Strategic Management for
Competitive Advantage
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Lecture 27
Resource Allocation

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Welcome to the course strategic management for competitive advantage. Today we will be talking about the implementation of the strategy. And in that in this lecture, we will be covering resource allocation.

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The concept that will be covered in today's lecture is resource allocation. Then under the implementation of strategy, there are many other aspects we will be covering in future lectures. Those are the 7-S framework for organizational change. we will be covering strategy implementation issues such as challenges of change communication of strategy and pre-implementation evolution of strategy. Then in future lectures, we will also cover organization stack structure which will be in module 9. Then leadership and strategy will be in module 10. Then thereafter we will be talking about functional strategies. So today we will be covering resource allocations.

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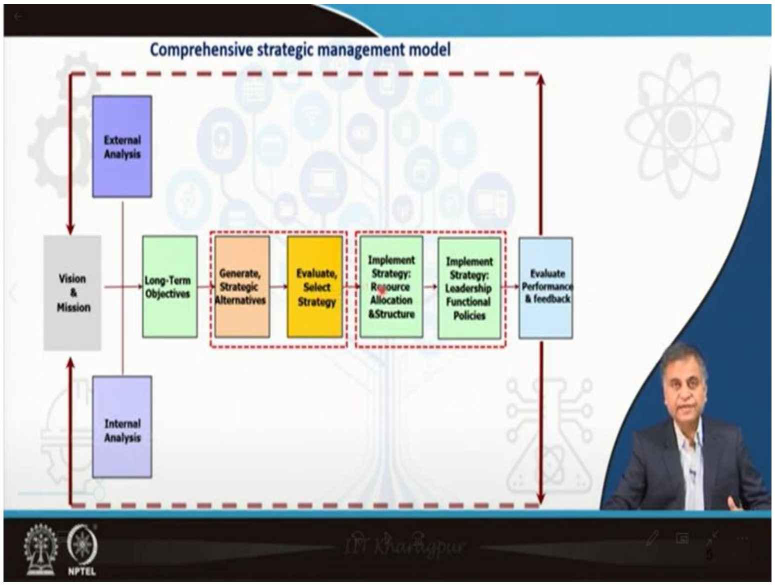

Now, look at this diagram all of you are familiar with it. So the very first lecture we talked about it after the vision and mission statement of the organization to develop your strategic plan. what do we do? We do situational analysis like external analysis, environmental analysis, and internal environment analysis based on that we draw out our long-term objectives. Based on these long-term objectives we formulate the strategy for these two blocks we have covered in the last few lectures which are the generations of strategic alternatives and the evolution and selection of strategy we have covered.

Now we are going to the next box which is the implementation of the strategy. So today we will be talking about an implementation strategy that requires resource allocation and also it requires the appropriate structures. Thereafter, we will also cover the implementation of strategy leadership then functional policies and functional strategies. So, in the next few lectures, we will be covering the implementation of the strategy.

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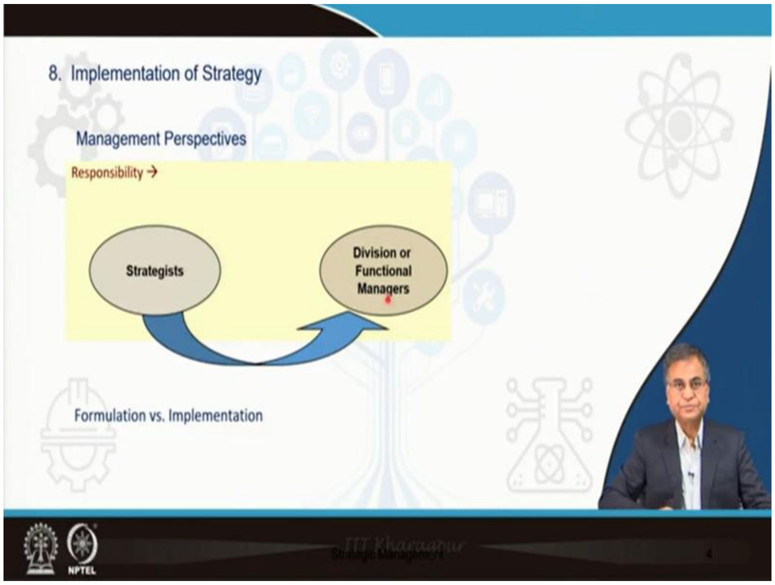

