GROWTH MANAGEMENT

MBA [Logistics Management]

Paper 4.5

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SYLLABI-BOOK MAPPING TABLE

Growth Management

Syllabi	Mapping in Book
Unit 1 **Sinews of Growth:** Defining Growth and Growth Management- Overview of Growth Management 'SIX-S' Process: Sinews, Strategy, Staging, Synchronizing, Securing and Sustenance- Sinews: Identifying Growth Opportunities – Entry Enticements and Barriers- Competition and Cooperation- Creativity and Engagement- Prioritizing Growth- Developing a Growth Proposition and Plan- Building up the Growth sinews: Fine-Ware, Soft-Ware and Hard-Ware- Growth propellers and escalators- Reinventing the Future.	**Unit 1:** Sinews of Growth **(Pages 3-16)**
Unit 2 **Strategizing Growth:** Strategic thrusts for Growth- Improvement Strategies (Synergy and Value chain based): Vertical growth, Horizontal growth (related growth and unrelated growth), Evolutionary growth and Continuous growth, Organic growth- Venture Strategies: Disruptive Ventures and Innovation Strategies: Revolutionary growth, Discontinuous growth, and Acquired growth- Blue Ocean Strategy- Ansoff's model- McKinsey model- SWOT/TOWS model- 3 Levels of Enterprise Strategies for growth- Porters Generic Competitive Strategies- Choosing the strategic growth choice: Considerations of Internal and External Factors.	**Unit 2:** Strategizing Growth **(Pages 17-53)**
Unit 3 **Staging Growth:** Organizing for Growth- Inertia Escape- Activation of growth- Well thought out implementation plan- Competitive compensation programs- Supportive organization culture- Strategic core competencies in place- Frequent, two- way communications- Strategic staffing plan- Efficient decision-making process- Full delegation and accountability- Team based environment- Performance management program- Change management tools in place- Supportive systems and processes- Employee development plans- Succession plan – Warding off Organization from signs of Slowing and Losing- Resources for Growth- Mentor for Growth (M4G)- Getting focus and balance- Monitoring growth.	**Unit 3:** Staging Growth **(Pages 55-93)**
Unit 4 **Synchronizing for Growth:** Synchronized Efforts - Directing the Growth Resource mix – Greiner's model of Crises Induced Growth- Managing Growth fatigue: Concept and Overcoming the same- - Managing the momentum of growth: Steady and Speed – Alert and Advancing- High Growth Road Map.	**Unit 4:** Synchronizing for Growth **(Pages 95-112)**
Unit 5 **Securing Growth in every domain:** Product & Brand domain, Market & Competition domain, Assets & Capacity domain, Finance & Profitability domain, Networks & Relationship domain, Geography & Spread domain and People & Organizational domain- Handling un-sought consequences of growth- Turning Risks into Opportunities.	**Unit 5:** Securing Growth in Every Domain **(Pages 113-128)**
Unit 6 **Sustaining Growth:** Efficiency Improvement- Effectiveness Enhancement- Excellence Management- Continuous Innovation- Kaizen and Radical Innovation- Harnessing Diversity- Rapid Growth Strategies- Managing Rapid Growth- Passion for Growth.	**Unit 6:** Sustaining Growth **(Pages 129-147)**

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INTRODUCTION

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All organizations strive for growth, regardless of their size. Small companies want to get big while big organizations want to get bigger. Indeed, all firms have to grow at least a little bit annually to take into account increased expenses as a result of inflation. These increased expenses could be salaries, cost of employee benefits, and so on. Trying to pass on these costs onto the customer can have negative effects on the market share of the company. Therefore, companies need to grow continuously to survive.

Organizations employ a wide variety of strategies to achieve growth. How these strategies are managed is referred to as growth management. Growing firms provide businesses with innumerable benefits, including things like greater efficiencies from economies of scale, increased power, a greater ability to withstand market fluctuations, an increased survival rate, greater profits, and so on. There are different matrices a firm may use to measure growth in an organization, however, since the objective of most firms is to make a profit, most companies measure their growth in terms of net profit, revenue, and other financial data. This book will discuss different aspects of growth management.

This book, *Growth Management*, contains six units. It follows the self-instruction mode wherein each unit begins with an Introduction to the topic of the unit followed by an outline of the Unit Objectives. The detailed content is then presented in a simple and structured format interspersed with Check Your Progress questions to test the student's understanding. A detailed Summary and a set of Questions and Exercises are also provided at the end of each unit for effective recapitulation.

UNIT 1 SINEWS OF GROWTH

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Structure

1.0 INTRODUCTION

Growth is a significant phenomenon with respect to industries and business. Growth plays a crucial role in the development of business enterprises which thereby facilitate the economy in growing at a faster pace. Hence, it can be understood, that strengthening and sustaining growth through proper management is vital not merely for enterprises, businesses and their owners but also for all the stakeholders of the company such as the consumers, employees and so forth, all of which make a significant contribution to the growth of the economy subsequently. In this unit, you will study about growth and growth management, the six 's' process of growth management, growth opportunities, the significance of competition, cooperation, creativity and engagement in the growth process, the procedure of developing a growth proposition and plan and the significance of growth escalators in reinventing the future.

1.1 UNIT OBJEECTIVES

After going through this unit, you will be able to:

- Define growth and growth management
- Explain the six 's' process of growth management
- Identify growth opportunities
- Recognize the significance of competition, cooperation, creativity and engagement in the growth process
- Learn the procedure of developing a growth proposition and plan
- Analyse the significance of growth propellers and escalators in reinventing the future

1.2 SINEWS OF GROWTH: DEFINING GROWTH AND GROWTH MANAGEMENT

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Growth: It is the product of an internal process in the development of an enterprise and an increase quality and/or expansion.

Over the years, **growth** has been defined in several different ways by numerous thinkers and economists on the basis of different parameters. Growth may be defined as the product of an internal process in the development of an enterprise and an increase in quality and/ or expansion.[1] As per authors, Dobbs and Hamilton, growth is defined as a change in size within a determined time span. Another author, Brush has attempted to define growth in terms of expansion. As per Brush, geographical expansion, increase in the number of branches/ outlets, inclusion of new markets and clients, increase in the number of products and services, mergers and acquisitions may be termed as growth of a business.[2] Hence, as per the definition of these authors, growth is actually a consequence of certain dynamics which is brought about with an intent of constant construction and reconstruction, based on the assessment of market factors.

Hence, on the basis of the above discussion, it can be understood that entrepreneurs are not the only determinants, since there are many other agents involved in the growth phenomenon, such as customers, employees, suppliers and others. According to the opinion of another author, it can be said that growth is in fact a 'socially constructed factor'. According to thinker, Penrose— growth, progress or expansion is the product of a constant dynamism since growth intentions change as a result of constant evaluations and re-evaluations, subject to various risks and opportunities, which is regulated through efficient management. Any substantial rise in the volume of activities and transactions, inclusive of sale, greater investment, expansion and others is a distinctive indicator of growth.

The concept of growth is evident in all aspects of life. Many theories rely on the 'life-cycle approach' to elucidate the concept of growth. This approach postulates that just as humans pass through the stages of physiological and psychological development from infancy to adulthood, businesses also evolve in predictable ways and encounter similar roadblocks in their cycle of growth.

Management (or managing) is the administration of an organization, whether it is a business for profit or any other form of enterprise. Management comprises of strategy formulation for effectively running an organization and channelizing the efforts of its workforce (employees or of volunteers) through proper coordination in order to accomplish its goals through the utilization of available resources, such as financial, natural, technological, and human resources in the best possible manner which maximizes the growth coefficient.

Management includes identification of the mission, objectives, procedures, rules, framework and interplay of the human resources and other resources such as financial, technological which make an unparalleled contribution to the growth of an enterprise. This simply indicates towards a system of effective communication which hinges upon human motivation and existence of some sort of systematic framework which leads to progress and growth as its outcome. From an individual's perspective, management does not need to be seen solely from the point of view of an enterprise because management is an essential function to improve interpersonal relationships and a fine balance between the human and non-human capita. Management can be seen in all walks of life and is, therefore, omnipresent with a wide range of applications and emerges as one of the pivotal determinants of growth.

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Effective management is the key to the establishment and growth of any business. Growth management means successful management by examining the marketplace environment and creation of employment and profit opportunities. Generation of such opportunities paves way for the potential enhancement and financial viability of the business which is termed as 'growth'. Despite the importance of management, this aspect is often neglected in planning which leads to poor implementation. Lack of importance and heed to this area can also be primarily attributed to the focus of people and entrepreneurs, specifically, on the output rather than the process of management.

1.2.1 Types of Growth

Growth can be classified into various types depending upon the classification of industries and businesses. Author Delmar has identified five generic types of growth under which almost all categories of businesses may be classified[3]: a) Super absolute growth, wherein there is absolute growth in terms of employment and increment in net sales figures; b) Robust growth, wherein there is stark increase in the sales, however, figures for the employment factor are in negative; c) Growth through acquisition, wherein there is positive reflection in sale and total employment, however, such growth in employment is attributable only to the acquisition and the economies of scale achieved due to such acquisition; d) Super relative growth, wherein there is great development in super relative terms; e) Irregular growth, wherein the figures for absolute sales is in negative but relatively, there is a positive growth on an average considering all the determinants.

