

# Lecture 8

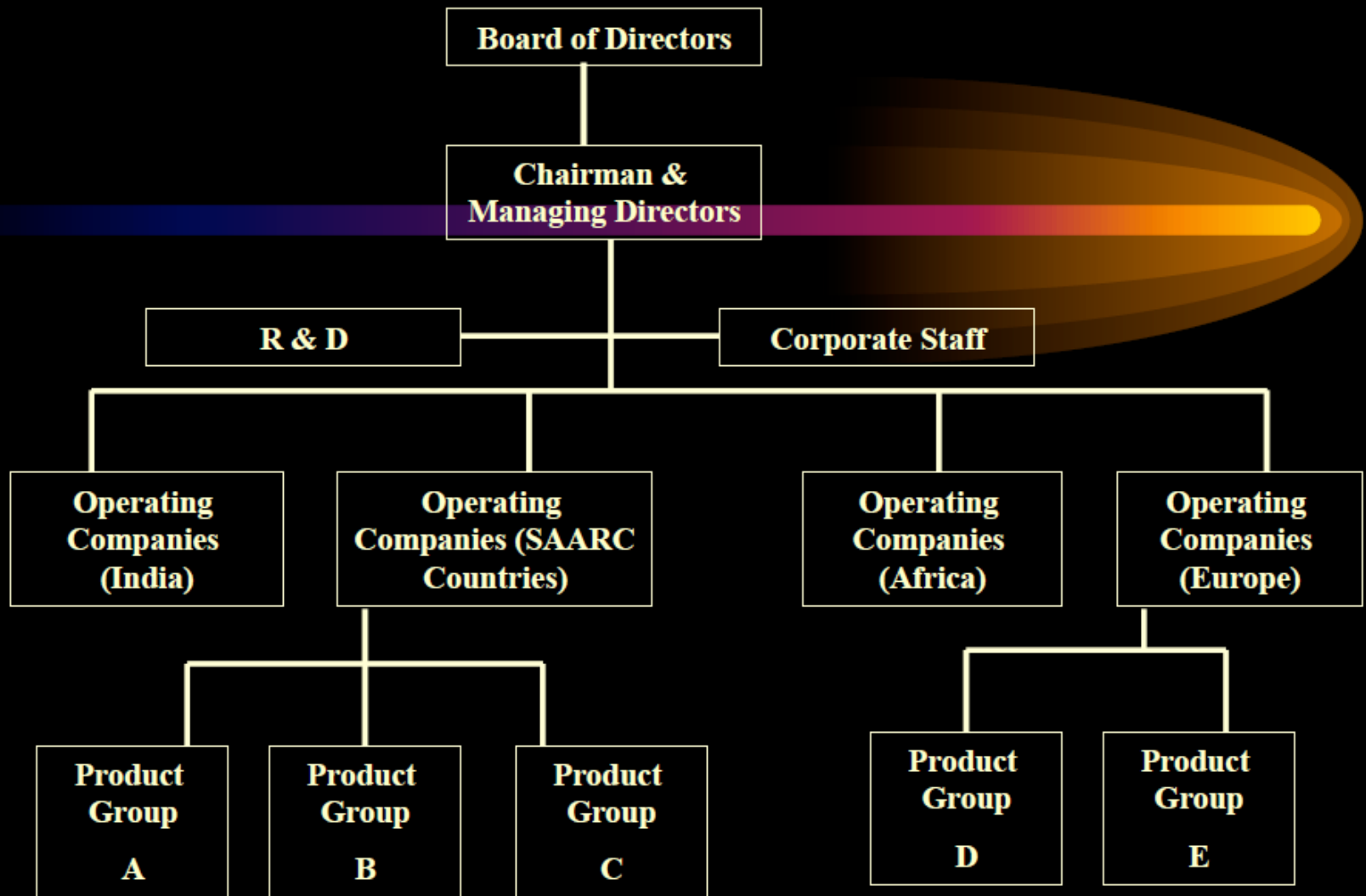
# Strategy Implementation

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

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

## Factors Differentiating Stage I, II and III Companies

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



**Geographical Area Structure of an MNC**

# Classification

**According to Risk :**

**Low**  
**Moderate**  
**High**

**Courses of Action**

**: Niche**  
**Vertical Integration – Backward and