So now coming to the implementation of a strategy first you develop the strategy. Who develops the strategy? Strategy is developed by the top management; strategy is developed with the help of strategists that are in the strategic planning team, and they can also take the help of a consultant. So top management formulates the corporate strategic plan of the organizations. After that responsibility is shifted, it has to be implemented. who implements the strategy? Strategies are implemented by the divisional managers or the functional managers. The functional manager pertains to their functions and the functional group. They do those strategic projects, strategic programs, and strategic initiatives they implement it.

So, there is always some gap between that these two sets of people those who formulate strategy and those who implement the strategy. Why the formulation of strategy takes place at a higher level? They give broad guidelines, general directions and all those things. They do not go for the minute things; minute implementation things. The freedom is given to the respective functional managers who draw up their detailed planning. They drop up there how the strategy of their part will be executed.

So there is always some bit of confusion and ambiguity, and they develop within the broader framework these functional managers their part, and it may happen that their strategy may require the participation of many functional managers. It may require say production manager, operational group manager, logistic group manager, marketing group manager, or finance group manager. So some managers should be dominant. Suppose it is an IT project, the IT manager will be a dominant or the leading role suppose. It is a production enhancement project then the production and operations manager will have a dominant role will develop the strategy and others have to follow that framework.

So there is always a bit of ambiguity there, and they are experienced people who always know how to bridge those gaps. There are ways how to bridge those gaps. Those are the practical experiences you gain when you work in this field.

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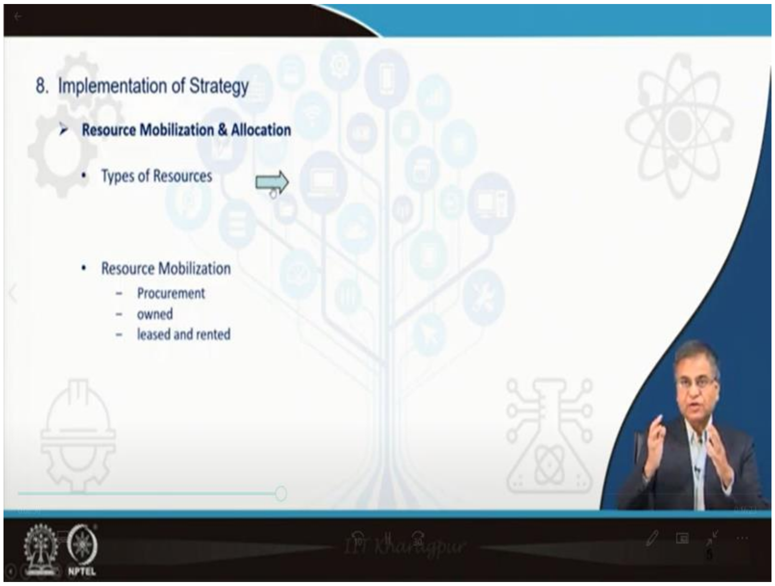

Next so for the strategies what are the different types of resources? First thing you will require resources because the strategy to implement you should require a certain number of resources. what are the different types of resources that are required for strategy? You know that the type of resources that are required for the implementation of strategies is first financial resources, then human capital resources, physical resources and technological resources. These are the resources you generally require because without capital or finance you cannot move. Then physical resources. what is the material? it is your plant, equipment, land, and machinery these are the physical resources.

Then you require human resources means the skill that will be implemented or that skill sets of people knowledge and human capital are very important. Then you also require that technological resources like special software ERP and then state-of-the-art technology for innovations. So, these are the different resources you need. Some physical resources you need to mobilize those resources like machinery and equipment, and there may be different types of ways you can own those resources.

