Strategy Implementation – Unit 1

- ☐ Nature and Scope of Strategic Management. Concept of Core Competence, Capability and Organisational learning; Managementof Strategic Change; Process of Strategic planning and Implementation, Activating Strategies, Strategy and Structure.
- ☐ Centralisation vs. Decentralization and Devolution; Outsourcing; networking, Strategic Alliances; Control Processes: planning processes, cultural processes, performance targeting, market processes, Controls -financial controls, strategic controls

Quoatable quotes

'The only one thing that is constant is change'

'Only paranoid will survive' – Andrew Grove

Resources - organization's assets; tangible assets, plant, equipment, finances, and location, human Assets - number of employees, their skills, and motivation, and intangible assets, such as its technology (patents and copyrights), culture, and reputation.

Capabilities - corporation's ability to exploit its resources. They consist of business processes and routines that manage the interaction among resources to turn inputs into outputs. A capability is functionally based and is resident in a particular function. Dynamic capabilities-capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment.

A competency is a cross-functional integration and coordination of capabilities, new product development in one division - integrating management of information systems (MIS) capabilities, marketing capabilities, R&D capabilities, and production capabilities within the division.

A core competency is a collection of competencies that crosses divisional bound-aries, is widespread within the corporation, and is something that the corporation can do ex-ceedingly well. A company must continually reinvest in a core competency or risk its becoming a core rigidity or deficiency, that is, a strength that over time matures and may become a weakness. Although it is typically not an asset in the accounting sense, a core competency is a very valuable resource—it does not "wear out" with use.

Distinctive competencies - core competencies are superior to those of the competition.

Core Competency

- ☐ Competency - cross-functional integration and coordination of capabilities.
- ☐ NPD in one division of a corporation may be the consequence of integrating management of information systems (MIS) capabilities, marketing capabilities, R&D capabilities, and production capabilities within the division.
- ☐ A core competency is a collection of competencies that crosses divisional boundaries, is widespread within the corporation, and is something that the corporation can do exceedingly well. Thus, new product development is a core competency if it goes beyond one division.

  Avon - expertise in door-to-door selling.

  FedEx - application of information technology to all its operations.
- ☐ Today's Core Competency should not be tomorrow's core rigidity
- ☐ When core competencies are superior to those of the competition, they are called distinctive competencies

  General Electric is well known for its distinctive competency in management development. Its executives are sought out by other companies hiring top managers, HUL India is known for its domain expertise in distribution, dabur's core competency is in herbal products, amul's in dairy and so on

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Competency, Core competency

Competency is a cross-functional integration and coordination of ca-pabilities. new product development competency in one division of a cor-poration may be the consequence of integrating management of information systems (MIS) capabilities, marketing capabilities, R&D capabilities, and production capabilities within the division.

Core competency - collection of competencies that crosses divisional bound-aries, is widespread within the corporation, and is something that the corporation can do ex-ceedingly well. Thus, new product development is a core competency if it goes beyond one division. A company must continually reinvest in a core competency or risk its becoming a core rigidity or deficiency, that is, a strength that over time matures and may become a weak-ness. An intangible valuable resource—that does not "wear out" with use. When core compe-tencies are superior to those of the competition, they are called distinctive competencies.

> Things to do: M. Javidan, "Core Competence: What Does It Mean in Practice?" Long Range Planning (February 1998), pp. 60–71