Another form of classification of growth was proposed by author, St-Pierre. According to St-Pierre, there are five types of growth: The first category is that of continuous growth; the second category is limited to determination of growth in terms of certain years; the third category is totally discontinuous and disordered; the fourth category is robust at the start but decreases over time; and the last consists of business organizations and businesses with intense growth at the start, followed by decrease and then eventually, recovery.

Brush also postulated a similar classification based on four-pronged growth trajectories: a) Fast growth beyond the expectations of the agents involved. Such growth is credited to a strong team of workforce, including the external counsellors and high liquidity at disposal; b) Incremental growth, wherein growth is characterized with meticulous and controlled planning with good relationships with clients at the core of the growth management model; c) Episodic growth, wherein the business experiences growth initially, followed by a stagnation period which is usually associated with internal or external factors. d) Plateau growth, reflected in the slow growth of business, followed by stabilization and subsequent decline in profits. The types represented in the aforesaid classifications depict the discontinuity and singularity of growth. Different trajectories may represent different, intermittent, faster or slower, discontinuous or gradual paths. The course or trajectory which a business or enterprise is likely to follow is dependent on different growth determinants, strategies, enticements and may even be clawed back by certain barriers.

Check Your Progress

1. Mention the classification of growth as put forward by Delmar.
2. What do you understand by the term 'growth management'?

1.3 OVERVIEW OF GROWTH MANAGEMENT: SIX 'S' PROCESS

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Sinews: It refers to the binding force, the building blocks which lay down the foundation and provide the requisite support for the whole structure.

Strategy: It means a plan of action designed to achieve a long-term or overall gain in the operations.

In the words of the French author, Henry Fayol, 'To manage is to forecast and to plan, to organize, to command, to co-ordinate and to control', which means that strategizing the approach, staging implementation of the plan and framework formulated, synchronization of the resources, securing the initiative and the progress momentum and eventually, sustenance of that progress i.e., the precursors and building blocks of growth hinges upon coherent and efficient management.

Sinews: Sinews refer to the binding force, the building blocks which lay down the foundation and provide the requisite support for the whole structure. Sinews relate to the entire process and phenomenon which lead to growth and elucidate the components of growth. It not only paves the way for achieving growth but also signifies the importance of maintaining the growth levels.

Strategy: Strategy means a plan of action designed to achieve a long-term or overall gain in the operations. One of the foremost sinews of growth is strategizing or devising a framework or blueprint according to which growth can be achieved. The method adopted by an enterprise to expand and grow its business is broadly dependent upon the financial condition, the presence of competitors and even regulatory measures adopted by the government. Some of the most prevalent strategies for bringing about growth include entry into newer markets and penetration, expansion in terms of territory and products, diversification and acquisition by venturing into newer domains. This bring about long-term growth.

Strategy or plan assists in identifying growth-related challenges and objectives, thereby preparing a course of action to address such challenges for achieving the objectives of an enterprise.

Staging: Once a strategy is earmarked, the next step is to initiate the implementation of the strategy into practice. In order to do so, the plan so devised is required to be put into action. Staging means a stage or set of stages or temporary actions taken by an enterprise which act as a support or a stepping stone for the enterprise to achieve its ultimate goal of growth. This may include efforts and measures including training to the workforce, adoption of latest techniques that fosters growth, among other actions.

Synchronizing: The next element in the sinews for growth is to achieve a level of coordination wherein all the constituent elements of growth are synchronized to yield maximum results. Having the adequate resources alone is not sufficient to achieve growth, it is the interplay and synchronization between the human and non-human resources and the coordination between the entrepreneurs and the employees and the inter-se synchronization among the workers. Therefore, synchronizing the resources in conformity with the strategy is a crucial element and part of efficient growth management.

Securing: Following the aforementioned sinews results in successfully obtaining the desired objective i.e., growth, after tackling all the challenges and difficulties. Securing the growth results is a product of putting into practice the plans made through synchronized efforts and tapping the success of all the planning, staging and efforts. Such success shall be secured and harnessed to consolidate upon this growth.

Sustenance: While achieving growth is the central aim of any business, however, sustaining the achieved growth is equally important. The final sinew of growth is that it shall not only be achieved but sustained too. The key principle of sound growth management is the intent of maintaining the growth achieved.

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1.4 IDENTIFYING GROWTH OPPORTUNITIES

Growth is the outcome of a proper administration of resources and capacities which can be used by the concerned enterprise for its growth. The extent of growth depends on the identification of the origin of resources, capacities and the depth of knowledge. Such knowledge could lead to generation of sustainable profits, provided, examination of the manner and timing of utilization of available resources of industry and financing is carried out efficiently. Further, from a strategic perspective, it is significant to entrust people with cognitive capacities with key responsibilities, since the stakeholders alone are not the sole agents of ensuring growth and management of such growth. Another significant factor which forms part of an efficient growth management is the competence of the proprietors in networks, which significantly impacts the knowledge base and in turn, ensures utilization of market information, strategies, innovation and available resources in an efficient manner yielding maximal returns with limited inputs.

Growth is affected at several levels and is dependent on a variety of factors. An illustration of this notion was explained by author Wiklund by virtue of an integrative model. In the said model, growth has been explained by associating the variables of the agent (human capital and attitudes), business organization (resources, enterprising features and growth) and setting (industry).[4]

Entry enticement and barriers

As mentioned above, sustenance of growth is the final element of sinews of growth. Sustenance can only be brought about by avoiding stagnation and by continually making efforts to look for growth opportunities. A growing business has an enticement as well as an opportunity to venture and enter into newer domains. For instance, in case of a product industry, growth paves the way and also offers allurement for entry into different segments of a product chain i.e., in case a business has grown in the horizontal segment, achievement of growth entices the entrepreneurs to grow into the vertical segment as well.

The most challenging aspect of the growth management is to successfully face and thwart the possibility of stagnation in the growth by overcoming the barriers which may crop up in the growth cycle. One of the most interesting aspects of growth management is the ability to learn and respond to the changeable dynamics and tackling the barriers to growth in such a manner that they supplement, rather than impede growth. The growth and survival prospects of an enterprise are dependent upon its ability to gain insights about the environment, and to link changes and adapt their strategy choices in consonance with the changing dynamics of that environment. This ability to learn and adapt is crucial to growth and is highly correlated with the stage of growth.

Check Your Progress

3. Define strategy.
4. List the six ‘s’ process of growth management.

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An indicative list of some of the most common barriers to growth which are experienced, more or less by all businesses is as follows:

- Availability and cost of finance for expansion of the project
- Overall growth of market demand
- Increasing competition
- Marketing and sales skills
- Management skills
- Skilled labour
- Acquisition of new technology
- Difficulties in implementing new technology
- Availability of appropriate premises or site
- Access to overseas markets.[5]

Competition and Cooperation

While growth to a particular sector brings about enticement not only for the successful player to venture more, but also serves as enticement for other players to enter the market. This leads to increase in competition. It is to be noted that competition is not always bad. Healthy competition proves beneficial for the further growth of an enterprise. Competition drives an entrepreneur to be more creative and innovative so that he can sustain against the competition. With competition in the market, one always think of better ways to earn, satisfy and cater to the customer's need, thereby increasing their customer base which in turns enhances the growth of the business. Competition motivates the managers to continuously come up with fresh innovative ideas, otherwise the business will perish succumbing to the competition. This pressure from competition brings out the best in entrepreneurs and businessmen.

On the other hand, if a business lacks competition in the market, the entrepreneurs become comfortable and relaxed because whether they work hard or not, growth is still being achieved, however that growth is temporary. With competition, an entrepreneur is forced to keep up and strive to improve his product and make it better than the rest of the competitors.

Competition also leads the players (competitors) to rethink their strategy and at times cooperate with another and merge their resources. Sometimes competing business organizations can enjoy efficiency gains by merging their businesses and combining their synergies. An improvement in the productive efficiency is another possible positive effect of combination and cooperation. For example, if the production of different goods is pooled together, economies of scope could be achieved in the form of productivity efficiency. The total costs for production are significantly lower for business organizations cooperating and integrating with each other, as compared to the individual business organizations since by integrating the technological synergies, a cooperative entity can produce its products in a more cost-effective way.

Creativity and Engagement

Growth can be propounded further with innovation and by being creative in the approach adopted in the process of managing the affairs of an enterprise. Innovation

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could be in the form of technological advancements, creative marketing ideas, policies for acquisition and retention of skilled workforce and so forth. Depending upon the industry (product based, services based etc.), creative ideas should be given due consideration. This may include inculcating the practices adopted by larger industries or enterprises in the same sector or even those entities that have been prospering in different territories may also serve as an example. As mentioned above, healthy competition ignites innovation in the entrepreneurs.

Another growth opportunity could come in the form of engaging external consultants who are experts and specialists in a particular aspect relating to the concerned business. Engaging creativity in the traditional process of management of a business can provide new growth opportunities and may be instrumental in realizing the true growth potential of a particular business.

1.5 PRIORITIZING GROWTH — DEVELOPING A GROWTH PROPOSITION AND PLAN

The management of any business is a highly creative activity. The beginning, development and management for growth require a wide variety of skills and abilities. It requires more than just the expertise involved in the operations of business, even with a good measure of hard work, dedication, and commitment. It requires passion and growth plan.