You have to go for the procurement of resources either you want to own the resources, or you buy outright, or you can get rented resources or leased resources. All options are there we will not go just like further on this. Now I will just give you some real-life examples of how it happens. Like the types of resources, you have to forecast because your strategic plan is set as 20 yearlong plan it is long-term plan. So, what will be your requirement?

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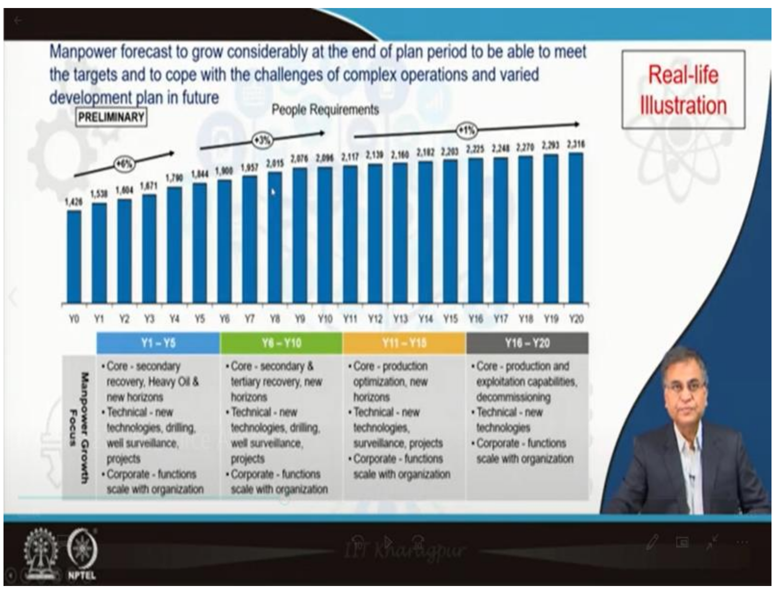

So, I will show you some real-life illustrations. you need that this is a 20-year strategic plan for a company that we have developed. So here the manpower forecast will be required. Here the production was 350,000 barrels per day of oil, you have to increase it. So, these are you will be requiring it this way. these are the 20 years growth plans. You were requiring the manpower growth focus area. Which areas you will be going for it? So, these are the first five years. In the first phase, these are the areas you will be requiring these skill sets or experienced people in secondary recovery, heavy oil, and new horizons.

Then in the second 5-year plan years 6 to year 10, you will be requiring your growth rate should be like this to achieve that strategy. So, this is the being the areas where your skill sets will be required either you hire these experienced people, or you develop in-house with training and all. you draw up a plan like this. this is the manpower forecast.

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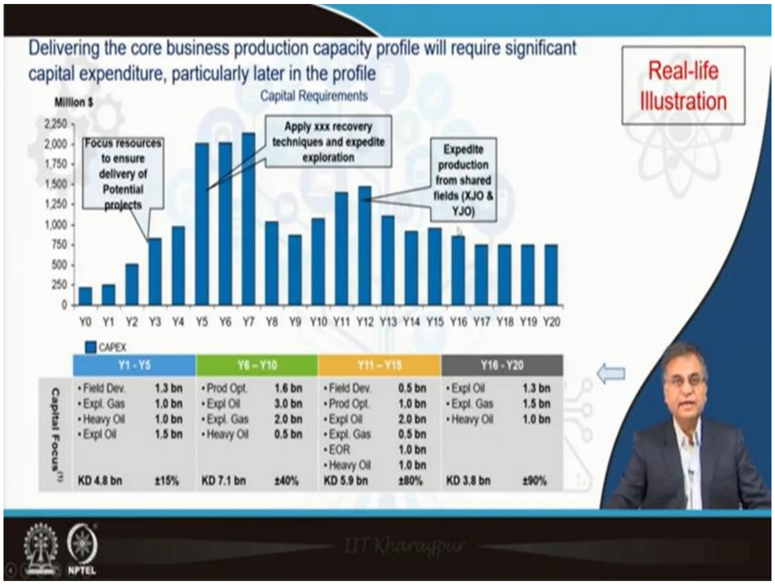

Similarly, you find out your capital requirement. So, this is the first five years your capital requirement will be like this. Then the second 5 years you need a huge investment because you have to construct commission, some big projects and all of which will give you sustained production for the next 30 years or 40 years whatever it may be. So, these are the CAPEX requirement for the next 20 years. You project it so phase-wise. how your projects are planned phase-wise? these are the focus area you draw it up. So, these are some of the real-life illustrations for finance or capital requirements and human resource requirements. So, this way you can develop for your company. These are the types of resources.