Organizational learning

"The total is more than sum of the parts"
Resonance frequency
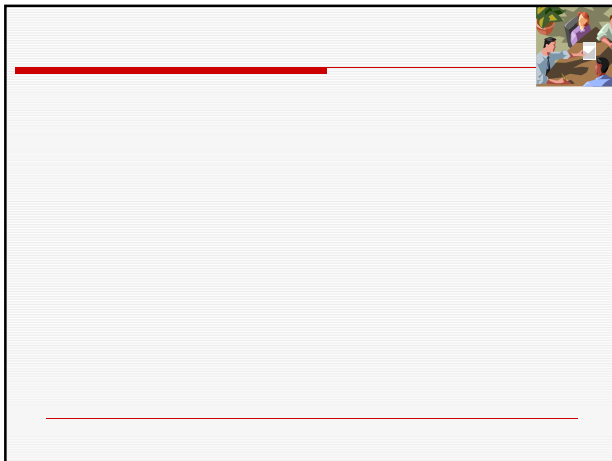
- Adoption of areas or practices in which the business unit has little or no experience
  - SME's in India had to acquire ISO certification if they wanted to export
  - Adoption of Bar code if one wants to supply to organized retail
  - Free market economy, LPG (liberalization, privatization and globalization) practices
  - Garment exporters had to furnish certification declaring non use of azo dyes
  - Y2K problem and its resolution
  - Adoption of LOHAS (Lifestyle, Health and Sustainability)
  - Adoption of SHE (Safety, health and environment)
  - Adoption of Carbon Neutral Practices
  - Militant trade unionism and dealing with all IR (industrial relations) issues
  - Trade blocks, embargo, GI's (geographical indicators)
  - Use and abuse of IPR's (Intellectual Property Rights), Biodiversity issues, gene modified foods
  - Stem Cell Research and allied ethical (Gene Modified Foods)issues

The change agents – some positive and some otherwise

- 4 P's are passe, hail 3 P's (People, Profit and Planet) also known as Triple bottomline (performance as measured by profit, plus some measure(s) of environmental impact and some measure(s) of social impact)
- Climate change
- WTO issues, anti dumping, level playing field,
- Outsourcing vs protectionism
- Increase in Consumer Activism, Regulation, Compliance (SOX – Sorbane-Oxley Act, MRTP Act Monopoly and Restricted Trade Practices Act, Anti-Trust Law, Censor Laws, FDI laws, FIPB laws, Company law boards, income tax foreign remittance, royalty, Corporate governance, fair play and myriad other laws and regulations)
- Technological convergence, shortening of PLC, no PLC at all (as per some school of thought, albeit a radical thought), 'Time to market', 'launch first, fix the bugs later' philosophy
- E- commerce, m-commerce (mobile commerce), internet, demonetization, digital payment, cashless economy are game changers
- Merger Mania

The change agents – some positive and some otherwise contd…

- Boundary less world, the world is a global village, global outlook, global strategy, local implementation a so called 'glocal' approach ('The Geography is History Now')

Things to do: visit & surf

Change and strategy

- Broadly there are four types of change
  1. Stability, no change, status quo
     - Population size steady (developed economy), economic growth zero (stagnant economies or poor economies would see invariably explosive population growth)
     - Closed market, less or no competition, much regulation, control (e.g., the license (license, permit, quota) raj of India before 1990's), import restriction
     - Some of the companies encountering business environments with accelerating change but still failed / failing to adapt or change like an ostritch are GM, Sears, Eastman Kodak, IBM, Kingfisher, Air India, HMT, national Textile Corporation NTC, Hindustan Motors HM (GM kept betting on gas guzzling monsters like Hummer and other SUV's despite Oil Shocks and consumer taste change towards small, fuel efficient and smart cars instead of big and carbon emitting vehicles, they failed to take note of 'Think Small' campaign by Beetle of Volkswagen, .

Change and strategy (contd…)

2. Alteration

   Oscillating between stability and change, brief periods of rapid growth interrupted by crises (financial, political, assassinations, power vacuum, power struggle) and periods of contraction

   Lat-Am (Latin American) countries

Change and strategy (contd…)

3. Continuous change (slow and steady, incremental improvement - kaizen)

Rate of change is relatively steady and manageable so that political and social systems can keep pace with the change

The philosophy of Buddha's 'Madhyam Pantha'(The Middle path) not doing something too much, too fast, too radical

Developed world in 1950's, 60's, 90's, India in 1990's when the so called Asian tigers had financial crises we were relatively spared unscathed due to our 'go slow' approach

The GOI's policy in controlling FDI in retail is another such approach, instead of making it a free for all and allowing a bloodbath to decimate all mom and pop store (kirana stores in every nook and corner) the big boys like Wal-Mart, Tesco and Carrefour are forced to come in via JV route or in a B2B format of Cash and Carry like Metro AG of Germany

4. Discontinuous big bang change

- Business Process Re - engineering of Michael Hammer, change stuff lock, stock and barrel, a la surgical strike.

Uneven, violent, radical and dramatic like a tsunami, inferno or volcanic eruption takes everybody in surprise; most painful – demonetization in India or Bolivia.