If the business is of any size, the business organization will be proportionately dependent on the skills and knowledge of others, both internally and externally. The role of the entrepreneur, or chief executive, may be seen as controlling a variety of factors, ensuring that they function effectively and cohesively. A good business growth plan is essential to achieving those aims.

A good growth plan does not guarantee complete success without failure. Often, one of the causes of failure is that stakeholders fail to anticipate the foreseen consequences of their actions. Such actions could include failure to accurately interpret the market, or lack of clear growth objectives. Another cause of failure could be that the development of the growth plan was viewed simply as an exercise in itself, and also that the growth planning process and the ultimate plan was not used as tools for managing the business. By itself, a growth plan is not capable enough of overcoming any of these common mistakes. Nevertheless, often the process of formulating a growth plan and examining it thoroughly can ensure that weak points are identified early enough to avoid major failures.

Growth plans also function as an essential tool while dealing with bankers and investors in maintaining existing relationships and in establishing new ones. However, all growth plans, whether developed primarily for internal use in managing the business or prepared for third party review or prepared with the objective of attaining long-term growth, should follow the same guidelines of accuracy, reasonableness and completeness.

A zero-based approach is helpful when a business organization is developing growth plans. A zero-based approach requires each major aspect of the business to be reviewed and evaluated for its cost and contribution to the company. Nothing is

Check Your Progress

5. List the common barriers to growth faced by an enterprise.
6. What is the significance of innovation in the phenomenon of growth?

accepted because of its historic reality, including management, markets, products, fee structure, relationship structure, asset management, suppliers and other nuances of business. In simple words it can be understood that when developed properly, a business or strategic plan utilizing a zero-based approach persuades the management to reassess the business, from its core, each time the plan is written and evaluated.

The growth plan also establishes the benchmarks against which the achievements of the business organization are measured. It is advisable that the management should initiate an **MBO** (Management By Objectives) model for each critical function of the business organization. MBO is a management model that wishes to enhance performance of an organization by clearly defining objectives that are agreed to by both the management and employees.

This will serve several purposes such as the following:

- Allow a detailed analysis of anticipated future events
- Prepare the staff responsible for achieving those plans
- Provide for a frequent measuring tool for evaluating success
- Enable frequent reassessments and therefore frequent updates

A business organization can follow several steps to prepare a growth proposition and plan. Some of these steps are mentioned as follows:

1. **SWOT Analysis** of proposed growth plan: A business organization should define its Strengths-Weaknesses-Opportunities-Threats (SWOT) for collecting, structuring and reviewing a snap-shot of the current situation, and future potential of the business.
2. **Identifying and increasing client segments**: A business organization should strive to achieve the concentration of resources on the target market to grow the business through market penetration.
3. **Effectively strategizing growth**: Good strategy is about action. It provides a way through a difficulty and/or maximizes a growth opportunity available in the market.
4. **Objectives**: This provides a measurement for each business goal and a clear way to plan business growth
5. **Value proposition**: It states clearly why someone should pay attention towards the business organization– State your value propositions in the elevator, at a business conference or on business organization website.
6. **Competitive analysis**: It shows how to gain a competitive advantage in differentiating the business from key competitors.
7. **Digital execution**: It keeps the retained customers and prospective customers engaged by using digital campaigns across selected platforms such as Facebook, LinkedIn or YouTube.

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MBO: It means management by objectives. It is a management model that wishes to enhance performance of an organization by clearly defining objectives that are agreed to by both the management and employees.

Check Your Progress

7. What is an MBO model?
8. How does a business organization prioritize growth?

1.6 BUILDING UP THE GROWTH SINEWS: FINEWARE, SOFTWARE AND HARDWARE

Now that we have discussed the building blocks of growth i.e., the growth sinews, it is important to analyse how the said sinews could be supported for strengthening the growth phenomenon. Any enterprise primarily constitutes of three key resources, namely: (i) Financial resources (Finware) (ii) Human and infrastructural resources (hardware) (iii) Technological resources (software).

Fineware refers to the financial resources and the economic planning that goes behind achieving progress and growth. It denotes the financial capital and planning like five-year plans, budgets, and monetary, fiscal, and industrial policies. One of the most important determinant of growth, therefore, is the economic system which influences growth. Fineware is that component which supplements implementation of all other strategies and purchase and acquisition of other resources including the hardware and software.

Hardware for any system refers to the infrastructural resources which consist of manpower and machinery. Growth of any enterprise is not feasible in the absence of a trained manpower and state of art machinery and tools requisite for the concerned industry. Therefore, efficient growth management hinges upon due maintenance of the hardware of an enterprise. With the availability of a strong hardware, the growth potential is immense and all the strategies, staging and other sinews becomes achievable.

Software refers to those resources that are instructional in nature rather than the physical infrastructure. Software is the driver of the physical hardware and complements hardware in such a manner that the efforts of hardware are substantially channelized to yield maximum growth. It consists of components related to applied knowledge and the materials used in the business. Sound growth management means that the entrepreneurs pay special attention to technological innovations and to inculcate the latest technical advancements in their business to boost the software used in their line business, strengthening the sinews of growth.

1.7 GROWTH PROPELLERS AND ESCALATORS: REINVENTING THE FUTURE

For propelling growth and reinventing the future, there are certain determinants and factors which are required to be taken into account. The determining factors effecting the growth can broadly be categorized into two categories, i.e., internal and external factors. Growth is determined taking into account an aggregate of all conditions, events and influences that surround and affect it. Accordingly, it can be divided into external and internal components for better comprehension.

The internal factors are those which can be controlled and are constituted by the business enterprise's personnel, its strategy, and its functional, operational, marketing, financial, and technical capabilities.

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Fineware: It refers to the financial resources and the economic planning that goes behind achieving progress and growth.

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The external factors refers to those factors that are beyond the control of the enterprise and consists of economic, sociocultural, regulatory and legal, political, financial, trade, technological, demographics, geophysical factors and so forth.

Let us now study these factors briefly.

I. External factors

All the factors that provide opportunities or threats to an organization make up the external environment of the organization. In a broader sense, it encompasses a variety of factors discussed below:

(i) *Demographic factors* like size, growth rate, age composition and sex composition of the population. The heterogeneity of demographics in terms of varied tastes, preferences, beliefs and temperaments affect the demand patterns of populations, and therefore, requires formulation of different strategies to meet the requirements, accordingly.

(ii) *Social factors* refers to the human relationships and its impact on the society, and in turn, the growth of an organization/ business.

(iii) *Cultural factors* allude to understanding of such components and factors which are necessary for understanding the business environment in its totality in order to undertake growth management.

(iv) *Political environment factors* relates to the factors related to the management of public affairs and their impact on growth.

(v) R*egulatory factors* comprise of the factors that are moulded by the government such as planning, promotion, and regulation measures and initiatives. Some of the factors which influence the regulatory environment include the constitutional framework, directive principles of state policy, fundamental rights, and division of legislative power between the central and state governments. These factors also include policies related to taxation regime, import/ export, distribution, pricing, public sector policies and so forth.

II. Internal factors

The internal factors are composed of resources, synergy, and distinctive competencies of a business. All these factors together ascertain capability of a business organization in terms of its strengths and weaknesses existing in different functional areas such as workforce, marketing, financial, technical growth. Growth management includes monitoring of business opportunities and hazards that are likely to have an influence on the overall growth.

The strategy of an enterprise signifies its action plan which will be emulated for achieving the set objectives and fulfilling the objective of growth. This includes an analysis of the organizational determinants (internal and external; hardware and software) with the environmental factors (enticements and barriers). As discussed, the organizational structure of an enterprise is affected by a number of factors like size of the business, the nature of the business, the diversity of the business, the characteristics of the market, the characteristics of the strategy, the future plans of the organizations and so forth.

Check Your Progress

9. Name the three primary resources of an enterprise.
10. Define software.
11. What are the internal factors which act as growth propellers of an enterprise?

The management of internal environment means and includes governing and managing issues such as: (i) human resource issues; (ii) structural issues; (iii) procedural issues; (iv) management by objectives; and (v) other issues.

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1.8 SUMMARY

- Growth is a significant phenomenon with respect to industries and business. Growth plays a crucial role in the development of business enterprises which thereby facilitate the economy in growing at a faster pace.
- Over the years, growth has been defined in several different ways by numerous thinkers and economists on the basis of different parameters.
- Entrepreneurs are not the only determinants, since there are many other agents involved in the growth phenomenon, such as customers, employees, suppliers and others.
- The concept of growth is evident in all aspects of life. Many theories rely on the 'life-cycle approach' to elucidate the concept of growth. This approach postulates that just as humans pass through the stages of physiological and psychological development from infancy to adulthood, businesses also evolve in predictable ways and encounter similar roadblocks in their cycle of growth.
- Management includes identification of the mission, objectives, procedures, rules, framework and interplay of the human resources and other resources such as financial, technological which make an unparalleled contribution to the growth of an enterprise.
- Effective management is the key to the establishment and growth of any business. Growth management means successful management by examining the marketplace environment and creation of employment and profit opportunities.
- Growth can be classified into various types depending upon the classification of industries and businesses.
- Sinews refer to the binding force, the building blocks which lay down the foundation and provide the requisite support for the whole structure.
- Once a strategy is earmarked, the next step is to initiate the implementation of the strategy into practice. In order to do so, the plan so devised is required to be put into action.
- Growth is the outcome of a proper administration of resources and capacities which can be used by the concerned enterprise for its growth.
- The most challenging aspect of the growth management is to successfully face and thwart the possibility of stagnation in the growth by overcoming the barriers which may crop up in the growth cycle.
- While growth to a particular sector brings about enticement not only for the successful player to venture more, but also serves as enticement for other players to enter the market. This leads to increase in competition.
- Growth can be propounded further with innovation and by being creative in the approach adopted in the process of managing the affairs of an enterprise.