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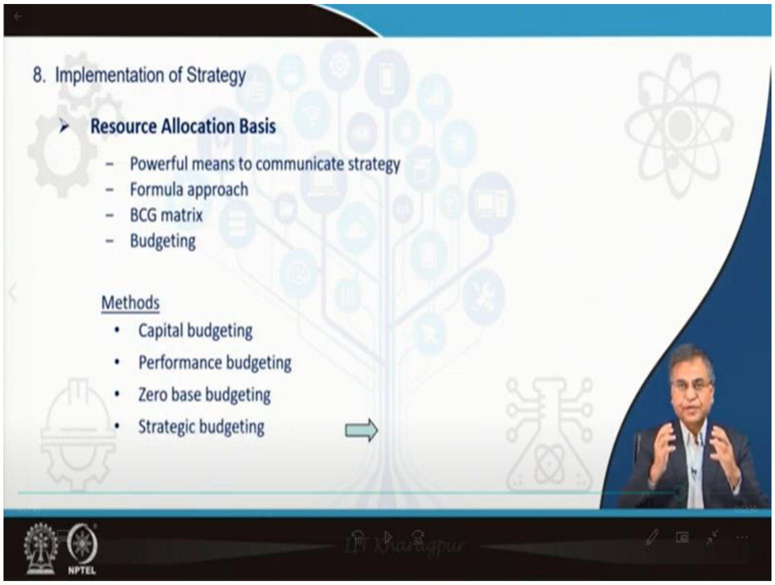

Now there must be some resource allocation basis because your resources are limited in an organization. There are many projects or strategies. All will be buying for those resource allocations, so the fund is limited. the human resources are limited. So, you have to allocate. There must be some basis for it. what is the basis? we will be discussing now before that I will just talk about a few things. This resource allocation in fact is a powerful means to communicate strategy. I think do you agree with it or not? This is true because when you allocate resources to different strategy projects or programs that signals the priority areas. So, I take the case of one project I am familiar with that the company's growth areas. the company thinks it can if you put say 25 billion dollars as the first phase investment required to develop a heavy oil field might be.

For that when it was decided we would pursue this growth area then immediately it signals powerful signalling, so everyone within the country wanted to be part of it say, vendors. Vendors will want to come and participate, not only the local vendors. It is the global vendors because these are required highly technological, untested technology which has not been tested successfully yet. So global players or big global giants and all they were vying for that project they come. Then the local populations in the immediate neighbourhood of those communities expected jobs for the young engineers and fresh graduates who are looking for jobs.

Even the internal employees want to be part of it because their carrier advancement will be faster. they can go for training in foreign countries and all the so and get involved in that project. So this resource allocation is a powerful means to communicate strategy because it signals very strongly how the shape and activities will go on. Then another basis for resource allocation is the formula approach. The formula approach is like suppose your revenue for the year is x. now you on that revenue certain percentage you allocate to different groups or a different department.

Suppose marketing will get say 15 per cent of the sales revenue. then production will get 30 per cent of the sales revenue. R&D will get 5 per cent of the sales revenue, or the logistics will get 10 per cent of the revenue this is the formula approach. And this is not a very good or appropriate approach because sales production and revenue can go up and down and, on that basis, if you allocate the resources suppose R&D. R&D will not give you immediate profit, so it is for the long term. you wanted to develop the product of a next-generation which will give the company a competitive edge for the years to come. So, if you cut that one based on the R&D expenditure you will be getting suffered in the long run. So, you should give whatever it is required. you audit the activities and based on it; it should have been given that this is the formula approach.

