growth potential, profitability,
- Level of competition,
- Entry and exit barriers
- Characteristics of the customers
- Characteristics of suppliers of raw material, components, subassemblies,
- Labour market conditions,

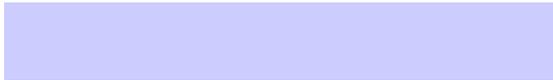
Cost and availability of funds, energy and other inputs,  
 Potential for new entrants (especially from unexpected corners) etc.

Michael Porter has given a more comprehensive framework for industry analysis for the purpose as described below.

#### 4.4.6.1 Framework for Industry Analysis

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure. Michael Porter provided<sup>17</sup> a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.





-Diversity of rivals  
-Corporate stakes

Fig. 4.2 Framework for Industry Analysis

It may be noted that general economy growth and decline does not mean that all the sectors of economy are growing or declining. The impact varies from one industry sector to another. Likewise high level of competition is not prevalent in all the sectors alike. So are the technological changes. It is therefore important to do more close analysis for development of the industry sector to which the organisation’s business belongs. However, a general view of other sectors is also important to avoid losing out opportunities which may be emerging or which can be created due to certain developments and in view of the existing under or unutilised resources and infrastructure of the organisation

**4.4.7 Techniques of Environment Analysis**

The environmental analysis may be done using different forecasting technique<sup>18</sup> (see table 4.2). It may be mentioned here that different environmental sectors differ in terms of precision required in forecasting, the rigour of tools and techniques available for forecasting, the data availability, continuity in data required for forecasting, the impact of inaccuracies on the performance of organisation etc. For example, it is lot more easy to forecast the economic environment (the tools and techniques of forecasting being more developed) than the social environment, which is very important for the introduction of a new product of mass consumption. The level of difficulty in the forecasting of the technological environment is much higher than that required for social or economic environment. There is a lot more discontinuity in the political environment (which is marked with unpredictable events) than other environment components, where it is easy to find trends.

TABLE 4.2  
Environment Components and Appropriate Analytical Techniques

Technique	Short Description	Cost	Popularity	Complexity	Assn. with life-cycle stage
<b>QUANTITATIVE:</b>					
Econometric models	Simultaneous systems of multiple regression equations	High	High	High	Steady state
Single and multiple regressions	Variations in dependent variables are explained by variations in the independent one(s)	High or Medium	High	Medium	Steady state
<b>TIMES SERIES:</b>					

Trend extrapolation	Linear, exponential, S curve, or pther types of projections	Medium	High	Medium	Steady state
	Forecasts are obtained by smoothing (averaging) past actual values in a linear or exponential manner	Medium	High	Medium	Steady state
<b>QUALITATIVE (JUDGEMENTAL):</b>					
Sales force estimates	A bottom-up approach aggregating salespersons forecasts	Low	High	Low	All stages
Juries of executive opinion	Marketing, production, and finance executives jointly prepare forecasts	Low	High	Low	Prod. Devpt.
Anticipatory surveys	Learning about intentions of potential customers or plans of businesses	Medium	Medium	Medium	Mkt. testing & early intro.
Market research scenario	Forecasters imagine the impact of anticipated conditions	Low	Medium	Low	All stages
Delphi Brainstorming	Experts are guided toward a consensus	Low	Medium	Medium	Prod. Devpt.
	Idea generation in a non-critical group situation	low	Medium	Medium	Prod. Devpt.

Source : Adapted from J.A. Pease, II, and R.B. Robinson, Jr., "Environmental Forecasting: Key to strategic Management", Business, July-Sept. 1983 p.6

Further, the requirements of precision in analysis also vary from one component to another. For example, a minor mistake or slip in technological environment may result in complete loss of competitive edge. One cannot approximate it, as it tantamounts to asking one's approximate telephone number. But this level of precision is neither necessary nor needed in forecasting economic environment. It may be noted that the purpose here is not to negate the importance or precision in general but to caution against assuming them to be alike.

For the purpose of environmental analysis to identify opportunities, some a priori definition of market is imperative<sup>19</sup> for assessing the market potential. The market of interest may be only local (a village or city), regional (say a state) or national (the whole country) or even international. The apriori definition of market also creates problems as the diversity of environment (and thus the complexity and cost of environmental analysis) increases

exponentially with the definition of market so much so that an organisation may find it difficult to afford a comprehensive analysis. This creates a dilemma. Too wide a definition results in increased cost and uncertainties and too narrow a definition may lead to loss of wonderful opportunities.