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- The management of any business is a highly creative activity. The beginning, development and management for growth require a wide variety of skills and abilities. It requires more than just the expertise involved in the operations of business, even with a good measure of hard work, dedication, and commitment. It requires passion and growth plan.
- For propelling growth and reinventing the future, there are certain determinants and factors which are required to be taken into account. The determining factors effecting the growth can broadly be categorized into two categories, i.e., internal and external factors.
- The internal factors are those which can be controlled and is constituted by the business enterprise's personnel, its strategy, and its functional, operational, marketing, financial, and technical capabilities.
- The external factors refers to those factors that are beyond the control of the enterprise and consists of economic, sociocultural, regulatory and legal, political, financial, trade, technological, demographics, geophysical factors and so forth.

1.9 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The classification of growth as put forward by Delmar are:
   - Super absolute growth
   - Robust growth
   - Growth through acquisition
   - Super relative growth
   - Irregular growth
2. Growth management means successful management by examining the marketplace environment and creation of employment and profit opportunities. Generation of such opportunities paves way for the potential enhancement and financial viability of the business which is termed as 'growth'.
3. Strategy means a plan of action designed to achieve a long-term or overall gain in the operations.
4. The six 's' process consists of the following:
   - Sinews
   - Strategy
   - Staging
   - Synchronizing
   - Securing
   - Sustenance
5. The common barriers to growth faced by an enterprise are the following:
   - Availability and cost of finance for expansion of the project;
   - Overall growth of market demand;

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- Increasing competition;
- Marketing and sales skills;
- Management skills;
- Skilled labour;
- Acquisition of new technology;
- Difficulties in implementing new technology;
- Availability of appropriate premises or site; and
- Access to overseas markets.

6. Growth can be propounded further with innovation and by being creative in the approach adopted in the process of managing the affairs of an enterprise. Innovation could be in the form of technological advancements, creative marketing ideas, policies for acquisition and retention of skilled workforce and so forth. Depending upon the industry (product based, services based etc.), creative ideas should be given due consideration.
7. MBO is a management model that wishes to enhance performance of an organization by clearly defining objectives that are agreed to by both the management and employees.
8. A business organization prioritizes growth by developing a growth proposition and plan.
9. The three primary sources of an enterprise are:
   (i) Financial resources (Finware)
   (ii) Human and infrastructural resources (hardware)
   (iii) Technological resources (software)
10. Software refers to those resources that are instructional in nature rather than the physical infrastructure. Software is the driver of the physical hardware and complements hardware in such a manner that the efforts of hardware are substantially channelized to yield maximum growth. It consists of components related to applied knowledge and the materials used in the business.
11. The internal factors which act as growth propellers of an enterprise are resources, synergy, and distinctive competencies of a business. All these factors together ascertain capability of a business organization in terms of its strengths and weaknesses existing in different functional areas such as workforce, marketing, financial, technical growth.

1.10 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define the term 'growth' in your own words.
2. Write a short note on the various types of growth as propounded by various thinkers and authors.
3. How does an enterprise prioritize growth?

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Long-Answer Questions

1. Prepare an overview of the growth management process.
2. Analyse the significance of 'competition and cooperation' in the growth of an enterprise.
3. What are growth propellers and escalators which assist in reinventing the future of an enterprise?

Footnotes

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UNIT 2 STRATEGIZING GROWTH

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Structure

2.0 INTRODUCTION

In this unit, we will discuss the ways in which organizations can strategize growth. The growth and success of a company is determined by not playing safe in the market, but by renewing itself. Managerial decisions and actions in a firm should focus on long term performance of the organization. This includes largely understanding, monitoring and evaluating the external opportunities and challenges keeping into view an organization's strength and weaknesses. Some of the strategies that a company can use to grow in the market include penetration, market expansion, product expansion, diversification and acquisition. Fortune 500 companies such as General Electric remained competitive and growing by strategizing their growth through the timely launch of their business on the Internet in 1999. They also launched their web based financial service network for consumers in the year 2000. In the present situation, growth can also be achieved by integrating concerns of business policy and environmental development. These topics shall be taken up in the unit.

2.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe the different stages of evolutionary and revolutionary growth of a firm
- Examine the different strategies for analysing a firm's external and internal environment
- Discuss the different value chain activities of a firm

- Discuss corporate planning and functional strategies
- Explain Ansoff's model and BCG Growth Matrix

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2.2 STRATEGIC THRUSTS FOR GROWTH

The main motive of any organization is to achieve sustainable corporate growth and enhance profitability. It is often said that if one provides a poor person with food, he will be able to satiate his hunger, on the other hand, if one provides him with seeds and tools, he can grow his food and ameliorate his condition. Organizations also need to make similar choices, that is, to improve short term profit or to invest in growth opportunities to enhance their core competencies so that they can reap the benefits of the changing external environment in the future. There are several aspects of growth for the organization and organization can concentrate on both internal as well as external environment.

2.2.1 Evolutionary, Revolutionary, Continuous and Discontinuous Growth of Firm

For organizational growth, firms tend to pass through a series of development phases as they grow in the market. Each phase begins with a period of evolution, with steady growth and stability, and ends with a revolutionary period of substantial organizational turmoil and change. The revolutionary period will explain whether the firm will move to next phase of evolutionary stage or not. Most growing organizations do not expand for two years and then contract for one; rather, those that survive a crisis usually enjoy four to eight years of continuous growth without a major economic setback or severe internal disruption. The term *evolution* seems appropriate for describing these quiet periods because only modest adjustments appear to be necessary for maintaining growth under the same overall pattern of management.

The promptness at which an organization experiences phases of evolution and revolution is closely related to the market environment of its industry. Evolutionary periods tend to be relatively short in fast-growing industries, much longer evolutionary periods occur in mature or slow-growing industries. Evolution can also be elongated, and revolutions delayed, when profits are high and easy to achieve. The aerospace industry in its highly profitable infancy is an example of a prolonged evolutionary period. Nevertheless, revolutionary periods still occur, as one did in aerospace when profit opportunities began to shrink. By contrast, when the market environment is deprived, revolutions seem to be much more severe and difficult to resolve.

Phases of evolutionary growth

The phases of evolutionary growth are:

- **Creativity:** In the birth stage of an organization, the stress is on creating both a product and penetrating the market. The founders of the firm are usually technically or entrepreneurially focused, and they generally scorn on management activities; their physical and mental energies are absorbed entirely by making and selling a new product. These creative activities are essential for the firm to get off the ground.

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- **Direction:** Those firms that survive the first phase by installing a capable business manager usually go through a period of sustained growth under talented, directive leadership. A functional organizational structure is introduced to isolate manufacturing from marketing activities, and jobs become increasingly specialized. Accounting systems for inventory and purchasing are introduced. Incentives, budgets, and work standards are adopted.
- **Delegation:** The next era of growth evolves from the successful application of a decentralized organizational structure. Larger responsibility is given to the managers of plants and market geographies. Profit centers and bonuses are used to motivate employees. Top-level executives at headquarters limit themselves to managing based on field reports.
- **Coordination**: The evolutionary period of the coordination phase is characterized by the use of formal systems for achieving greater coordination and by top-level executives taking responsibility for the initiation and administration of these new systems. Decentralized units are merged into product groups. Each product group is considered as an investment center where return on capital investment is an important norm used in apportioning funds.
- **Collaboration:** The last observable phase emphasizes strong interpersonal collaboration in an attempt to overcome the red-tape crisis. Where Phase 4 was managed through formal systems and procedures, Phase 5 emphasizes spontaneity in management action through teams and the skillful solution of interpersonal differences. Social control and self-discipline replace formal control. The Phase 5 evolution, forms around a more flexible and behavioral approach to management. A matrix-type structure is commonly used to assemble the right teams for the appropriate problems. Real-time information systems are integrated into daily decision-making processes. Experimenting with new practices is encouraged throughout the firm.