Next is the BCG matrix also gives a useful tool that helps you to introduce or impress the portfolio approach. it helps in following the portfolio approach. What is this portfolio approach? The portfolio approach guides you that you put your different investments in different portfolios one investment should not be overly invested in one portfolio. Suppose you are putting all your investments in growth projects (those are in the growth stages). That growth projects, not all growth projects are necessarily starred projects. There may be also a question marks project so if you put over-invest in one portfolio means your other businesses will be suffered.

The businesses in the cow quadrant or the matured business and those in question mark that those projects will suffer. So, the BCG matrix gives you an impression of where your portfolio should be and how you will follow the portfolio approach. But it is an empirical way like you cannot for finer details BCG matrix does not help you with how much to give and how much to invest and all those things finer details you better do the economic analysis and the cost-benefit analysis things it does not go to those finer details.

Then there another is the budgeting way you allocate resources I will talk about budgeting further within one or two minutes. Next, so there I will put in details. what are the resource allocations methods? You might be aware of its resource allocation method. The most commonly used resource allocation method is capital budgeting. Many of you may be aware of that. What is capital budgeting? Capital budgeting is the long-term investment the company makes for the maximization of its return, maximizations of its capital value.

Generally, it is done for the infrastructure investment, the big projects and all of which will give you future returns continuously. Like if you wanted to go for a merger or acquisition of a company, if you wanted to have a growth strategy, wanted to diversify, wanted to go for horizontal expansion and wanted to put up a plant. All these things require capital budgeting. Because here your entire investment is recouped or depreciated over the life of the project. So, this is capital budgeting. Actually, we use appraisal techniques for it such as those economic methods like your NPV or IRR. NPV is the net present value of the internal rate of return then PB is the payback period.

All these things you examine and allocate the funds on the basis. this is capital budgeting. this is the most preferred way or method. Then there is performance budgeting. Performance budgeting is usually input-output budgeting cost and results in that way. It is done basically for the non-financial activities like setting up your standard for production and against that how much the company has produced monthly, quarterly or annually that is the performance. Based on that you allocate the performance and resources. Suppose this year your resource allocation was 100 crores and you were supposed to produce 10,000 cars.

Now if you have produced say 8000 cars, next year your allocations will be based on your performance instead of 100 crores it will be 80 per cent say 80 crores. So, this is called performance budgeting. Based on your performance the resources are allocated. what is this zero-based budgeting? Zero-based budgeting is allocated for retrenchment policies. Generally, it is when your activities are reducing or shrinking then your general companies go for zero-based budgeting. It is that every rupee you allocate or that has to be justified. So, for every item in every project however important or trivial it maybe you have to justify that investment that is zero-based budgeting.

Then another is called strategic budgeting which is relatively new for this. what happens is you generally bring out a white paper, and that is maybe anything. these may be white papers on the external environment. It may be white papers for the internal environment. it may be white papers on past performance of the company and whatever is of your interest.

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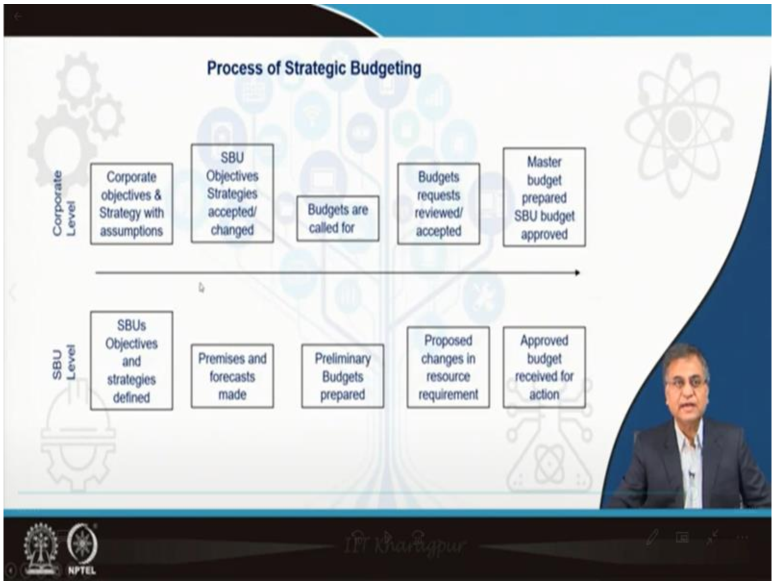