US in recession (erstwhile mighty automakers, banks and insurers are getting bankrupt in dozen and their hallowed empires are falling apart like house of cards), Russia in post USSR era

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Change and strategy - Discontinuous change (contd…)

As far as organizations and businesses are concerned there are some better ways to cope with and anticipate Discontinuous change

➢ Encouraging entrepreneurship

➢ Acquiring smaller entrepreneurial companies

➢ Spreading one's bets on different technologies and remembering 'Success breeds complacence and complacence breeds failure'

In good times there is no need to innovate, 'why bother', 'don't fix it, if it ain't broke' syndrome and in bad times there is no resources to do so, however the difference between a progressive organization and a reactive organization is that the progressive ones try do 'anticipate change' and create a 'warroom' before there is a fire in the backyard, a so called 'creative destruction' as coined by Schumpeter, Intel phases out their hot selling processors before AMD forces them to do it, Gillett develops a Mach Three after Sensor Excel (Twin blades) and even if Schick launches a Quattro (a four blades cartridge) consumers see it redundant and purely a marketing gimmick rather than being a true blue innovation

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The patching approach

☐ The strategy and more so, strategic implementation, is a moving target, a dynamic equilibrium, therefore it needs constant up-dation, review, mid way correction or overhaul lock stock and barrel changes, if necessary.

☐ Patching, apparently a pejorative term, is one such approach for keeping strategic implementation in constant mode of flux particularly in an emerging, turbulent market and all growing markets are turbulent!

☐ The process by which corporate executives routinely 'remap' their business to match rapidly changing market opportunities – adding, splitting, transferring, exiting or combining chunks of businesses is called patching

Additional reading: "Patching: Restitching Business Portfolios in Dynamic Markets", Kathleen M Eisenhardt & Shona L Brown, HBR, May-June, 1999, p 77-82

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The patching approach (contd…)

	Strategic Position	Resources	Patching (Simple Rules)
Strategic Logic	Establish Position	Leverage resources	Pursue opportunities
Strategic Steps	Identify an attractive market, locate a defensible position – competitive advantage, fortify n defend	Establish a vision, build resources, leverage across market	Jump into the confusion, keep moving, wait n watch, seize opportunities and finish strong
Strategic Question	Where should we be?	What should we be?	How should we be?
Source of Advantage	Unique, valuable position with tightly integrated activity system	Unique, valuable inimitable resources	Key processes and unique simple rules
Works best in	Slowly changing, well structured markets	Moderately changing, well structured markets	Rapidly changing, ambiguous market (BRIC, Latin America, East Europe)
Duration of Advantage	Sustained	Sustained	Unpredictable
Risk	Too difficult to alter position as condition change	Too slow to build new resources as conditions change	Too tentative in executing promising opportunities
Performance goal	Profitablity	Long term dominance	Growth

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Managing resistance to change

☐ Resistance to change, stated and more damagingly unstated, is the greatest threat to successful strategy implementation, some of then are manifested in the form of

➢ Sabotaging production machines

➢ Deliberate manufacturing defects

➢ Project delay

➢ Delivery delay

➢ Deliberate documentation error

➢ Withholding information, or planting wrong or incomplete information, Absenteeism

➢ Filing unfounded grievances and

➢ Various forms of non-cooperation

How to implement the changes?

➢ Forced change strategy

Fast but no or low buy-in, back stabbing or silent non co-operation quite possible, low commitment, high resistance

➢ Educative change strategy

Slow but steady, high commitment, low resistance

➢ Rational or self interest strategy

Convincing personnel that the change is in their personal interest

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Strategic leadership – some typical roles

☐ Take charge, torch bearer leadership
- Alexander, Subhash Bose, Rani Laxmibai of Jhansi

☐ Being a spark plug or catalyst, Hands on
- Thomas Alva Edison, Amar Bose, Kiran Mazumdar, Karshan Bhai Patel

☐ Ramrodding things through, Dictator
- Jack Welch, Idi Amin, Hitler (Shoot first, ask question later style), Richard Nixon

☐ Cheerleader, flamboyant showmanship
- Roman Abramovich (for Chelsea), Shah Rukh Khan & Preity Zinta for their respective IPL teams
- Richard Branson launching Virgin brand in Mumbai riding an elephant