Stages of revolutionary or discontinuous growth

Smooth evolution is not inevitable or indefinitely sustainable; it cannot be assumed that an organization's growth will be linear. Periods of revolutionary phase in an organization are turbulent because they typically exhibit a serious upheaval of management practices. Those that are unable to abandon past practices and effect major organizational changes are likely either to crinkle or to level off in their growth rates. The critical task for management in each revolutionary period is to find a new set of organizational practices that will become the basis for managing the next period of evolutionary growth. Revolutionary periods exhibit discontinuous growth of the firm. The firm when matures faces various crisis. Transitions between developmental phases do not occur naturally or smoothly, regardless of the strength of the top management. All organizations appear to experience revolutionary difficulty and upheaval, and many of these organizations falter, plateau, fail, or get acquired rather than grow further. For example, IBM before Lou Gerstner and General Electric before Jack Welch both suffered badly before creating coordination in the organization. When sophisticated management systems evolve into rigid bureaucracies, managers have difficulty in understanding that an organizational solution introduced by them personally in one phase eventually sows the seeds of revolution. The greatest resistance to change appears at the top because

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revolution often means that units under each senior executive will be eliminated or transformed. That is why we so often see new chief executives recruited from the outside and why senior managers frequently leave companies. The following phases can be defined as revolutionary phases of the firm:

- **Leadership**: As a company gets larger, it gets increasingly difficult to do everything through mutual efforts. The firm faces problems distinguishing important and unimportant issues, since there are few or no organizational structures that allow allocating work to certain persons. The company needs a strong leader who holds the team together and establishes appropriate systems and structures.
- **Autonomy**: If the company continues to grow, this leads to an extremely high workload for the manager or the management team. They have to handle nearly everything in the company. They are responsible for assigning tasks, controlling results, acquiring work, solving problems, motivating people etc. As the company reaches a certain size, management will not be able to continue this way. They have to give up some of their autonomy and to share some tasks.
- **Control**: When management fails to control the activities of various departments, they start to handle tasks more from their own view than with the whole business in mind. At its extreme, departments start working against each other.
- **Red Tape**: Sometimes coordination can lead to a high level of bureaucracy. Fine-tuning requires high efforts that make it difficult for the company to adapt to changes in the external environment.

Due to above challenges firm need to innovate continuously new products and new markets and keep it running in the competition ahead of others.

2.2.2 Innovation Strategies

Innovation strategy: It refers to a plan to grow the market share or profits through product and service innovation.

Growth of a firm has become more challenging than ever due to global competition and the slowing down of economic growth in recent times. In this challenging time, firms such as Amazon, Apple and Starbucks have maintained a decent growth rate by adopting growth strategies. An innovation strategy is a plan to grow the market share or profits through product and service innovation. When it comes to growth, an innovation strategy must also indicate whether a product improvement or a disruptive or breakthrough innovation approach is most suited. Unfortunately, most innovation strategies fail in these regards, which is why innovation success rates are weak.

The four best innovation strategies are as follows:

- **Identifying Next S Curve**: The best products, markets and business plans follow life cycle of growth and maturity depicted by the S curve. Growing companies leaders tend to ignore the same, and once the S curve become too obvious, it become difficult to design a new growth strategy, Hence, the innovation should be the priority once the first growth curve reaches the inflection point. However, it is difficult to identify when this is reached, thus the best firms are engaged in continuous innovation. For example, Apple was engaged in continuous innovation and launched new and innovative products at regular intervals in the market.
- **Customer Centricity**: Successful firms keep track of customer taste and preferences. They embrace tools like customer empathy map to identify

customer problems, identify new opportunities and create customer value. Innovative firms like IBM engage their customers through continuous dialogues and engage them in design partnership, prototyping and improving products and business models.

- **Wearing the Designer's Cap**: Managers are trained to make choices, however, they lack options. Innovations help firm and its leaders to create new options. Growth strategist are no longer dependent on Michael Porter's five forces model, rather they adopt strategies like Blue Ocean. Design thinking is the key for the growth of any firm. Apple created exceptional user experience with the help of an English industrial designer named Jonathan Ive.
- **Lead the Way**: The top management team has to make innovation their priority. Executives need to provide cover to their employees to venture into risky innovative ideas. The best growing firm creates a culture of innovation and more important are innovative leaders as role model. For example, Jeff Bezos, the founder of Amazon, told his employees that he care less about profitability and more about planting seeds that are likely to grow in five to seven years. He invested his own money for design thinking and innovating new products.

The adoption of the above four strategies can aid firms to innovate and grow.

Disruptive Ventures and Innovative Strategies

The theory of disruptive ventures has proved to be a powerful way of thinking about innovation-driven growth. Many front-runners of small, entrepreneurial companies praise it as their rising star; so do many administrators at large, well-established firms including Intel, HP, Amazon and Salesforce.com etc. Disruption describes a process whereby a smaller company with fewer resources is able to successfully challenge established current businesses. Specifically, as incumbents focus on improving their products and services for their most profitable and loyal customers, they exceed the needs of some segments and ignore the needs of others. Entrants that prove disruptive begin by successfully targeting those overlooked segments, gaining a position by delivering more-suitable product or service—frequently at a lower price. New entrants, chasing higher profitability in more-demanding segments, tend not to respond strongly. When mainstream customers start adopting the entrants' products in volume, a disruption has occurred.

Disruption: It is the process whereby a smaller company with fewer resources is able to successfully challenge established current businesses.

Disruptive innovations are made possible because they get started in two types of markets that establish players overlook. Small opportunities exist because incumbents typically try to provide their most profitable and demanding customers with ever-improving products and services, and they pay less attention to new or less frequent customers. In fact big player offerings often overshoot the performance requirements of the latter. This opens the door to a disrupter focused (at first) on providing those low-end customers with a fairly valuable product.

In the case of new market opportunities, disrupters create a market where none existed. Put simply, they find a way to turn non-consumers into consumers. For example, in the early days of photocopying technology, Xerox targeted large corporations and charged high prices in order to provide the performance that those customers required.

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School librarians, bowling-league operators, and other small customers, priced out of the market, made do with carbon paper or mimeograph machines.

Disruptive innovations are initially considered inferior by most of an incumbent's customers. Typically, customers are not willing to switch to the new offering merely because it is less expensive. Instead, they wait until its quality improves enough to satisfy them. Once that has happened, they adopt the new product and happily accept its lower price and hence disruptive ventures grow.

It is rare that a technology or product is inherently sustaining or disruptive. And when new technology is developed, disruption theory does not dictate what managers should do. Instead it helps them make a strategic choice between taking a sustaining path and taking a disruptive one.

The theory of disruption predicts that when an entrant tackles existing player competitors, offering better products or services, the big player will accelerate their innovations to defend their business. Either they will beat back the entrant by offering even better services or products at comparable prices, or one of them will acquire the entrant.

2.2.3 Organic Growth

Organic growth strategy: It refers to a strategy for strengthening the firm using its own capabilities and resources.

Organic growth strategy involves strengthening the firm using its own capabilities and resources. This approach to firm growth is slower than others, but it has relatively low up-front costs, making it an attractive option for small-business owners who want to expand their companies, but do not have large amounts of liquid capital.

The following are the organic growth strategies:

- **Launching new products and Services**: The firm should introduce a new product or service that complements the existing offering. Introducing new products or services to the existing customers and geographies can give an instant edge. The firm has to design a product strategy and needs to research the market well before investing in creation of new products.
- **Devising New Business Models**: Developing a new business model for the firm requires open minds and fresh perspectives. A good way to build new model is to put together a well-balanced, committed project team consisting of firm's experts open to new ideas, rising stars, and recent hires.
- **Enter New Industry**: Entering a new industry is a less common form of organic growth than new products and services, but it can be an effective growth strategy since it enables the firm to leverage the core business. Expanding vertically into an industry in the supply chain, horizontally into an industry that is related by something other than the supply chain or expanding into an unrelated industry by taking an existing product or service into a new market with an untapped customer base can help a firm to grow inorganically.

2.2.4 Venture Strategies

The most successful firms have developed aggressive venture strategies and have made ventures the critical components of their strategic and operating success. Organic growth and synergistic acquisitions are not sufficient to grow in hyper competitive industries. The challenge is to find opportunities and new business creations to meet unmet demands of customer. In ventures, large and midsized companies can discover a source of growth they are striving to achieve. As Mike Moritz of Sequoia Capital Partners states, 'Silicon Valley wouldn't exist if big companies couldn't identify technology and market opportunities and move with speed to capitalize on them'.

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The following venture strategies can be used by the firms:

- **Joint Venture**: Firms create joint ventures or JVs with other organizations who have complementary resources and capabilities such as technology, capital or distribution channel. JVs are the most common form of strategic alliances that help firms to grow in hypercompetitive markets.
- **Venture Acquisitions**: Acquiring and integrating capabilities know-how, and technologies has become an efficient route to growth and a strong alternative to internal research and product development.
- **Spinouts**: Spinouts is a new form of creating and financing a high-tech company. This novel approach has a number of advantages over a merger or acquisition and it plays an increasingly high role for high-tech companies. Spinouts remain closely tied to the firm that developed them. In most cases, the ties are both financial and operational.

2.2.5 Acquired Growth

Acquired growth arises from mergers and acquisitions rather than an increase in the company's own business activity. Firms that choose to grow inorganically can gain access to new markets through successful acquisitions and takeovers. Inorganic growth is seen as a faster way for a company to grow when compared with organic growth. The following are the ways a firm can adopt for acquiring growth:

- **Mergers**: A merger is a strategy through which two firms agree to integrate their operations on usually equal basis. However, many a time's one party is bigger than the other. For example, the Daimler Chrysler merger was a merger of equals, while ICICI was the dominant player when it merged the Bank of Rajasthan into it.
- **Acquisitions:** An acquisition is a strategy through which one firm buys a controlling or 100 per cent stake into another firm with an intent of making the target firm its subsidiary. Here the management of target firm report to management of acquired firms. Acquisitions can be friendly or hostile. Acquisition enhances the market power of the firm. Tata steel acquired Corus and became the fifth largest steel producing firm.
- **Takeovers**: This is a special type of acquisition where the target firm does not agree to the acquiring firm's bid. The number of unsolicited bids had increased since the economic downturn of 2008. Many takeovers are referred as hostile.

Meger: It refers to a strategy through which two firms agree to integrate their operations on usually equal basis.

