# Chapter 6

## 6.0 Selection of Strategy

For selection of strategy from amongst a number of options available, one needs certain guidelines and criteria to be used for the purpose. Indeed, a lot depends upon the strategist's perception of the environmental threats and the opportunities available, as well as his perception about the strengths and weaknesses of is organisation.

## 6.1 Strategic- Need Gaps, Strategic Conditions, and Alternative Dimensions

Having drawn the environmental threats and opportunity profile (ETOP) and the strategic advantage profile (SAP), one can have a broad idea of the choice one should make. The selection of strategy is a multi-stage selection process. First, the broad areas are identified, then additional criteria are applied to decide the final choice of strategy. The approach given by Jauch and Glueck[1] is a simple but comprehensive one to follow as shown in the fig. 6.1.

I---------Gap narrow-------------------------Gap larger---------------------------------------I
I-----ETOP shows stability--I--ETOP shows opportunity---I---ETOP shows threat-----I
I---- SAP shows strength-------I-------------SAP shows weakness-------------------------I
I---- Stabilize-----I------------Expand----------I----------------Retrench-------------------I
I---- Pace change----------I------------Business definition change--------------------------I
I---- Internal change---------------I--------------------------Ex tern al change--------------I
I---- Related change---------------I-----------------Unrelated change-----------------------I
I----- Horizontal-----------I-----------------------Vertical integration-----------------------I
I----- Passive---------------I-------------------------Active------------------------------------I

Fig. 6.1 Broad Criteria for Selection of Strategy

## 6.2 Techniques Used in Selection of Strategy

There are several other guidelines/ criteria which may be used for making strategic choice.

### 6.2.1 Product Life Cycle

Every product passes through a series of typical phases in its developmental process (fig. 6.2) starting from conception, commercialisation, growth, maturity and decline[2]. What is new becomes obsolete after few years. Although there is no definitiveness about the exact time in any phase for any particular product, the phases are clear and definite, though not easy, it is imperative to have a broad idea of the stage of product in its life cycle. The product life cycle is an important concept. The strategist should avoid undertaking a product which is in decline phase and must start withdrawing it timely, else it may be difficult to get out of it. The firm must have few new products in the pipeline so as to build future growth upon them, when the existing product would reach maturity or decline phase. It should neither have too many products in embryonic stage, nor in maturity, nor even in the growth phase. The product in growth phase requires rapid expansion of .physical and organisational infrastructure, which may demand too high a. level of resources than what the management may be able to mobilise or develop (A clearer idea of this would appear while discussing BCG matrix). In a nutshell, the use of product life cycle concept pleads for a balanced product portfolio for managing growth at a steady pace, without missing out opportunities on the one hand and running the risk of sickness on account of obsolescence on the other.