☐ Crisis manager, fire fighter
- Winston Churchill in WWII, Indira Gandhi in 1971 war

☐ Participative, listener, silent interventionist
- Jeff Immelt

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Strategic leadership – some typical roles

- ☐ Indifferent, Incapable
  - ◼ Nero of Rome, playing fiddle while the city was burning, Mughals playing chess while British attacked and usurped.
  - ◼ Mary Antoinette of France (let 'em have cake if they don't have bread)
  - ◼ Robert Mugabe of Zimbabwe manufacturing 15000 % inflation!
  - ◼ The typical Nawab in Satyajit Ray's film Shatranj Ke Khiladi mulling a move to capture opponent's King in Chess where his own children and the whole kingdom is getting captured in real life
- ☐ Mentor, Guru, advisor, chairman emeritus
  - ◼ Machiavelli, Chanakya, Sun Tzu, Narayan murthy & Bill Gates in their later part of career
    - Except that of Indifferent and Incapable style all other roles are par for the course, any one can be adopted depending on the situation and context, different strokes for different folks, time and market

Strategic leadership (contd…)

- ☐ Strategic Intent or Vision
  - ◼ Leaders' clear sense of where they want to lead their company and what results they expect to achieve, in a beautifully short and simple way
  - ◼ The then IBM CEO Lou Gerstner transformed the company from a computer company to business solution management company a paradigm shift from hardware to software, a change from product approach (a black box) to a solution approach
  - ◼ Sam Walton's (Wal Mart) simple vision was to provide 'value to the customer' (EDLP – every day low pricing is a mean to that end)
  - ◼ Meg Whitman's (eBay) aim is 'to help you buy or sell anything, anywhere, anytime'
  - ◼ Jeff Bezos' Amazon offers A to Z in shopping, a paradigm shift from off line to online retail - Etail.

Strategic leadership (contd…)

- ◼ Earlier people thought R & D, innovation is so high tech, sacrosanct, holy cow that you can't touch it, can't question it for ROI, time to market what to talk of outsource, Alan Lafley of P & G blew that myth and made the focus outward for innovative ideas and not inward ('invent it here')
- ◼ Coke's Robert Gouzieta said 'our company is a global business system for which we raise capital to make concentrate and sell it at an operating profit. Then we pay the cost of that capital. Shareholders pocket the difference." Coke averaged 27 % annual return on stockholder equity for 18 years under his leadership. Also he urged his employees / associates to consider tea / coffee / *nariayal paani* to be competitor too other than traditional rivals Pepsi, Cadbury Schweppes, RC Cola and Zamzam Cola (Mecca Cola)

Strategic leadership (contd…)

'Leaders do not do different things, they do it differently' - Shiv Khera
Durk Jager, Alan Lafley's predecessor in P&G started a big bang change process but failed (P&G under his leadership missed earning forecasts, employees bucked under his leadership). Lafley, in one assessment dissected it; "I did not attack…I enrolled them in change"
Additional reading: Top strategist: Alan G Lafley @ P & G, Strategic Management – Formulation, Implementation & Control, John A Pearce, Richard B Robinson, Amita Mital, pg 396-397, TMH, 10th Edition
- ☐ Building organization &
    Education & leadership development
    Principle ('Do as I do, and as I say' and NOT 'do as I say not do as I do')
    Perseverance

Strategic leadership (contd…)

- ☐ Shaping organizational culture
    Passion
    Kennedy's ambition to put a man on the moon and bringing him safely back to earth
    Ratan Tata's dream to make one lac Rs car that rivals ridiculed to be a lemon
    When Jamshedji Tata started Tisco plant Churchill said '…if Indians can make steel I'll chew it', Tatas started Tajhotels because British had a policy "indians and dogs are not allowed in"
    Another case was when Jamsdesji was denied entry into a British owned Hotel in the then Bombay, he started Taj, the epitome of Indian Hospitality, other than fixed assets and working capital one vital ingredient is passion, everything else falls in place, if one works hard and these days works smart
- ☐ Recruiting and developing talented leadership with following attributes:
    Masculine (Strong decision making – 'Hands in the pocket manager' as per Peter Drucker, leading the troops, driving strategy, waging competitive battle, having the killer instinct or getting the killer apps)