Forward**  
**Horizontal expansion**  
**Diversification**

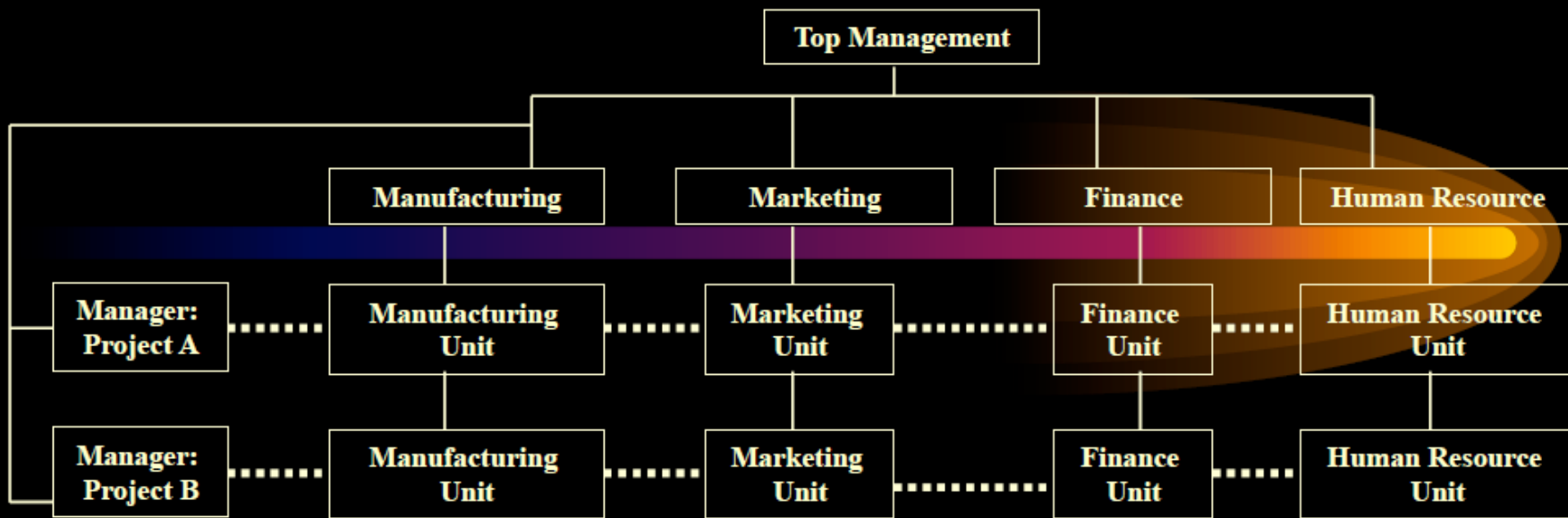
**According to desired rate of growth: Alternatives are**

- **Internal Expansion. (adding more capacity)**
- **Internal Stability (by augmenting resources**
- **Internal retrenchment or turnaround (eg: Hind. Photo-Films)**
- **External Retrenchment or Divestiture (ITDC- decided to close Hotel Akbar some years ago)**
- **External expansion through mergers**
- **Combination of the above strategies**