Environment analysis tends to be unique to the strategists, because what may look an opportunity to one, may not look the same to another. Indeed, what may look to one strategist as a situation of threat, may appear a situation full of opportunities to another. It is the entrepreneurial orientation<sup>20</sup>, the confidence in one's abilities to realise the dream that makes the difference. This confidence in oneself emanates from one's past experiences of developing organisational strengths and infrastructure and mobilising the resources to realise some dreams or having solved an apparently unsurmountable problem by one's strong creative problem solving abilities. The significant competencies required to play the role of "strategist" successfully are discussed in a subsequent section. This makes the development and acceptance of a shared world view among the members of the top management team a difficult task, as for an architect it is difficult to convey a user about the design developing in his mind. Organisations that have not been having suo-moto strategic planning or some undisputed leaders face serious problem in environmental analysis on account of this issue.

#### **4.5 Strength and Weakness Analysis**

Although in the strategic management process given in fig. 5, the environmental analysis has been shown as a step preceding the strength and weakness analysis in the model of strategic management process, this need not be so, neither it may be desirable to do so. The reason for presenting this approach is more to highlight the importance of analyses of threat due to changes in the environment that may jeopardise the efficacy of the current strategy for future performance of the organisation, rather than looking at the opportunities to be exploited, based upon the strengths of the organisation. In a way the model also highlights the importance of outside-in approach of environmental analysis that is observed to be a very commonly followed strategy in India so far.

TABLE 4.3  
Typical Functional Area Profile<sup>21</sup>

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#### **Marketing**

1. Application of the marketing concept produce a sense of mission and integrated effort.
2. Appropriate means of identifying customer needs and meeting them with new or improved products
3. Appropriate segmentation and targeting of markets.
4. Ability to select and manage distribution channels.
5. Appropriate selection and mix of promotion techniques effectiveness in target market or markets.
6. Pricing flexibility used as competitive weapon.
7. Ability to describe customer behavior in relation to new product introductions.
8. Ability to predict shifts in customer needs and to formulate new segments.
9. Productive, motivated sales force.
10. Effective advertising promotion.
11. Good product planning based on product life cycles, style, and fusion cycles.

## **Operations**

1. Facilities are located close to raw materials, transportation hubs, and or customers.
2. Facilities have up-to-date equipment and are well maintained.
3. Process is designed for efficiency and workers.
4. Product is consistently at the chosen level of quality.
5. Routing, scheduling, inventory, and purchasing techniques minimize production delays.
6. Maintenance is performed with a minimum of downtime.
7. Production costs are consistently close to or below budget.
8. Deadlines are consistently met; orders are filled on time with few returns.

## **Finance**

1. Cost of capital is at or below industry average.
2. Working capital is readily available to finance growth.
3. Stockholder relations are good.
4. Relations with funding institutions are good.
5. The capital structure provides leverage, security, and flexibility.
6. Short-term creditor relations are good, and short-term credit is readily available from suppliers.
7. Financial control, budgeting, and allocation techniques are used appropriately.
8. Sources and uses of funds are appropriately matched.

## **Personnel**

1. Job descriptions exist for all jobs and are up to date.
2. Recruitment and selection methods are appropriate and yield qualified employees.
3. Desirable employees are not lost to competitors with better salary and or benefits.
4. New employees receive appropriate orientation and training.
5. Turnover and absenteeism are at or below industry levels.
6. Layoffs are rare because of planning and cross-training.
7. The organization is a good source for middle-and upper-level managers because of employee development programs.
8. Labor relations are rarely disruptive.
9. The organization is in compliance with relevant legislation.

## **R & D, Engineering, and Technical**

1. The technical focus is appropriate.
  2. The technical focus produces results in new and improved products and! or new and improved processes:
  3. The technical focus yields advances ahead of or close after competitors.
  4. Technical efforts are cost-effective, and all cost-effective sources of technical improvements are utilized.
  5. Technical efforts are strategically sound.
  6. Technological changes are forecasted.
  7. A critical technical mass exists and is respected by peers.
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The inside-out approach of environmental analysis, which involves strength/weakness analysis before identifying the opportunities, sharpens the focus and facilitates the exploitation of possible synergies to a higher level and reduces the aspect especially. It may be desirable to have some analysis of key organisational strengths/weaknesses (without constraining the environmental analysis too much by over defining strength/weakness) as a guide for searching the opportunities. A more desirable approach may be to analyse environment to identify threats of current strategies followed by strength and weakness analysis to identify opportunities for bridging the strategic gap shown in fig. 4.1.