Strategic leadership (contd…)

- ☐ Feminine (Listening, relationship building, nurturing, participative, 'Dirt in the nail' manager as per Drucker with hands-on philosophy
- ☐ David Goleman referred to these characteristics under Emotional Intelligence (Aditional readings
    1. "What makes a leader", D Goleman, HBR, Nov Dec,1998, pg 93-102)
    2. The work of leadership, Ronald A. Heifetz & Donald L Laurie, HBR, 75, no 1, Jan - Feb,1997, pg 124-134
    3. The ways Chief Executive Officers lead, Charles M Farkas & Suzy Wetlaufer, HBR, 74, no 3, May - Jun,1996, pg 110-122
  - ➤ Self awareness
    - ➤ An unprejudiced estimation of own strength & weakness
  - ➤ Self management
    - ➤ Control, integrity, initiative, tenacity, achievement orientation
  - ➤ Social awareness
    - ➤ Sensing others' emotion (empathy)
    - ➤ Reading the organization (Organization Awareness)
    - ➤ Recognizing customers' needs (service orientation)

Strategic leadership (contd…)

- ■ Social skills
  - ☐ Influencing & inspiring others
  - ☐ Communicating
  - ☐ Collaborating
  - ☐ Building relationship
  - ☐ Managing Change & conflict
    Conflict of opinion rather than conflict of personality is a healthy sign as long as 'everybody agrees to disagree agreeably', consensus is welcome but in real world if consensus and more importantly real consensus can not be built, a forced consensus or even an imposed decision is better than no decision or procrastination (a la Narasimha Rao approach where in a problem is allowed to linger on so on that it ceases to be there or it resolves itself!)
    To avoid consensus trap, following techniques can be used:
  - ■ Devil's advocate
  - ■ Dialectical enquiry
  - ■ Strategy Shadow Committee
    - ▪ Prominent follower is Anheuser-Busch

Strategic leadership (contd…)

Many leaders and organizations are doing more than offering lip services towards the importance of their Human Capital.

Treating employees (knowledge workers as well as blue collar, white collar and no collar - those with contractors, DSA's etc.) with respect and dignity is not symbolic in these companies. Employees are:

Cast Members – Disney

Crew members – Mc Donalds

Co workers – Kinko's and CDW Computer Centres

Jobowners – Graniterock

Partners – Starbucks

Associates – Wal-Mart, Lenscrafters, W L Gore, Edward Jones, Publix Supermarkets, Marriott International
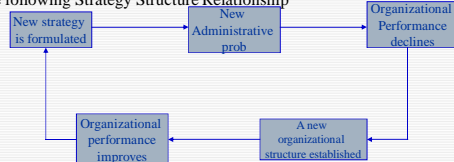

Power and politics

- ☐ Organizational power
  - ■ Position power (coming from hierarchy or special delegation or being in the coterie or inner circle,)
  - ■ Reward power (carrot policy, Vitamin M, money is the best motivator or some other inducements including kind, 'if you can't beat them buy them')
  - ■ Information power or Expert power
    - ☐ Info and expertise are not necessarily same, info is your hold on some development and one just guards it from being distributed expertise is more than information only may be the information is created by one's own knowledge or research
  - ■ Punitive or coercive (stick policy or Kita (kick in the ass) theory, fear is the best motivator in this school of thought)

Case Study

Strategic Management – Formulation, Implementation & Control, John A   Pearce, Richard B Robinson, Amita Mital, pg 418 - 424, TMH, 10th Edition

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Strategy-Structure-Systems

- ☐ A good structure may not save a bad strategy, but a bad structure can jolly well kill a good strategy, here a sound formulation gets nullified by poor implementation
- ☐ Structure follows strategy not the other way round, Alfred Chandler gave the following Strategy Structure Relationship

New strategy is formulated → New Administrative prob → Organizational Performance declines → A new organizational structure established → Organizational performance improves → (New strategy is formulated)

☐ Debate: Should the family run concerns be professionally managed or managed by family members? Discuss this in light of Gucci case, Colin White, pg 417-418, build a case for Dabur (Barmans) / Reliance / RINL (Mukesh / Anil Ambani).