Acquisition: It is a strategy through which one firm buys a controlling or 100 per cent stake into another firm with an intent of making the target firm its subsidiary.

Takeover: It is a special type of acquisition where the target firm does not agree to the acquiring firm's bid.

2.3 CHOOSING THE STRATEGIC GROWTH CHOICE

The task of planning a growth strategy begins with evaluating the organization's current state in which it operates. An in depth analysis of organization's external and internal environment is a prerequisite for any manager to design the strategy that could lead the company on the growth path. Strategic growth thinking begins with analyzing company's

Check Your Progress

1. List the phases of evolutionary growth of a company.
2. What does organic growth strategy involve?
3. What is a merger?

external as well as internal environment and further moving towards evaluating and comparing growth strategies and business models and finally choosing the specific growth.

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2.3.1 External Environment

A company's external environment comprises of factors that are beyond the control of the organization and influence the firm's action, structure and internal processes. These external factors can be subdivided into three categories including macroeconomics factors, industry environment factors and operating environment. Figure 2.1 depicts the relationship between company's growth and external environment.

I. Macroeconomic Factors

Every company operates in a macroeconomic environment where political factors, economic scenario's, sociocultural forces, technological factors, legal factors and natural environment conditions have a strong impact on the company's growth prospects. An analysis of the impact of these factors is usually referred as **PESTEL analysis**.

PESTEL analysis: It refers to the analysis of the political, economic, sociocultural, technological, legal and environmental factors on the company's growth prospects.

Political Factors

This includes processes, policies and government interventions in an economy. These factors largely comprises of matters related to tax, trace agreement, fiscal policy, and the stability of the government. For example, the bilateral trade agreement between India and Japan will impact the individual companies. The agreement provides Indian manufacturing and service companies to expand their international operations. Other political factors include pollution policy, pricing policy, policy aimed at employees, consumers and environment. Sometimes policies tend to reduce potential growth policy of the company. However, policies like patent law, subsidies, research grant benefits and protect the companies.

Economic Factors

This includes the general economic climate of the country as well as the specific factors like exchange rates, interest rates, inflation and unemployment, saving rates, gross capital formation. Economic factors also includes conditions in the markets for stock and bonds affecting consumers' income and spending. Industries like real estate, automobile and consumer durables are affected negatively by economic downturn but have a strong positive impact when interest rates are low.

Socio-Cultural Factors

Societal values, attitudes, cultural factors, and lifestyles well as demographic factors like size and growth of population, age distribution, entry of large number of women in labour market have huge impact on growth planning and management of a company. These forces are dynamic and can change or vary as per location or time. For example, a trend towards healthier lifestyle can lead to a reduction in the consumption of snacks like chips and other junk food and increase in the sales of gym equipment or health club memberships. A change in social attitude of the youth also impacts a company's growth management. Firms that anticipate and react quickly to this social change can grow for long term.

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Exhibit 2.1: Growth of Café Coffee Day in India

In 1996, Bangalore was becoming an IT capital in India and looking at the opportunity Cafe Coffee day pioneered the café culture in India. In the light of globalization, café culture grew and there emerged a need for an hangout location for the urban youth of India. Café coffee day capitalised on the opportunity and became India's largest and premier retail chain of cafes. In total, more than 1500 outlet of CCD are operational in India as well as in the international market.

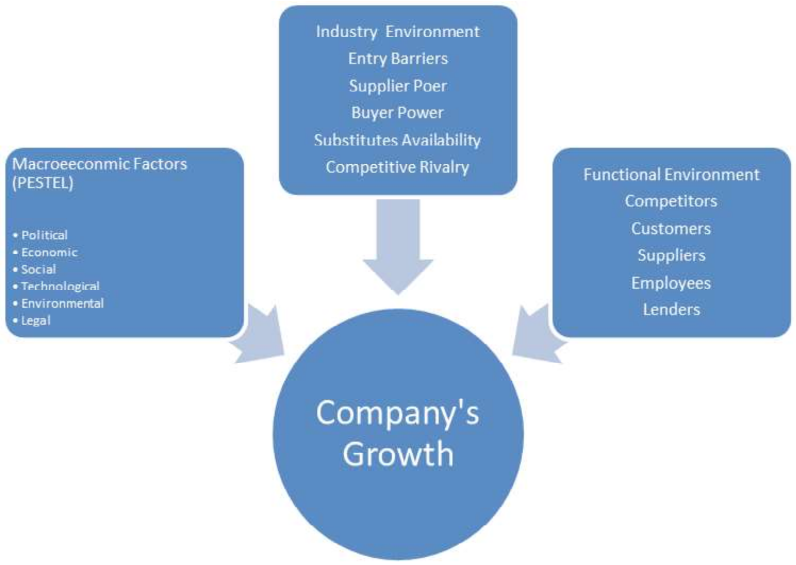

Fig 2.1: *Relationship Between Company's Growth and External Environment*

Technological Factors

To avoid obsoleteness and increase innovation, a company must be updated with technological changes happening in the surroundings that can influence company's growth and performance. Technological adaptations can help a company to improve products, processes and marketing techniques. Technological changes can also facilitate birth of new industries like that of digital marketing and Google AdWords firms. Technological breakthrough can have a far reaching impact on a company's long term performance. Hence companies should foresee technological advancements and analyse the impact on their operations. This demi-science of attempting to foresee technological advancement is termed as technological forecasting.

Environmental Forces

Environmental forces includes ecological and environmental forces such as climate, weather and climatic changes. Global climate is changing and it is evident that human activities have contributed immensely to it. Global warming, ozone depletion, the loss of bio-diversity, air pollution has sharply impacted businesses. Business is now being held responsible for removing the toxic by-products of their manufacturing units and for cleaning up the environmental damage caused by them previously. Companies are required to incorporate environment friendly approach in decision making. Various examples from different industries can be highlighted which has made ecological concerns as integral part of their decision making and growth strategy. Steel companies are incorporating costlier but cleaner burning fuels and pollution control equipment.

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Automobile companies are required to install emission control devices and have to comply with environment regulations. Companies like Pepsi are investing in R&D to produce biodegradable plastic soft drink bottles. Companies like GE has doubled their research funds for developing technologies that reduces energy use as well as pollutions and emissions linked to global warming.

Legal and Regulatory Factors

These factors include laws and regulations which a company must comply to operate smoothly in business world. These laws include consumer laws, labour laws, anti-competitive laws and safety regulations. For growth, the manager of the firm must potentially be alert about any changes in external environment. They should asses and adapt to the changing macroeconomic factors and shape an appropriate strategy pertaining to the competitive environment. Resultantly, it is important that for firms to grow, special emphasis needs to be given on a company's competitive or industry environment in which it is operating.

II. Industry Environment Factors

Michael E Porter, Harvard Professor and authority on competitive advantage, put forth strongly that a company must focus on the competition it faces within its industry. Understanding the industry environment is a pre-requisite for growth and business planning. Porter's work published in Harvard Business Review explains the five forces that shape competition in an industry. 'The collective strength of these forces,' he asserts, 'determines the ultimate profit potential in the industry, where the profit potential is measured in terms of long run return on invested capital'. In the light of above statement it could be said that companies must assess their operating environment to determine its success and long term growth.

Fig: 2.2: *Competition within an Industry*

Source: Harvard Business review, exhibit from "How Competitive forces shape strategy" by Michel E Porter March –April 1979.

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Although, the essence of strategy planning is to cope with the competition, but competition is viewed as too narrow and pessimistic. Competition is not only between players in the industry but it is deep rooted and exists between each stakeholder of the market. Customers, suppliers, potential entrants and substitute products are all potential competitors. The stronger that each force is, the more restricted companies are in increasing prices and earning profit, hence, a company needs to decide its growth path strategically.

The competition level in an industry can be determined by the five forces highlighted in Figure 2.2. The collective strength of these forces determines the growth potential of industries. The more is the strength of these forces, less is the chance of high profitability and vice-versa. However, whatever is the strength of these forces, strategists need to focus on the growth and use these forces in their favour. Knowledge of these competitive forces provides the groundwork for a strategic agenda of action. Different forces are prominent in different industries. For example, the threat of new entrants is low in the Indian FMCG industry, but the buyers bargaining power is high. On the other hand, in the steel industry, the key forces are foreign competitors and substitute materials, in the soft beverage industry, threats come from goods that can be substitutes for cola, such as bottled water.

The below section discusses the few characteristics of competitive forces.

Threat to Entry

Existing competitors should identify new entrants as they can threaten the market share, however threat to entry will be determined on the extent to which there are barriers to entry and the retaliation expectation from the current industry participants. The new entrant poses threat as they bring along with them new innovation and production capacity. These qualities will force existing firms to be more efficient and to make them spend on R&D or give them a boost to innovate. For example, the e-commerce sector gave tough competition to retail stores forcing them to innovate, thus Internet based distribution channels brought in revolutionary changes in the supply chain industry.

Barriers to Entry

Existing market player try to develop barriers to entry. An absence of entry barriers increases the probability that new entrants can operate profitability. For example, firms in the telecom industry like Reliance, Airtel and Vodafone opened the company Indus towers to install telecom towers hence creating entry barriers to potential tower installing firms from entering the telecom market.