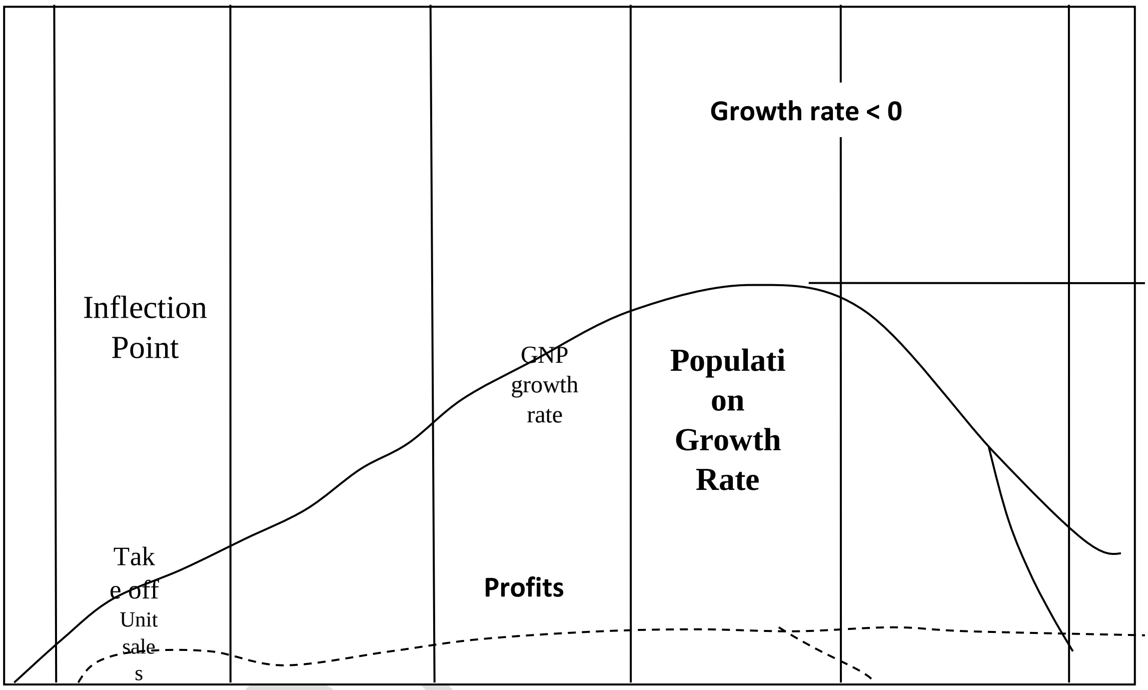
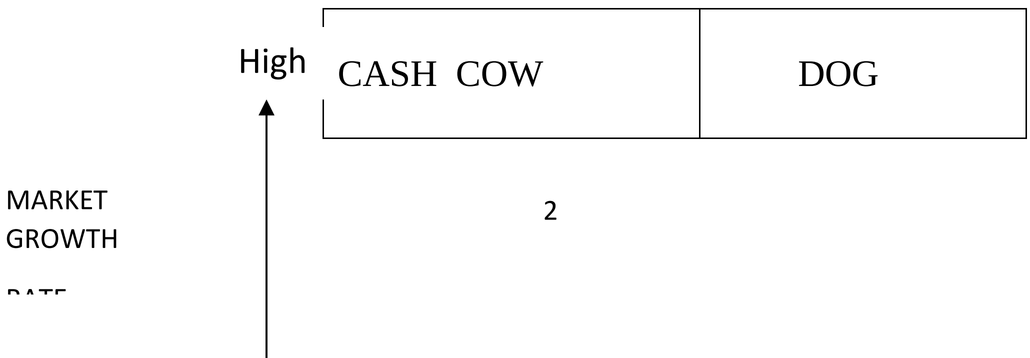
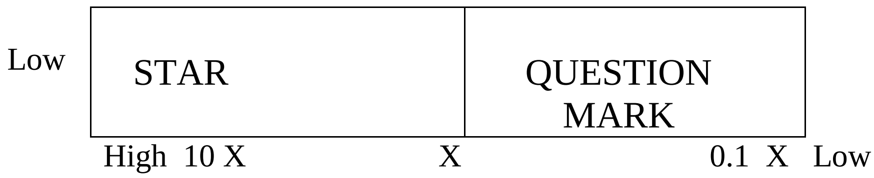



Fig. 6.2 Product Life Cycle

### 6.2.2 BCG Matrix

The BCG matrix[3] (see fig. 6.3) suggests that a company should avoid having (or divest, if one was already there) a "Dog" business and conserve organisational resources to deploy in the "stars". The question mark (?) should either be converted into a "star" or the firm should get out of it, if organisation was finding it difficult to do so. A portfolio of "cash cows" and “stars" may be very appropriate. "Star" is the happiest position, but all "star" businesses can at times create cash crisis due to the inadequacy of internal cash generation to meet the growth requirements of all the "stars". "Cash cow" is a comfortable but not a desirable state to stabilise, as the product business having reached maturity phase will soon enter into decline phase.