#### 4.5.1 Strategic Advantage Profile (SAP)

The strength and weakness analysis may be done by functional audit (see table 4.4) of different areas; marketing, finance, design/engineering, operations etc.<sup>22</sup> The audit is to be done in terms of the quantum and quality of skills and the infrastructure support available in terms of physical facilities, financial, organisational as well as intangible resources (like network resources, brand, goodwill etc) and the speed and flexibility with which they may be deployed. The efficiency and reliability of systems to meet the task demands too needs to be evaluated. The strength and weakness analysis has to be done at two levels. One with reference to the industry and the other with reference to the key competitors<sup>23</sup> (see fig. 4.2). Every industry has some unique factors associated with it, called key success factors. An organisation doing business in the industry must focus on acquisition and development of strengths to properly cater to these factors. The organisation may, however, succeed in an industry even if it is weak in some respects, as the customers or other constituent members may have no other choice. The situation, however, may change dramatically if other competitors enter the industry. The second level of analysis, vis-a-vis the competitors, therefore, gives a better idea of what the organisation can do for the existing business and where it may move to diversify. The analysis may be presented in form of Strategic Advantage Profile (SAP) as shown in table 4.4 or fig. 4.3. Distinctive competencies (i.e., competencies that are transferable to other business) give fairly good idea of directions or areas in which the organisation may move in the future. It is the identification of distinctive competencies which is necessary to search for opportunities (as referred to earlier) even if an organisation follows outside-in strategy

TABLE 4.4  
Strategic Advantage Profile (SAP)  
Vindhya Matysa Vikas Nigam Ltd (Fisheries Corporation)

Internal Area	Competitive Strength/Weakness
MARKETING	<ul style="list-style-type: none"> <li>- Narrow fish-seed product line (Katla, Rohu, Nain seeds)</li> <li>- Undeveloped marketing network</li> <li>- No market research</li> <li>+ New products and areas of production of seed (Sewage fed fish + prawns)</li> <li>- Channels of distribution</li> <li>+ Geographic coverage by offices</li> </ul>
RESEARCH & DEVELOPMENT	<ul style="list-style-type: none"> <li>- Research capabilities of Nigam</li> <li>+ Duck-cum fish farming, cold water fish</li> <li>- Packaging developments being created</li> </ul>

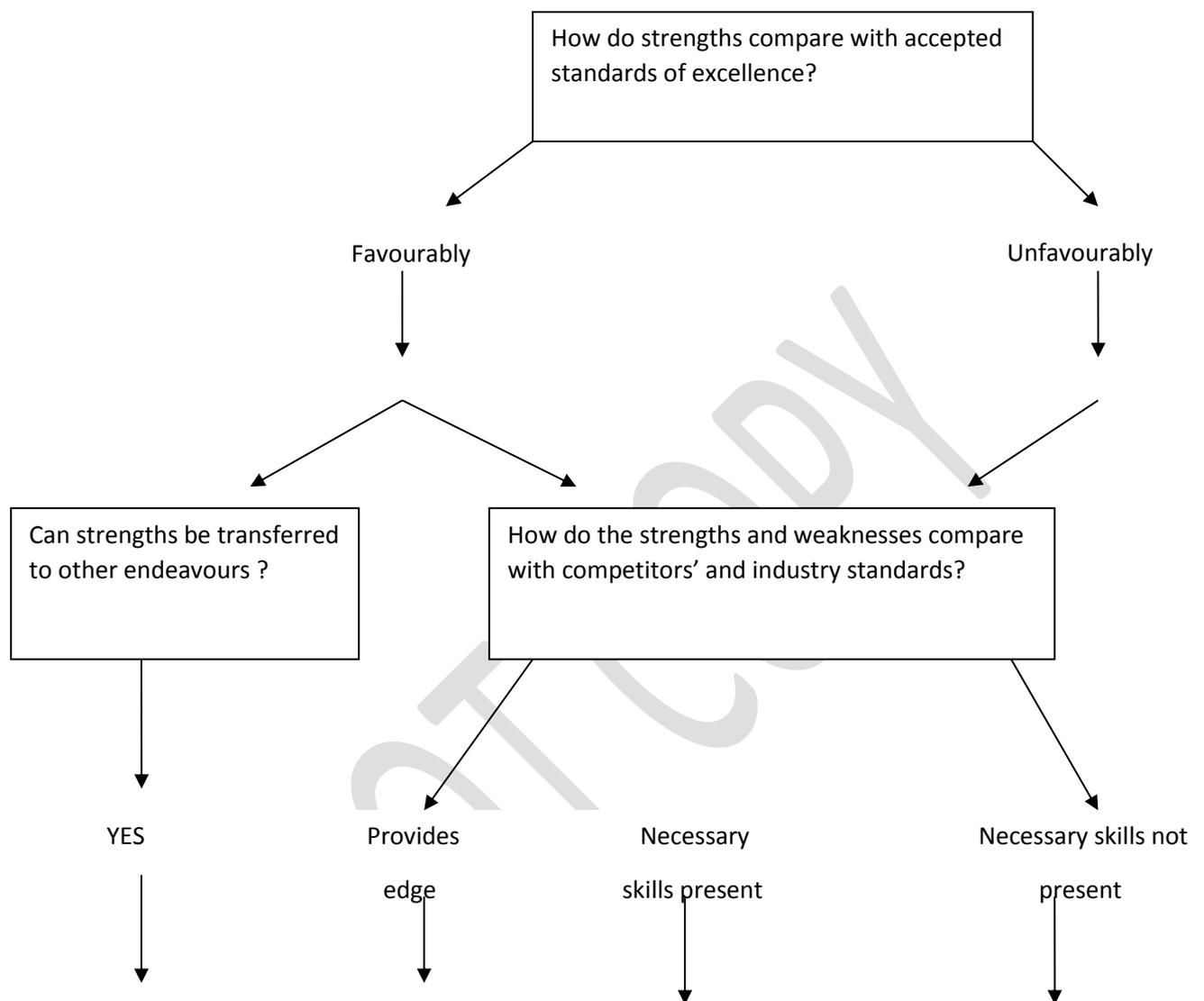
- Laboratories
  - Trained and experienced scientists & technicians
- PRODUCTION & OPERATIONS
- + Lower cost of production compared to private sector
  - Capacity to meet market demands
  - + Effective and Efficient production hatcheries
  - Effective and efficient storage and transportation facilities.
- CORPORATE RESOURCES AND PERSONNEL
- Shortage of employees