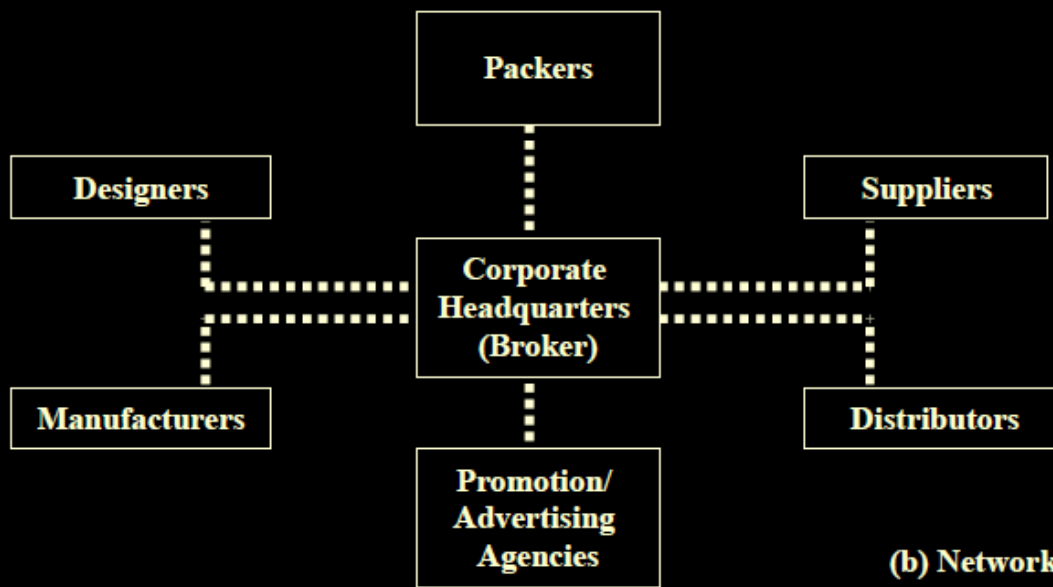
**Selection of Strategy**

**: Based on growth objects, resources, S&W, government policy & best method to close the gap between projected performance and desired performance; PL-C of product/SBU could also be helpful; marginal factors (attitudes towards risk) also influence selection.**

# Matrix and Network Structure



(a) Matrix Structure



(b) Network Structure

## **Diversification**

**Related: Eg. JK- from textiles to synthetic fibres unrelated**

**Related: Constrained or Controlled**

**Linked**

**- Weak link**

**- Bus reln.**

**Eg: India**

**Shaving products.**

**- Closely related to main product line as well as to teach other**

**Eg: Nirlon – from nylon filament yarn for to nylon tyre cord for industrial applications to conveyor belts, V-belts,.... all based on industrial grade nylon yarn**

**(Blades to toiletries and writing products)**

**Qns. Co. SH. Ask:**

- Do the common skills & Res. Really exist?**
- Will the economies/benefits resulting from sharing of skills and res. be substantial?**
- Will the related diversification improve overall results?**
- Will the related diversification lead to any difficulties or problems and does the Co. have cap. To overcome these?**

## **Unrelated diversification**

**By setting up new projects, Through mergers, take overs off-running business. Eg: Hyderabad Allwun: Bus body Building to refrigerators to deep freezeders, water coolers, Acs, Watches,....**

## **Planned diversification**

### **Options to Management**

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

## **Diversification in an ongoing process**

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

## **Corporate diversification in India – Now actively pursued due to**

- **Liberalisation**
- **Indian Entrepreneur willing to think big and grow big**
- **higher risk bearing attitude by financial institutions**
- **Middle class confidence in equity market**
- **shrinking demand for Indian consumables abroad; so joint ventures in India; 'NRI' scheme for technology & finance flow**
- **Massive market expansion (largely middle class domestic market)**



# Lecture 9

## **Integration**

**Horizontal – Owning (or controlling) a number of similar but separate activities in the same industry of business**

**Vertical – Backward – Diversifying into R/M & other supplies for the company's products – may enable a co. to improve the quality of final product Eg: Vimal**

**Forward – Diversification further down the line to final consumer – direct control on distribution and logistic channel Eg: Nirlon**

## **Diversification & Synergy**

**Production Synergy: Co. mfg coolers, refrigerator,s ACs, getting into room heaters, ovens**

**Marketing Synergy: Cricket balls & bats; tennis balls and rackets**

**Financial Synergy: Fan manufacturers offering discount in winter**

**Organisation Synergy: Manufacturing organisation starting consulting services**

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

## **Mergers and Acquisitions:**

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

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

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

### **Screening Process:**

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

### **Assembling suitability of a proposal**

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

### **Valuation for mergers and acquisitions:**

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

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

**Acquirer should**

- **Divest loss making opns**
- **Use ratio analysis (to compare with ind. Avg)**
- **current ratio (reduce C.L.)**

$$\text{- Stock Level (reduced stock level)} = \frac{\text{Stocks}}{\text{Cost of Goods sold}} * 12 \text{ months}$$

$$\text{- Avg. Age of debtors (in days) (Reduce ave age of Debtors)} = \frac{\text{Debtors}}{\text{Sales}} * 365$$

- **Revise B/S & P&L A/c**
- **Incorporate growth & expectation rates**

$$\text{- Calculate replacement value of assets} = \left[ 1 - \frac{\text{age of assets}}{\text{Tot. Eco. Life of asset}} \right] * \text{current cost of asset}$$

**Managing after merger:**

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

# Lecture 10

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

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

# Problems in Measurement of Performance

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

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

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

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

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



## Strategy Audit

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

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

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

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

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

**End of Resource**