

Strategic Management – The Competitive Edge

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Lecture 30

Strategic Choice

We were looking in the last class on the strategic decision making process in Intel. So, I read out the exhibit 8.4 on page number 148 of my book, to you. So, if you really see, there are some decisions which the Board has to take. There is a certain amount of risk that is involved. So, you must, that is, a company should be willing for the trade off that is going to come. Suppose, the decision backfires then you are a loser. But still, you have to take some decisions in the entrepreneurial mode. This is very much true in the Indian context also in the present day.

If you see the decision that was taken in Intel at that point of time in the 90s, committing five billion dollars. To take the decision was a very huge risk. But what happened later on? If you really see, Intel's manufacturing expansion consumed 10 billion dollars from '91 to '95. But the timing of this decision was perfect and Intel became a market leader with respect to this microprocessor sales.

Now, if you look at the Indian context today, again given to you on page number 148 of my book. I am reading here. For Indian firms to be competitive in the global market, it is essential that they raise the quality of their products and be competitive in pricing. The expectations in the international market will be much higher than in the domestic market.

Any company in the present day setup has to bear in mind, suppose, you want to go global, quality holds the key. Expectations of product attributes in the international market will also be much higher and different, perhaps, from the domestic market. So, you must be prepared for all this.

So, an Indian company operating in the global market must constantly review the appropriateness of its current mission and objectives. So, see the type of change that has come about. Even the companies may have to review their mission and objectives if they want to go global. So, even that also is becoming dynamic.

So, it is not a static scenario even with respect to mission and objectives. This was proven when ITI was open to competition back in '84 only. That is, telecommunications sector was thrown open to competition by the then government. So, everything had to be reviewed. Now, if you really see the state in which ITI exists today, it does not give too much of a hope.

Earlier when up to '90s, the telephone instrument was the uniting thing from the south to the north, east to the west of the country, because almost all the consumers were having the telephone instruments made from ITI. Now, you will have to search where is the ITI telephone instrument. Because all new players, you have the telephone instruments coming from the other competitors. You name it, whether it is Airtel or other.

Now, perhaps, the other PSU like BSNL may still be a big customer for ITI, even for telephone instruments. But ITI has already understood that its current objectives, mission and objectives have to be different in the scenario, in this competitive market.

So, even with all these reviews, there is a lot of gap which ITI is facing. The health of the company is not good. What is the main reason for all this? The main reason for all this, for many of the PSUs, whether it is ITI or HMT or some other company, not able to adapt to this changed environment.

If you are not able to adapt to this changed environment, it is very likely that you will be swamped in the market place. That is what is happening with respect to many of our PSUs. So, it is likely that corporate parenting may become a dominant strategy model to evaluate business units in order to achieve synergies.

The underlying concept is that a high performing unit can transfer knowledge, skills, skill resources and capabilities to an under performing unit. So, parenting becomes, perhaps, the sought after thing in the present day. The manufacturing strategy of Indian companies operating overseas should be adjusted to suit local conditions.

Indian organizations should use outsourcing as an important strategy component. So, never shy away from this outsourcing. What is not your key competence, core competency area, outsource it. That is, a company should be willing to outsource it. In the hyper competitive information technology market, it is increasingly difficult to retain core distinctive competencies.

However, Indian firms should try to retain this by preventing imitation or by replacement of obsolete technology. So, this is also becoming, technological obsolescence, if it sets in, then the core competence erodes. This is what happened to ITI. So, technological obsolescence with respect to strowger and cross bar, technology itself became obsolete. So, its core competence got eroded in the whole process. Given all these types of scenarios, the job of the strategic planning manager is to arrive at a considered strategic choice. How do you arrive at a considered strategic choice?

This is given in this slide. Strategic choice represents the evaluation of alternate strategies and selection of the best alternative. So many things we discussed. In all these discussions which we had, kindly note that the underlying current of all this portfolio selection whether it is corporate parenting or whether it is the different matrices, the planner should always look at the return on investment. So much investment is going into this portfolio, what is the return we are getting?