Important Structures

Divisional or decentralised

Functional or Centralised

SBU (Strategic Business Unit)

Matrix organizations

Hierarchical or Bureaucratic structure (Max Weber)

Strategy-Structure-Systems contd…

Certain popular structures:

1. Divisional or decentralised (FMCG firms, HUL tea, ITC Paperboard div or Glaxo formulated division)
   - Divisional by product (ITC - tobacco, stationary, apparel, GE - Plastics, Financial Services, Power Machinery, Mitshubishi – Construction, Heavy Industries, Nuclear Power, Auto…., P&G, DuPont, Microsoft – Platform products, services business, entertainment & devices, ABB expanded 2 divisions of Power Technologies & Automation technologies to Power products, Power systems, Automation products, process automation & robotics)
   - Divisional by geography (Toyota - Japan, Middle-East, US strategy is prudent, Hershey Candies, US, Canada, Mexico, Brazil and others is not because consumption pattern of candy is similar worldwide though consumption of cars are different, A gulf specification car is quite an anathema to snow sturdy cars of US)
   - Divisional by customer (book publishing companies for colleges, secondary schools, private commercial schools, airlines have passengers & cargo…)

Strategy-Structure-Systems contd…

- Divisional by process (Amul Renett by herbal method, by Abomasum; from calf's stomach, toothpaste vegetarian and non vegetarian)
- Since strategy is in 'dynamic equilibrium' with its environment & its forces (as proposed by Porter), is a 'moving target', is in a 'drift', it is changing and so is the structure. With the times, with the OLC stages, with technological breakthroughs and economic upheavals, structures are varying. Some leading companies effecting changes in structures are:
- Cisco changed from divisional by customer (big, small biz & telecom) to a functional structure, centralizing engineering & marketing, to eliminate duplication, span of control reduced from 15 to 12, and no CFO for John Chambers
- Sun Microsystems reducing business units from 7 to 4
- Kodak reduced business units from 7 by customer divisions to 4 by product divisions, because consumption is getting similar worldwide
- Divisions reflect good or bad performances, so it's a motivator for good performers, but it's costly requiring functional specialists, duplication
- Divisions encourage competition for resources among entities in the same firm, turf wars and rise of regional Satraps, but still it's the necessary evil (Reading: S Ghoshal & C A Bartlett, Changing the Role of Management: Beyond structure to processes, HBR 73, 1, 1995:88)

Structures – Functional

2. Functional or Centralised (small firms)(Marketing, Finance, R & D & so on) – least expensive & simplest structure

Disadvantages:
- Forces accountability to top
- Low career development opportunities
- Low employee morale
- Line/staff conflicts
- Poor delegation of authority
- Inadequate planning for products / markets
- Sub-optimization

Structure - SBU

3. SBU (Strategic Business Unit): Multidivisional units, large in number, size and diversity are unmanageable and uncontrollable, so they need to be brought under SBU's

Con Agra has 90 divisions but only 3 primary SBU's ;
   1. food service restaurant
   2. Retail
   3. Agricultural Products

Honeywell restructures its aerospace division in 2005 from a products based structure based on engines, brakes, electronics and wheels to 3 SBU's
   Air transport and regional transport
   Business & General Aviation
   Defence and space

Demerit of SBU – another layer of hierarchy and increased expenses, still CAB (cost and benefit) of SBU on increased coordination and accountability favors positively than the myriad complications of multifarious divisions

Matrix organizations

- Most advanced and most complex
- Vertical and horizontal flow of authority and communication hence the term matrix
- More management positions, so more overhead
- Dual lines of budget authority (violation of unity of command), dual sources of reward and punishment, shared authority, dual reporting channels
- Typical areas of application: Construction, healthcare, defense, research
- Functional resources are shared in matrix, duplicated in functional structure

Non – Hierarchical structures and its genesis

In the early days of management, Frederick W Taylor, Henry Gantt, Frank and Lillian Gilberth developed Scientific School of Management

High points of Scientific School of Management were
- Work – Motion study
- Higher productivity
- Higher profitability
- Employee employer having common interest

Gantt contributed Gantt chart, Critical Path Method (CPM), Program Evaluation and Review Technique (PERT), Lotus 1-2-3 are some more applications, he suggested productivity bonus for workers and supervisors instead of Differential Rate system