Several kinds of potentially significant entry barriers may discourage competition in the market:

(a) **Economies of Scale:** Economies of scale are determined from incremental efficiency improvements through experience as firms grow older and bigger. This leads to a fall in cost of manufacturing and service. New entrants face trouble confronting the present market players scale economies. Small scale entry causes cost disadvantage to them. Large scale entry risks include

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strong competitive retaliation. Firms also use the technique of mass customization rather than develop scale economies to deter entry.

(b) **Capital Requirement**: New entrants require capital to enter a new market and the requirement will vary according to technology and scale. Cost of entering a capital intensive manufacturing industry like steel is higher than setting up e-commerce businesses. Existing firms also have threats from overseas players whose cost of capital is lower, therefore making growth planning more crucial.

(c) **Availability of distribution channel**: Existing players can effectively develop distribution channels over time and access to distribution channel can become a strong entry barrier for new entrants. Price breaks and advertisement allowance can be helpful for newer entrants however this will lower profit. For sustaining growth, the present players can use e-commerce to give stiff competition to new entrants.

(d) **Customer and Supplier Loyalty**-If existing firms enjoy customer loyalty as well as that of suppliers, then new entrants will face great difficulty in entering into the market.

(e) **Product Differentiation:** Customers get hooked to the product and believe in a firm's products. This belief is a result of effective advertisement campaigns and good services. Companies like Coca-Cola, Volkswagen and other big players spend a lot of money on advertisement. The existing firms may also offer a series of related product to maintain customer loyalty, hence new entrants have to put extra efforts to enter markets with unique products and service.

(f) **Government Policy**: Legal constraints on competition in order to regulate the market, patent protection and sometimes a direct government action. Liquor retailing, radio and TV broadcasting, banking, and so on, are some of the industries in which government decisions affect entry possibility. Liberalization leads to the entry of new firms in the market and the existing players need to focus on alternatives to manage and sustain growth.

Expected Retaliation

An expectation of quick and strong response reduces the likelihood of entry of new firms. A vigorous response is of high likelihood when existing firms have a major stake in the industry and when industry growth is slow and less profitable. For example, the current Indian Aviation industry will respond strongly to new entrants due to overcapacity. When Volkswagen first entered the Indian market, they focused on niche high segment market, and later, by gaining firm hold in the Indian automobile industry, they entered the hatchback segment by launching Volkswagen Polo.

Threats of Substitutes

Goods and services from same or to other industries that perform similar functions are substitute products. This reduces the demand for a particular product as consumers can switch to alternatives if substitute provide higher perceived benefits or value. Product substitute present a strong threat when consumer do not face any significant switching cost. Differentiating the product around consumer's perceived value (such as price, after sales service, location or quality) reduces the chance of substitute attractiveness. Google is the most widely used search engine and its wide range of services shields it from substitution and majority of advertisers prefer Google over other search engine as it give them access to larger audience.

Rivalry among Competitors

Companies with similar products and services and targeting the same customer group are competitive rivals. Action taken by one company may prompt other firms to take retaliatory actions and firm actively compete against each other. Firms in the same industry in resources and capabilities seek to differentiate themselves from the competitors. Common factors of rivalry include price, technology and innovation, service quality and location.

The degree of firm rivalry in an industry can be affected by following numerous factors:

(a) **Balance of competitors:** Intense rivalry is often seen when firms are of roughly equal size as one competitor tries to gain dominance over the other. On the other hand, industries with only few firms have less competition. Large and similar size firms tend to do vigorous competition for example Airbus and Boeing or Coca Cola and PepsiCo.

(b) **Industry growth rate:** In a high growth rate market, firms do not compete fiercely as they effectively using their resources and serve consumers. In a growing market or at nascent stage firms focus on their own growth in the market and as the market becomes mature they compete strongly to take market share from their competitors.

(c) **High fixed cost and high warehousing cost:** When fixed costs are high for the companies, they try to maximize the use of their productive capacity. In the process of efficient utilization of productive capacity excess capacity is built in the entire industry. This excess capacity increases warehousing costs and thus to reduce inventories and warehousing cost firms offer heavy discounts and thus intensify competition. Competition is also rigorous in the industries which have huge exit barriers. Such companies have persistent excess-capacity that consequently results in intense competition. Competition in airline industry exemplifies intense rivalry due to high exit barriers.

(d) **Lacks of differentiation**- Industries with product differentiation have less competition as consumers frequently purchase their products and remain satisfied. Firms that innovate new products that cannot be imitated by competitors earn high returns and face low competition. Industries where products and services are undifferentiated have no incentive to stop customers switching between competitors increasing rivalry.

Bargaining Power of Suppliers and Buyers

This discussion is largely to understand the relative power of an organization with its buyers and suppliers. Buyers want to buy the products at the lowest possible prices. To reduce their costs, buyers bargain for higher quality, greater level of services and lower prices. These outcomes are possible only by encouraging competitive battles among the firms. Buyers' power is high when:

- Buyers purchase a large portion of an industry's total output. Such a situation arises when industry has large number of small operators like in the milk and grocery sector.
- Buyers can switch to another product at negligible cost.
- Threat of the supplier being acquired by the buyer (backward integration) and setting up a competition with the supplier.

Supplier power is high when:

- It is dominated by a few large firms and there is concentration of suppliers.
- Suppliers have wide range of customers which reduces their dependence on any one customer.
- Satisfactory substitute goods are not available to the industry.
- Suppliers good are critical to buyers in case of therapeutic medicines.
- High switching cost when processes are dependent on specialist products of suppliers as in the aerospace industry.
- Brand of the supplier may be powerful as in the case of retailers where they need certain brands to run the store successfully.
- Forward integration into the buyer's industry when suppliers do not obtain the prices. An example is the steel industry.

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Operating environment: It refers to a task environment comprising of factors in the competitive situation that affect a firm's success directly.

III. Operating Environment

An operating environment or task environment comprises factors in the competitive situation that affect a firm's success directly. It can be in the form of acquiring resources or strategically marketing the goods and services for higher profits. In a given industry there are several firm's each of which has unique capabilities and they compete on these basis. Hence firms can be much more proactive and equipped to deal with operating environment than with macroeconomic or industry environment. The operating environment consist of:

Competitive Position

Assessing the competitive position improve a firm's vision and helps in designing growth strategies that optimizes its environmental position. Competitors profile enable the firm to plan for both short-term and long-term growth and its profit potential. Competitor's profile can be determined by factors like market share, product line, effectiveness of sales distribution, price competitiveness, advertisement, capacity planning, financial position, technological position, R&D and locating and age of the firm. Developing such profiles of competitors are of considerable help to the firm in planning their own growth. The competitors are evaluated on the above criteria and based on the competitor's score the firm plans its growth strategy.

Customer's Profile

Understanding the present and prospective customers is the most important task for a firm when analyzing the operating environment. Developing customer profile helps firms and its managers to plan the strategic operations, anticipate change, develop capabilities and relocate the resources to support demand patterns. Firms need to identify the changing requirements of their target market to stay ahead of its competitors and ensure growth. The analysis of geographic, demographic, psychographic behaviour of the customers will enable firms to design appropriate growth strategies.

For example, American Express have understood the pattern of its customers and started offering heavy reward points, discounts and business frequent flier programs to compete with Visa and Master card. Most of the Amex customers usually pay off their balances in full each month hence, unlike its competitors, instead of relying on heavy interest rate charges company charges higher transaction fees to its merchant. Thus, understanding customer's profile, Amex can gain significant market share and can also satisfy the customers.

Suppliers

A strong relationship with suppliers is essential for the long term growth and existence of firms. A firm is in regular need of the supplier for materials services, equipment and for quick delivery. Long term credit and financial support are occasionally required by the firm. Along with the above factors, a firm also needs to address questions like quantity discount offered and price competitiveness related to suppliers.

Creditors

Assessment of creditors is one important aspect for an accurate evaluation of firm's operating environment. It is important that creditors perceive that a firm has good past payment record and they should appropriately value and accept the firm's share as collateral. The creditor should also be compatible with the firm's long term profit objectives and most importantly they should extend necessary credit as and when required. A firm's reputation is a major element within its operating environment that satisfies the stakeholders in this environment.

It is important for the firm's strategic leaders to anticipate the changes in the external environment which influence the firm's growth. Different external elements at varying time affect differently the growth strategies formulated by the firm. Hence, managers should be in a capacity to adapt to these changes and sustain pressure from the environment.

2.3.2 Internal Environment

It is not only identifying the opportunities from the external environment which are critical to firm's growth or success, but a sound awareness of firm's competitive advantage arising from the firm's internal resources, capabilities and skills is also needed. Apple computers had a failed start in the highly competitive computer industry, and, the introduction of iPod device and iTunes services were written off by industry experts as a cute fad, but this non-fancy start opened the doors of a huge new global industry. The understanding of internal capabilities and appreciation of the firm's internal resources generated advantage for the firm to become a market leader.

The internal analysis is conducted by managers by focusing on questions like how well the current strategy is working? What is our current situation? What is our strength or weakness? How well are we equipped to handle threats and how quick we can respond to opportunities? Managers answer these questions by using traditional SWOT Analysis. SWOT analysis is a logical framework guiding the managers to review their internal capabilities and using the result to plan strategic options leading to growth and profitability.

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SWOT analysis: It is an acronym of strength, weakness, opportunities and threat. It is a process of finding a strategic fit between external opportunities and internal strengths while working on external threats and internal weaknesses.