Market Share Compared to Largest Competitor

Fig. 6.3 BCG Matrix

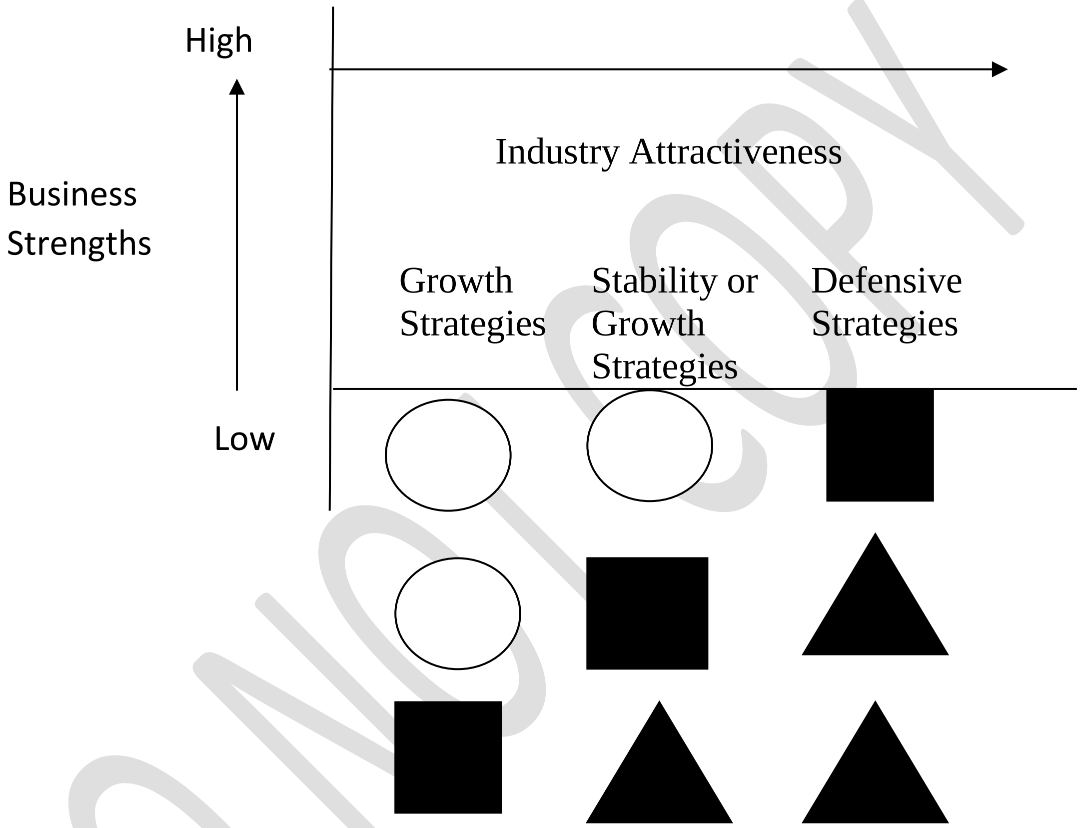
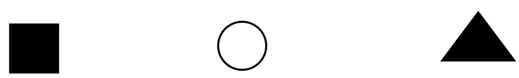



Fig. 6.4 GE Matrix





It would be noted that the BCG matrix guidelines are based upon the consideration of cash requirements of the product business portfolio of the firm, the internal cash generation and the life cycle criteria. A more generalised framework of GE matrix (see fig. 6.4) allows consideration of not only cash but other organisational strengths also[4]. Further, instead of indicating the product attractiveness in terms of its position on PLC alone, GE matrix uses a basket of industry characteristics (growth, profitability etc.). Besides, instead of considering market share (as indicator of company's strength), it considers total company strengths. Thus, the two axes reflect the extent to which a product or business meets the requirements of objective and the extent to which it is commensurate with the strengths of the company. A more generalised framework for selection of strategy applicable to all kinds of organisations should, however, have X and Y axes representing the objectives and organisational strengths

### 6.2.3 Business Technology

Business Technology gives a very good idea of the task demands of strategy implementation and the challenges associated with it. Business technology can be understood as what is generally referred to as the "production technology" e.g., mass production, job shop production, small or large batch production etc. (see fig. 6.5). The word production technology, however, does not capture the totality of the demands on additional managerial skills and competencies that need to be acquired or developed when new business is to be taken up. For example, when a company is doing a business with mass production technology, takes up an item of job shop technology, it has to substantially augment its design skills which is the key to success. The entire production, planning and control, inventory management, dispatch, payment realisation competence would undergo change. Similar is the case when a job shop company goes for mass production items. The entire manufacturing skills (efficient material handling and procurement), marketing skills

| Trading | Job Shop | Small Batch | Large Batch | Mass Prod. | Continuous Process | Service Org. |
|---|---|---|---|---|---|---|