So, in other words, a constant evaluation of the portfolio is required by the strategic planner. So, this brings you to the question. Sometimes, when we discussed first strategic management, we said, strategic decisions will have long-term impact. Here, when you are looking at all these portfolios, these strategic decisions will have immediate impact also in addition to long term.

So, you make a mistake and it gets reflected in the market place. So, that is in fact, the reason why all these strategic planning positions are considered key in the organization. Suppose, you are a strategic planner or a strategic manager of a business unit. The company looks to you to guide that business unit in the market place.

Do not keep on running to the management of the company for solutions. You must be able to provide the solutions and convey to the top management. So, the strategic choice is one where you consider the best alternative.

The second one, if you go back to the slide, the best strategic alternative can help in defining policies that can serve as broad guidelines for decision-making. So, in other words, if you are given choices, you must also give what is the best according to you. That is you give choices, strategy 1, strategy 2, strategy 3. So, according to you, which is the best strategy that could be adopted in the market place.

So, as a strategic planner, you should also guide the top management to take the best alternative. That is also expected of you. A part of your job as a strategic manager, you should be able to provide guidance to top management as well, with respect to your business unit.

The third one is here, change in strategy requires change in policies also. Kindly note this. Change in strategy, suppose, you are changing your strategy then it is not a very simple question. Policy itself requires to be changed. I perhaps gave you an example of two public sector units in Bangalore who engaged the services of a well-known consultant at that point of time, that is, the late '80s.

In fact, one of the public sector units, for the smaller unit, it was considered as the elder brother. So, for this smaller unit, when this consultant came to study the organizational structure and to evolve policies, naturally, the labor force in that unit got concerned. They also had inputs that

this same consultant had gone to their elder brother also.

But they wanted to find out what is the type of suggestions this consultant is giving. Some of them went to their friends in the other PSU to find out about this consultant and the feedback they got about him was that he should not be allowed inside the company. So, they said do not allow him inside the company. He is going to make the situation become topsy-turvy, that type of scenario.

Now, whether they said it without knowledge or whether it happened, this consultant gave the same type of advice to this younger brother also. That is, his younger brother, another PSU. So, what is the type of advice that was given? The type of advice that was given, he said, dismantle the present organization structure.

So, it was a shock to the existing top management and also to the labor force. He said, this type of labor force is not the right thing to be had in the present day context. So, that means to say he was implying so many job cuts also. So, that is, what he was perhaps trying to say, indicate to the top management.

So, the top management of this unit took courage. This man was a very well known consultant. So, they asked him, sir, you are suggesting that this existing organization structure should be disbanded. If it is disbanded, how does the new organization structure come up? For that, he gave one more startling reply which was stunning to the top management of this unit.

He said the new organization structure rises like a phoenix. So, phoenix is a bird which comes out of fire unscathed. So, he said the new organization structure comes out like a phoenix. So, in other words, what was he trying to say at that point of time that is, more than three decades back to the top management was that the dynamics of the market will dictate how your organization structure should be and what your policies should be, in order to survive in the market.

It is for you to take the decision. I can only suggest to you that. If you do not take the decision, somebody else will come in your place and they will be able to deliver in the market. The present day market is changing. This is what this top consultant told the management echelons of this particular PSU back in the '80s.

So, this top management took many of his advices very seriously, started working towards changes. The result is, this PSU is doing well even in the changed market scenario whereas the elder brother is almost languishing, if you want to use the term. Such a good PSU finds itself in not such a good health in the present day setup.

So, if you are putting a BCG matrix, no longer are the business units in stars. They are under weak cash curves. That is the type of scenario which the elder brother's PSU unit presents in the present day. So, what does it bring to you? Sometimes, in the dynamics of the market, it is required that you may have to change your policies also.