Henri Fayol was one of the first management thinker to prominently place Hierarchy in management parlance in his celebrated '14 Principles of Management'

- Bureaucratic management was developed by Max Weber

Non – Hierarchical structures and its genesis (contd…)

- ❑ Bureaucratic management served its purpose in early days but now it means a sloth, corrupt, inefficient system; General Electric and Xerox strive to become "bureaucracy busters"

  By the 21st century most of the formal structures lost significance and organizations started exploring Non – Hierarchical structures:

  - ■ Spider's web
    - ❑ Elaborate networks – They may be the result of simulation within an organization of the networks which often exist outside an enterprise, Microchip & hardware makers in Taiwan
  - ■ Starburst
    - ❑ Organizations which continuously shed new second generation companies, most of the conglomerates are into divestments of non-core, non-performing sub units
  - ■ Federal / Cluster
    - ❑ Organizations in which the clusters continuously form, disperse and reform with a different membership, e. g. ABB
  - ■ Inverted
    - ❑ Usual pyramid is inverted and the number of contact points with customers is maximized

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Skunkworks

"Why is any curiosity driven research supported in industrial labs?"

"There are several reasons, but they do not include the expectation that out of the company's own 'scientific left field', so to speak, will come new insights or inventions that will radically alter the nature of the company's business"

- John A. Armstrong, VP, IBM

Organizations allowing their Innovators / NPD (New Product Development) team members to work on their pet projects that may or may not be top priority of the organization. Despite enjoying all the resources employees have no fixed timeline or milestones to achieve, no definite 'Time to Market' target to meet, however, skunkworks is no paid holiday either. Few star performers whose commitment, capability and motivation is established gets the Skunkworks fund and flexibility.

Skunkworks

Google, Bell Labs, Xerox, Du Pont, Sony, GE, IBM have established and nurture Skunkworks team

- ➢ DuPont's fundamental polymer studies led to invention of Nylon
- ➢ Irving Langmuir's Nobel Prize winning surface chemistry investigations enabled GE to build a revolutionary lightbulb
- ➢ IBM's STM (Scanning Tunneling Microscope) is a great tool but IBM did not get a windfall financially as it was outside its known competency architecture

Hidden benefits:

- ❑ Climate of discovery
- ❑ A positive buzz to offer creative freedom as well as platform to attract 'eccentric' talent
- ❑ Unexpected oysters

Outsourcing

- ❑ Outsourcing or Business Process Outsourcing (BPO) is some companies taking over the functional operations of a given firm. Purchasing the products or services from outside rather than producing it within the enterprise
- ❑ The new paradigm is, 'less is more', do less, 'buy, not make', retain the core, shed the flab
- ❑ As on 2007, the BPO market was $ 173 b

Some leading outsourcing firms

- ➢ 3M outsources all manufacturing to Flextronics, Singapore and some firms in Taiwan,
- ➢ DuPont's corporate training and development program is managed by Forum Corp, Boston,
- ➢ Pepsi employees getting personal financial planning is now managed by KPMG Peat Marwick,
- ➢ TeleTech Holding Denver books tickets on behalf of Continental Airlines,
- ➢ IBM sources or outsources from Lenovo
- ➢ HTC, Flextronics and Cellon develop new product design prototypes and sell them to Nokia, Samsung & Motorola

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Outsourcing

Benefits:

- ➢ Cost saving (reduces CAPEX, OPEX manpower)
- ➢ Allows the outsourcer to focus on the core businesses
- ➢ Offers the firm to improve the service delivery
- ➢ Allows the firm to align with the 'best in the world' suppliers

Demerits:

- ➢ Job loss, social / political unrest
- ➢ Loss of control and possibility of abuse (theft of data of US banks by the outsourced agencies' employee(s) in India was one such case)
- ➢ Possibility of creating future competitors
- ➢ Getting locked in a long term contract that may not be viable anymore

Not all outsourcing, like ERP, are successful, Dell has jinxed its deal in India, Lehman Brothers before its bankruptcy felt customer rebellion and cancelled its arrangement of outsourcing in India

GE outsourced a new washing machine manufacturing to a contractor, and the contractor defaulted in meeting deadline, material delay 3 weeks, forcing GE loss of business, time and face