Low ←---------------------------Fixed Cost-------------------------------------High

High ←-------------------------Variable Cost--------------------------------→ Low

Fig. 6.5 Business Technologies

of a wide, effective, committed, distribution network, motivated sales force, attractive promotional campaign to pull the customers etc.), financial management (efficient working capital management, effective financial structure etc.) will have to be acquired and developed. Even physical infrastructure design (plant location, shop layout etc.) requirements will be different. Since mass production technology employs large number of dedicated, special purpose machines which cannot be put to alternative uses, there is pressure for higher level of capacity utilisation. Gravity of the challenge can be realised by the fact that bottleneck in supply of a single item can bring the whole production line to a standstill, blocking huge amount of working capital in the pipeline. The magnitude of task of acquiring/developing new managerial competencies and resources cannot be fully realised without appreciating/ focusing on the changes implied in terms of business technology even if the strategist is familiar with the concept of production technology.

### 6.2.4 Breakeven Consideration

Another important consideration while selecting strategy is breakeven point[5]. Breakeven point gives an idea of the minimum level of activities which must be reached to avoid a loss situation. This gives the magnitude of the task ahead in terms of physical and organisational infrastructure required to be developed in various functional areas. It also impresses upon the strategists to identify specific items of fixed and variable costs to be contained and the magnitude of reduction required to make the strategy a success. If the strategist believes it is not possible to reach breakeven point, he should not select the concerned strategic option, howsoever attractive it may look in terms of potential.

### 6.2.5 Strategy Implementation Consideration

Besides the objectives (growth, profitability etc), PLC, BCG matrix, GE matrix and breakeven points (BEP) and business technology (BT) as consideration for making strategic choice, another important consideration is the task of implementation associated with each strategic alternative.

Indeed, from the list of strategic alternatives generated from SWOT analysis or ETOP/ SAP analysis, some get filtered out after passing through PLC, BCG/ GE matrix, BEP and BT considerations. The balance may be evaluated on various objectives and strategy implementation criteria. An assessment of challenge of strategy implementation can be done using details given in chapter 2, 8 and 9.

The strategies which are selected are subjected to strategy modifiers (discussed below) to have final array of strategy selected for implementation.

It may be noted here that the development of strategic options and final selection of strategy(ies) is rarely a simple straight forward process as one may tend to believe or desire. It is often highly eclectic and interactive process. However, various considerations discussed here do impinge in the process of strategy formulation.

## 6.3 Strategy Modifiers

The above criteria for strategy selection relate to the issue of what the organisation might do and what it could do. They lead to what may be termed as possible, sound economic strategies for the organisation. Before a strategy is selected in, it must qualify on two other criteria, the personal values of top executives and the social responsibility of business, termed here as strategy modifiers.

### 6.3.1 Personal Values

Executives in charge of a company's destiny do not look exclusively at what the company might do (their perception of prevailing opportunity and threats) and could do (their understanding of company's strengths and weaknesses). In apparent disregard to this, they at times are heavily influenced by what they personally want to do[6]. It is certainly necessary, therefore, for the people involved in developing the corporate strategy to take into account the personal values, the desire of those who have to take final decision on corporate strategy. Knowledge of the personal values is important, both to the person who is in charge of destiny of organisation (the top executive as strategist) and those who help him in formulating the strategy. One will be able to understand and take strategic decisions better if he admits, rather than resists the dimension of preference[7]. Lack of awareness of the personal value of key strategists could be disastrous for all; the organisation may miss out opportunities that may never be available again, and fail on account of over commitment to unsustainable strategies. Those involved in formulating strategies will definitely be frustrated when their enormous analytical efforts go waste on final rejection of corporate strategy formulated by those who take the trial decision. More so because rejection is often done in a passive way, at the time of strategy implementation. For example, the resources may not be allocated as needed, necessary authority may not be delegated to take actions fast, action plans may be kept pending for approval by the higher ups and so on. It is first necessary to penetrate conventional rationalisation and reticence to determine what these preferences are. Without this revelation, the strategic proposals, stemming from different unstated values, come into conflict. This conflict cannot be reconciled by talking in terms of environmental data and corporate resources. The hidden agenda of corporate policy debates- makes them endless and explains why so many companies do not have explicit, forthright and focused strategies[8].