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**Related & Horizontal** Concentric diversification into seed production for-

- Cold-water fisheries (foothills of Himalayas)
- fish-cum duck farming (duck droppings can be used as fertilisers to increase fish production in farm)
- Integrated fish farming i.e., fish and paddy cultivated together.
- Developing products used for fishing boats, nets etc.

Strength and weakness analysis is a real test for management. Often organisations do not realise what their strengths are. There is a lot of "Hanuman effect"<sup>24</sup> (a person not knowing his enormous powers unless someone reminds him of it). Managers often look at the resources in very mechanistic way. The same resources can be put to alternative uses, thus improving their utilisation. This is especially so in the case of human resources, which is often reduced to head count only. Different levels of excitement (through appropriate motivational strategies) can draw astonishingly different levels of outputs from the same



Strengths:

Competitive advantage:  
competitors

Meeting business requirements:

Key vulnerability:

Distinctive competence:

what the organisation does well

what the organisation does better than

what all competitors must do to succeed

what is subject to competitors' attack

transferable skills

Fig. 4.5 Flow Chart for Determining Strategic Significance of Strengths and Weaknesses

Source: Strategic Management Rue. Leslie and Holland, Phillis G., New York,(1989), McGraw Hill, p. 133.

people, thus "unearthing" hidden resources<sup>25</sup>. Ability to organise for united action provides to the-organisation the strength of a rope which is far beyond that of its' strands<sup>26</sup>. One key reason for managers' inability to unearth such "hidden" resources is the lack of assessment of one's potential for performance. Personnel appraisals are often limited only to one's performance on a job, wrongly assigned. The superiors rarely try to find out the subordinate's "other" abilities, because the latter was never given an opportunity to do other jobs which would reveal them. It is the creative thinking and concern for grooming of subordinates that facilitates identification and "exploitation" of the real strengths of the people and, thus, of the organisation. These issues have been dealt with in more details in the chapter 8 on strategy implementation.

While the tentative description of key strength/weakness is good for starting the environmental scanning, a more rigorous strength/weakness analysis is imperative once some opportunities have been identified to match the strengths and weaknesses.

It may be mentioned here that analysis of strength and weakness and environment is not a mechanistic exercise but involves lot of innovative thinking and creativity to develop strategic alternatives and competitive strategy.

### **Review Questions**

1. What is the role of Mission in strategic management?
2. How the corporate objectives arrived at? Differentiate between objectives, strategies, policies and action plans with examples.
3. What is strategic performance gap? How does it get created?
4. Discuss different approaches to environment analysis.
5. What is the difference between analysis of broad and unique environment of a firm? What purpose they serve?
6. What is focal zone in environment analysis? What factors influence it?
7. Explain the process of developing SAP. What ways it different from development of ETOP?
8. Discuss various techniques of environment analysis? What are their limitations? How they are taken care?
9. Describe the framework for industry analysis? Are there any limitations?

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