If it is required you may have to change your structure also and that may require a very good strategy implementation. So, you must be willing to implement the strategy process. In order to implement the strategy process, you may have to find out or you may have to designate who is going to do what. That is given in the book in the next chapter.

So, go to page number 151. It says, the implementation process has to answer the following questions. What are the 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 should everyone concerned respond?

So, answers are given in the next sections on who implements strategy. The people who implement strategy are a diverse set, different from those who formulate it. Kindly note that. The person who formulates the strategy is different. So, it is just like the architect, building architect. He gives the design, how the house should be, but the person who executes it, is the field engineer, that is, the contractor or the engineer who does according to this design given by the architect.

So, if you see many of the houses, in some of the posh areas in Bangalore, architecture of each of these houses is different. So, who is the person who has given this, most of the times they are well known architects. They have selected the design for the house, executed by the engineer or the contractor.

Similarly, with respect to strategy. The person who formulates it is different and he is a planning manager, if you really want to put it in that garb. But the person who implements it or the persons who implement it are different. So, a large number of people are involved in strategy formulation. The heads of functional areas and their subordinates have to work together for implementation of plans.

These plans are spread across departments and units. It becomes imperative on the part of every operational manager down to the employee to get involved in some way in the implementation of the corporate business and functional strategy. So, there is nothing like you stay away.

In other words, the whole strategic management decision process flows top down, but the involvement should be from the bottom up to the top. Just because it has flown from top down

does not mean that the bottom will not get involved. They have to get equally involved in the implementation of the strategy.

Many of them, it may be noted, had little to do with the formulation of strategy. Many of them may not be aware of the amount of work that has gone into strategy formulation. Thus, these personnel have to be educated about it. This helps in reducing the resistance offered by them during the implementation process. So, this is the answer to the first question 'who will carry out the strategic plan'.

Then 'what must be done' is answered in section number 9.3 where the heads of divisions should look at programs, budgets, procedures. Then 'how should you organize for action' is given in 9.4 where Chandler's suggestions for strategy are given on page number 152. If you really see, according to Chandler 'structure follow strategy'.

That is changes in corporate strategy lead to changes in organizational structure. These structural changes, argues Chandler, occur because the old structure having been pushed too far, has caused inefficiencies that are detrimental. In fact, this was the type of advice which was given by this well-known management consultant to the smaller PSU in Bangalore which is able to do well taking his advice, in the present day cut-throat market situation which is happening, competitive market.

And it is still considered to be a good public sector unit, sought after. The following are the sequences of occurrence. New strategy is created, new administrative problems are created, economic performance declines, new appropriate structure is invented. So, this is in fact the reason why the top management consultant, at that point of time, answered the question 'how does the new structure evolve'. He said it evolves like a phoenix.

So, this is not that the structure will go away, structure will have some changes. So, those changes, you must be ready to incorporate. So, it happens with respect to nations also. So, there is a dynamic process even with respect to many of the laws which were enunciated long time back.

So, it may require revisiting those laws, whether these laws are current in the present day scenario. Then profit returns to its previous levels. Chandler quotes the example of DuPont which has a centralized functional organization structure. This is well suited for producing and selling a limited range of products.

As new product lines are added and new distribution channels come into being, it becomes too complex for a centralized structure, necessitating a shift to decentralized structure with many

semi-autonomous divisions. So, this proposition has been supported by research also. However, strategy structure and environment need to be closely aligned. If not, organizational performance will suffer.

So, this is the crux of the strategy implementation process. That is, when you are looking at strategic choice, your job is to look at the best strategic alternative, suggest it to the top management, if you take this alternative likely that these are the types of results that will follow. Then, you should also assist the top management in the implementation process.

So, you should tell them, who should implement this strategy, what should be done, the changes in the organization, all those types of things. In other words, the job of the strategic manager is a continuous job. He has to be on his toes always. Because the top management is always looking to him, and that is also the reason why all these positions are considered key and vital in the organization.

We will stop here. We will continue in the next session. Thank you.