The personal values have to be reconciled at three levels. At the level of chief executive, at the level of senior management professionals and at the level of staff in general. In a small company or a closely held company, the task of incorporating personal values in the corporate strategy is more easy. But as the organisation grows and the single person's control is lost to collective or diffused leadership (as in the case of public sector enterprises in India), it becomes difficult. The strategists have to stay clear of those strategic options where there are totally opposite views held and moderate the proposals to take care of personal values of influential persons at top executive levels. Reconciliation of differences in personal values is not as difficult as it may appear on the face of it. In any case the strategist has to reconcile environmental opportunity with organisational resources. The task of reconciling three rather than two variables may be more difficult, but the integrating process is the same[9]. What is required is to know the dominant considerations, examine the elements in conflict and explore possibilities for their reinterpretation and adjustments. Further, it should also not be assumed that personal values cannot be modified. Under situations of adversities and distress, these may be changed. What is of paramount importance is the awareness of personal values itself.

### 6.3.2 Social Responsibility

The social responsibility of business covers a very wide spectrum, from refraining to do something that is harmful or against public interest, to doing something good for the society which is beyond what one normally expects from organisations of similar size, capability and resources[10]. As the organisations grow, they attain a visibility in public eyes and one expects them to be the role models for others and assume such responsibilities that only they can shoulder, e.g., undertaking health care programmes, providing education etc. From strategic management point of view, it is necessary to distinguish between these two different kinds of social responsibilities. Organisations must be good, law abiding corporate citizen[11]. If they can do something beyond, assume "philanthropic" social responsibility, it is-all the better. Organisations who assume social responsibility to help development of the society, graduate from being just a tool for material exchanges, to what Selznik called becoming an "institution"[12]. Often, however, the organisations engage in undertaking philanthropic social responsibility more as a means to seek legitimisation of their business activities in the face of or to avoid adverse public opinion and hostility caused by public sufferings on account of the operations of their business (e.g. toxic discharge). The society does not bear it or forgive it. The social philanthropy cannot offset or overcome the public outcry as a result of the organisation's neglect or contempt of public sufferings (like deaths on account of gas leakage, intoxication of river etc.). Is the issue of social responsibility a strategic issue? To the extent of being a law abiding citizen, not causing any suffering to people, it is decidedly a strategic issue. Failure to realise it may even jeopardise the survival of organisation itself. For example, Supreme Court of India ordered for closure" of hazardous industries in Delhi. The corporate strategy must qualify on the acid test of good corporate citizenship. If it can engage in social philanthropy, it is welcome. It adds to creating favourable public image and goodwill.

Ensuring "good corporate citizenship" is, thus, an issue integral to strategy \ formulation process itself. Not doing so would tantamount to development of unsound corporate strategy. The philanthropic social responsibility may be a desirable thing, it can be taken care of at implementation or operational level. The strategist must also ensure that there are adequate systemic checks and balances introduced, so that the people involved in the implementation process do not respond negatively to the public outcries, or suppress the problems of public sufferings on account of the operations of the business.

**Review Questions**

1. How should one frame the objectives? What is their role in deciding corporate strategy?
2. Explain the factors that need to be considered for selecting corporate strategy.
3. How the breakeven analysis can be used for selecting corporate strategy?
4. What is BCG matrix? How can it be used for deciding corporate strategy
5. Can product life cycle guide in formulation of corporate strategy?
6. What is business technology? How can it help in guarding against internal inconsistency in corporate strategy?
7. Does strategy implementation consideration play a role in strategy formulation? What could be result of ignoring it?
8. “Social responsibility is not a matter of choice”. Comment.
9. “Personal values of top management have significant influence in strategy formulation”. Discuss.

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