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Outsourcing contd…

Reading: JV Mandatory for all foreign firms in India, Fred R David, PHI, pg 172-173

Things to do: Read and analyze the case on Outsourcing innovation, pg 505-11, Pearce, Robinson & Mital,

Q. Discuss pros & cons from the perspective of 1. Outsourcer 2. Employees being affected

Networks & Networking

- Enterprises, and big enterprises, act like network to avoid the disadvantage of size, within the organization and without
- Networks proliferate in some industries and in certain regions, geographical proximity makes them *clusters.*
- Northern and Central Italy for clothing and ceramics
- Silicon Valley in California
- Li'l Silicon Valley of India Bangalore where outsource has been dubbed being Bangalored

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Control Processes: planning processes, cultural processes, market processes

OUTSOURCED TO STUDENTS!!! DIY.

Controls

- Framing a mechanism to monitor financial parameters against in-house, industry or outside benchmarks and intervention whenever the performance is way above or below the benchmarks, beyond a fixed tolerance
- Controls, be it financial or others, can not be, hard & fast, water tight, rigid, sacrosanct dogmas, they should mean direction
- How to do it
    - Indirect & Discreet, internalization of direction (Churchill said if you want to be heard and complied with, speak politely and carry a long stick!)
    - Carrot & Stick (reward the acceptable performance / behavior, incentives, employee of the week/month/year, morale boosting parties or reprimand, censor, show cause, sack, termination
    - Tools and framework – Balanced Scorecard is one such tool
        - Systematic Application of monitoring based on the assumption that the processes of formulation, implementation and monitoring of a strategy are both integrated and continuous

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Strategic controls

Strategic controls

Management efforts to track a strategy as it is being implemented, detect problems or changes in its underlying premises and make necessary adjustments

4 Strategic controls:

- Premise control
    - Environmental factors
        - Fate of foundries in Taj Trapezium
    - Industry factors
        - Input cost increase for Rubbermaid and refusal of its leading buyer Wal-Mart to accept that
- Strategic surveillance or loose / unfocussed environment scanning
    - P & G taking on private labels in Europe
- Special alert control
    - United airlines setting up team to handle crash/hijacking/hostage taking
- Implementation control
    - Project management / milestones control at DMRC / franchisee – franchisor models

Things to do:
Read the caselets on Strategic Control, pg 431 Pearce, Robinson & Mital.

Financial controls

- Important financial benchmarks:
    - Adhering to the budget, profit (bottom line), revenues (top line) and expenditure figures (can be *leading* or *lagging* indicators depending on context)
        - Gross Profit margin = (Total sales – costs) / Total sales
        - Net profit margin = Profit after deductions / Total sales
        - Growth of profits = Profit this year / Profit last year
        - Return on total assets
        - Breakeven ratio
    - Keeping Expenses limit and sticking to it (marketing, entertainment, Capex, administrative, R & D, Manpower - wages and perks)
    - Keeping certain parameters / ratios (*lagging indicators* used to compare with past performances) under control like NPA'a (Non performing assets, less than 3 % as per RBI guidelines for Banks / FI's), ad to sales ratio etc

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Financial controls

- How not to do it
    - Don't be a penny pincher, Titanic's Achilles' Heel was cheap quality rivets, in its heydays of cost reduction BBC was dubbed Banned Biscuit Company, the recent French air crash was due to poor and cheap quality Pitot tubes!
    - A single track pursuit of profit, short term profit, profiteering, are to be controlled. And no, ends do not justify the means! Cooking the books, creative accounting, inflating the receivables, suppressing the debts may be fashionable but are extra illegal and outright illegal. Look at the big picture, (check out the management cartoon Seven Blindmen of Hindoostan!)

References:

1. Concepts in Strategic Management & Business Policy, Thomas L Wheelen, J David Hunger & Krish Rangarajan, 9th Ed, Pearson Education

2. Strategic Management – Concepts & Cases, Fred R David, 12th Ed, PHI

3. Strategic Management, Colin White, Palgrave Macmillan, 2007

4. Strategic Management – Formulation, Implementation & Control, John A Pearce, Richard B Robinson, Amita Mital, TMH, 10th Edition.