So this is just schematically showing the process of strategic budgeting there is corporate level, corporate objective strategy with assumptions. Then they give it the SBU objectives strategies accepted or changed. Based on this SBU’s objectives and strategies are defined. The premise and forecasts are made then it goes to the corporate level, and they ask for the budget. They prepare the preliminary budget. Then budget requests are reviewed, proposals as per the comments or the things either it is changed or it is accepted, and then the budget is approved. This is called the strategy process of strategic budgeting.

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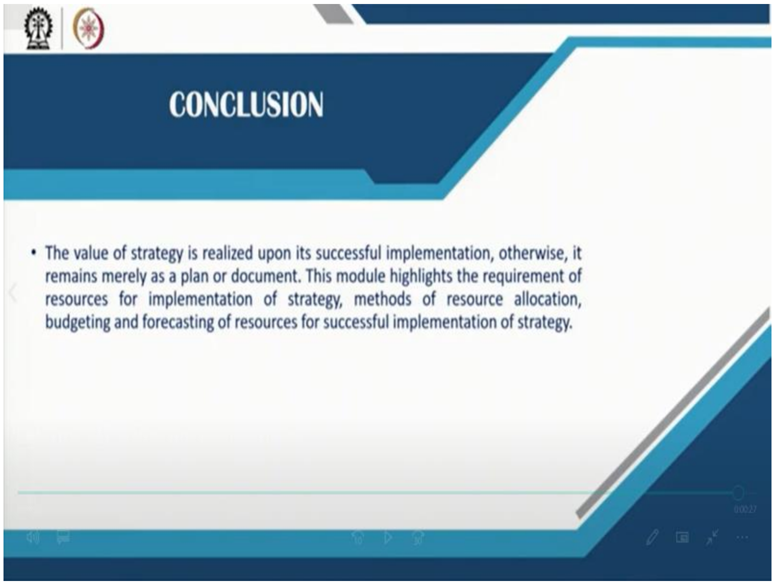

Now to wrap up today's session, we can conclude that the value of the strategy is realized upon its successful implementation unless you implement it will remain merely as a document or as a plan on paper. So, today's lecture highlights the requirement of resources for the implementation of the strategy. The methods of resource allocation budgeting and forecasting of resources for successful implementation of the strategy.

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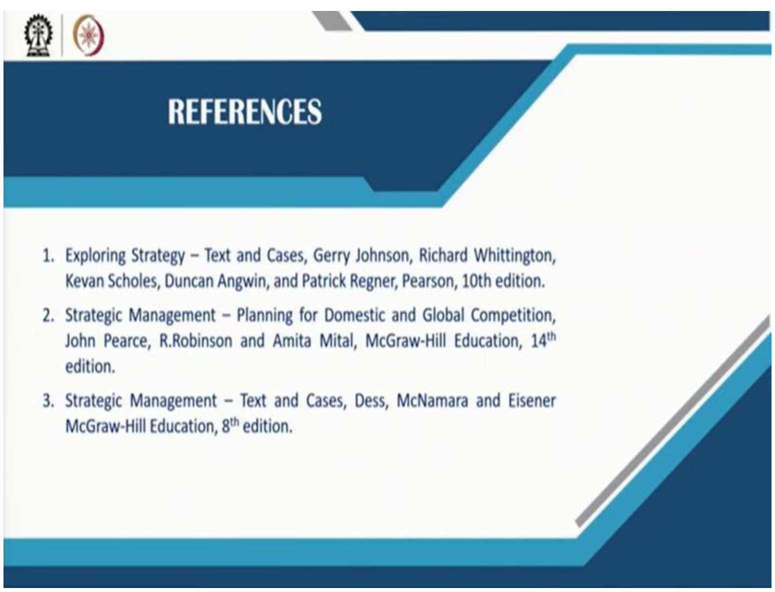

For the references, you can go through these books and can enrich yourself further on resource allocations. Thank you very much for attending.