

**Strategic Management – The Competitive Edge**  
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**Performance Rewards, Value Chain Analysis, Activity Based Costing**

Welcome to this session. We were looking at strategy implementation that is the strategic planning implementation exercise in the last class. We were mentioning that focus should be on critical success factors that is 20 percent that determine, 80 percent of the results, this is Pareto Principle.i.e. maximum attention, that is the control should be directed towards monitoring meaningful activities and results and should be timely.

So there is no point for a strategic planner to cry over spilled milk. The planner should be looking at future it can be both short term and long term and should be pro active to what is happening in the present dynamic scenario.

Sometimes the strategic planner may like to bypass some things so this is what I was giving you the example of the flanking warfare and I gave you the example from Mahabharata where Arjuna flanks Drona because he is in search of Jayadratha who killed his son, no point in waging the war with Drona, Drona is not Arjuna's enemy per se, he is his guru. So controls should help in pinpointing exceptions.

There should be emphasis on rewards on meeting or exceeding standards of performance; this is what I was mentioning so there is no point in saying that we are a public sector we cannot reward performance and this will only demoralize the working force including the managerial class in the present scenario.

Because a good manager will always be able to have opportunities, many opportunities in fact, and the public sector will be the loser, as is happening now. More Indian companies are moving from ISI to ISO standards to become global players. Even much smaller companies are giving competition to PSUs. Eg:ACE Industries to HMT w.r.t Lathes.

The Indian companies should make use of value chain analysis to develop activity based costing- that is look at the activity with reference to a worker, with reference to a portfolio, with reference to a business unit, with reference to an SBU; this activity based costing can help in getting a better understanding of each activity or functional value.

A simple eg: Let us say a consumer complaints to the hotel management or to the reception desk,

at the first stage, that his taps in the bathroom are not functioning properly, the hotel should be immediately able to attend to this problem; this activity is an important activity to maintain the image of the hotel in the eyes of the consumer.

Suppose in the Indian context you are going let us say from Bangalore to a place in the north where the consumer who is wanting to view some Kannada channels, may not get them, because they might not have subscribed; the hotel management should be always having the alternatives, how many days this customer is going to stay in the hotel some 2, 3 days so can we make some provisions for getting some channels of his choice, etc

So all these come under your analysis of activities with respect to a product or a service; so the company should look at activity based costing whether it is a product or a service or a portfolio or a business unit or a SBU; this can help in getting a better understanding of each activity or functional value, it can also help in outsourcing decisions and embark on benchmarking your hotel.

So this brings me to one of the incidents which happened to a well-known hotel chain in the US, supposed to be one of the places of pride to stay in a well-known city in the United States. I am not naming the hotel nor the chain, so this is what was happening in spite of providing such good amenities, this particular hotel was not experiencing good occupation, that is the occupation ratio or the occupation levels were always low. The owner of the hotel, a well-known person, he was getting almost flummoxed.

So he wanted to find out why, so he disguised himself as a customer and came to his own hotel, the staff at the reception desk saw this new customer and they were telling him why don't you look at the opposite hotel, facilities are better there.

Owner was in a state of shock, in fact he grabbed this employee; he came out of this disguised look; this employee was in a state of shock to see the owner of the hotel. Owner asked this employee tell me how is the opposite hotel better compared to this hotel.

So in the whole process the owner came to know that the employees were having grouse about the management with respect to their salaries; the opposite hotel was paying better salaries; so that problem was addressed and the occupancy went up which was required for this hotel; it can also help in outsourcing decisions and embark on benchmarking, with the best in your class.

So in other words the most important aspect that we are coming into is in the present day context to have a futuristic outlook.; Indian companies should also go in for this activity based costing; they should actively look at outsourcing and embark on benchmarking their services with the

best in the class

Before we take a few more issues let us look at this issue of technology management because it is playing havoc with companies; the technology that you thought was current is becoming outdated very fast; many times you do not know a well-known automotive manufacturer has come out with a wonderful car an Indian made car and it compares very favorably with the international models, that is models in the international sector.

So one of the attributes which this car did not have till very recently was this function of hill assist which Honda cars and all other cars have. What is the hill assist-Suppose you are driving the car say Tirumala or Chamundi hills, the gradient of this should be negotiated by the car without going backwards that is suppose you have to put the brake somewhere, the car should not come in the backward direction that is reverse, because this slope is very steep at several points; this function is called the hill assist; if this attribute is there in the car it will not reverse or it will not go backwards even though this slope is very steep; The lack of this attribute was pointed out to this well-known manufacturer, the models which are coming now from this well-known manufacturer they have this hill assist function also.

In other words, many times people say technologies- is it driving the market or market is driving the technology, so earlier we used to think that technology is driving the market, now with so many products, so many customers, the customers are able to make a considered choice.

So in other words many times in the present day it looks as though the market is driving the technology, suppose your product does not have a particular feature you may get the feed from the market saying that this feature is not available in your product, immediately bring this feature on; the lack of this product attribute, may be pointed out to the manufacturer or the company by the market itself.

So this is the type of scenario in the present day; this type of technology management kindly note is a critical factor; so companies should think of methodologies to generate maximum return on R and D investment.

So this is called the evaluation of applied R and D, yes industries also have R and D but they are not looking at pure R and D. Whereas in the academia, you are looking at pure R and D and are not generally looking at commercializing R and D; whereas in the industrial setup company is looking at what are the types of outcomes that are coming out from the R and D activities. In other words how many of these R and D activities are capable of commercialization, meaning can it turn out to be a new product, can it turn out to be a new process and if it really turns out to be so what is a type of increased revenues which may be expected from this type of change?

Because, the company also puts money on R and D activity.

So, you should not always be looking at R and D as a cost center. Even a well-known organization DRDO in India, so much of investment goes into DRDO for their activity, so the government is naturally concerned what is the type of new products which have come and whether they are able to be assimilated by the defence forces of the country; so they must be on par with other manufacturers around the globe. DRDO is presently catering to our defence but it is also scouting international markets.

This was some of the types of exercises with which I was also involved that is tapping international markets for DRDO without affecting the national security; that is you should be able to look at international markets so they can be revenue earners and the government will also look at it in a more positive manner because not only the government is investing, the government is also getting revenues, so if you look at the latest one so you have the Brahmos missile from DRDO, tested.

In other words this what is the bottom line; the bottom line is even though it is an R and D investment, companies are looking at how this investment has translated into products, commercializable activities, whether it has translated into product, new products or new processes all that types of scenarios, then innovative approaches from personnel thus becomes essential.

In the present day scenario, you have to be innovative. This calls for taking risks on the part of the management; so in other words the management should be willing to operate in an entrepreneurial mode so no point in keeping on looking for shelters. Top management should impress upon coming out with new products having customer needs and wants in mind, so this is the bottom line which the company should do. So that requires a very thorough environmental scanning.

We will continue in the next class, thank you.