SWOT Analysis

SWOT is an acronym of Strength, Weakness, Opportunities and Threat. A SWOT analysis is a process of finding a strategic fit between external opportunities and internal strength while working on external threats and internal weaknesses. Over the years SWOT has become the most critical analytical technique used in growth management. This analysis helps in identifying a firm's distinctive capabilities which creates a fit between firm's internal resources (Strength and Weakness) and external situation (Opportunities and Threat).

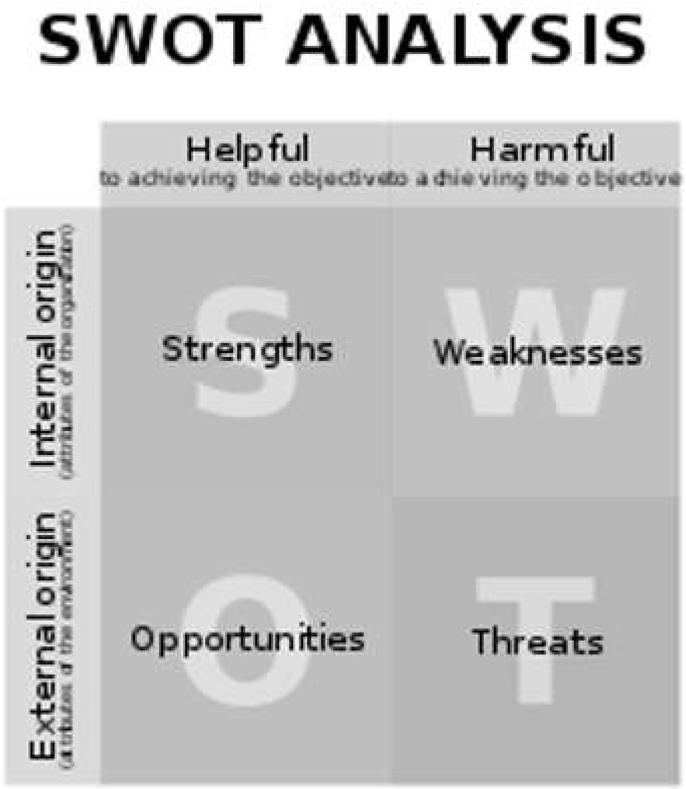

Fig 2.3: *SWOT Analysis*

Opportunities

An opportunity is a situation in a firm's path that opens the door of growth. Opportunities are identified from the current market trends like market segment, technological changes, change in competitive environment, new reforms and developed relationships in market. Managers need to identify these opportunities and build the growth pyramid on these opportunities.

Threats

In contrast to opportunity, threat is a major hostile situation in the firm's environment. Threats are roadblock in a firm's growth strategy. New competitors, stringent or new regulations, technological changes could be a threat to the firm's success plan. For example, re-launching of the Nokia phone in the market with unlimited music downloads is a possible threat for iPhone and iPod and Apple Inc. Firms need to re-craft its competitive strategy based on the internal capabilities.

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Strength

A unique resource or capability possessed by firm which provides them relative competitive advantage in the market is its strength. The Future group launched Big Bazar in 2001and their unique strength of providing value retailing enables them to cater to large population scattered over vast a geographic area. The then existing Trent and Shopper stop could not match the entire customer requirement and did not have significant geographical presence. Efficiency of supply chain was the biggest strength of Big Bazar.

Weaknesses

Weakness is the limitation in terms of firm's resources or capabilities in comparison to their competitors. A weaknesses forces firms to lag behind the other players of the market in satisfying consumer needs. Big Bazar faced stiff competition from online stores as it did not quickly develops capability to go online and maintain their customer base.

Once a manager understands the key opportunities and threats faced by their firm, they develop the strategy and capabilities to take advantage of these opportunities and minimize the threats. Similarly, identifying the strength they can leverage it for the growth of the firm and try to nullify the weaknesses by developing their capabilities.

Limitation of SWOT

The following are the limitations of SWOT.

1. A SWOT analysis focuses more on internal strengths and moderate threats posed by the external environment.
2. SWOT does not take into consideration a changing market scenarios and circumstances.
3. Companies over-emphasize a particular strength or strategy and thus neglect other key areas.
4. Ignoring up-gradation of strength leads to loss of competitive advantage and opportunities cannot be realized.

TOWS Analysis

The TOWS MATRIX is an acronym of the words: Threats, Opportunities, Weaknesses and Strengths. This analyse the internal environment of growth with external environment. The TOWS Matrix is an efficient tool that emphasize first on the external opportunities and threats and later analyse the internal strengths and weaknesses of a firm. This helps managers to facilitate the external environment in the light of firm's existing internal strengths and weaknesses. The TOWS Matrix acts as a valuable method whether you are creating a marketing plan, marketing campaign or strategizing growth. With the help of a TOWS Matrix, a company can easily identify how to take

TOWS analysis: It stands for threats, opportunities, weaknesses and strengths which analyses the internal environment of growth with external environment.

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advantage of the opportunities, reduce threats, exploitation of the strengths and can prevail over the weaknesses.

The TOWS MATRIX not only provides a list of strengths, weaknesses, threats and opportunities, but also works as a matching tool that helps to make a pair of internal and external factors to bring out better competitive solutions for the firm. The managers match together all the external and internal factors to reap benefits in the best possible ways. The TOWS matrix helps to identify the strategic alternatives for a firm that works as a matching tool by constructing four types of strategies such as:

The SO Matrix

This is also known as Maxi –Maxi Strategy where a firm utilizes most of its internal strengths in order to grab the right external opportunities. For instance, a firm whose financial position is quite strong and possesses low market share is able to introduce many innovative products in the market by making investment in the Research & development Department of the firm.

The WO Strategy

The WO STRATEGY is also known as Mini- Maxi Strategy that can be used to overcome the weaknesses of a company by taking advantage of the opportunities. For instance, a firm who lacks skilled workers can utilize the opportunity by updating new technology in order to increase production. The internal weaknesses of any firm can also be improved by recruiting and training employees through learning additional technical skills. A company who faces a decline in the financial sector can avail the opportunity of merging with a multinational company.

The ST Strategy

The ST Strategy/Maxi-Mini Strategy is where a company through its strengths can avoid any kind of external threats. Any organization can refrain from external threats by avoiding any copied ideas, innovation in products of another organization. In case an organization that possesses good quality of products but is facing threats against competitors who offers low priced products can adopt an ST strategy by mass production of the products, therefore reducing the unit cost of production.

The WT Strategy

The WT Strategy Or Mini- Mini Strategy are adopted by firms who needs to reduce the level of weaknesses and avoid any external threats at the same time. This can be considered as a defensive technique in a situation where a company whose financial position is at a critical stage and the demand of its product getting reduced, the only possible chance to sustain itself in the market is to adopt a retrenchment strategy or decides for merger with an another company.

SWOT and TOWS analysis is technically the same and produces similar results. The order in which managers think about strengths, weaknesses, threats and opportunities may, however, have an impact on the direction of the analysis. Michael Watkins of the *Harvard Business Review* says that focusing on threats and opportunities first helps lead to productive discussions about what is going on in the external environment rather than getting bogged down in abstract discussions about what a company is good at or bad at.

2.4 SYNERGY AND VALUE CHAIN

Let us begin by studying synergy.

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Synergy

It is based on the concept, 'total is greater than the sum of the individual parts'. When two organizations join, they work more effectively and competently than when they work independently. Synergy is of two types, static and dynamic. The difference between static and dynamic synergies is based on differences in the depictions of an organization. In static synergy, an organization is depicted as a fixed collection of available resources. However, in dynamic synergy an organization is depicted as an ever-growing collection of competencies in organising and building resources.

Static Synergy

The reason behind use of the above synergies by organizations is that sharing leads to reduction in cost. The types of static synergy are as follows:

1. **Sales synergy:** This type of synergy occurs when different products use same distribution channels and warehousing.
2. **Operating synergy:** This type of synergy occurs when there is better use of human resources and large amount of purchasing of raw material to attain economies of scale.
3. **Investment synergy:** This synergy occurs as the outcome of combined use of plant and common raw materials inventories. It also involves transfer of R&D from one product to another.
4. **Managerial synergy:** This synergy occurs when a new business venture faces strategic, organizational or operating problems that are similar to problems that the management has dealt with in the past.

Dynamic Synergy

The reason behind use of these synergies by organizations is that it helps to build new assets with existing competences. This helps organizations to take advantage of available opportunities with respect to their existing resources.

The types of dynamic synergies are as follows:

1. **Asset amortisation7:** The potential to collect economies of scope (deals with the reduced costs of joint production) across business units that can share the same asset.
2. **Asset improvement:** The potential to use a core competence developed while building or maintaining a strategic asset in one business unit that helps to improve an existing strategic asset in another business unit.
3. **Asset creation:** The potential to use a core competence developed through the experience of building strategic assets in existing businesses that helps to create a new asset in a new business.
4. **Asset fission:** The potential for the process of related diversification that helps to expand an organization's available pool of core competences.

Check Your Progress

4. What is a prerequisite for any manager to design the strategy that could lead the company on the growth path?
5. What do political factors comprise of?
6. What is a SWOT analysis?
7. What is the SO Matrix?

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An organization learns new skills while building strategic assets in a new business that in turn allows it to improve the existing assets in existing businesses.

Value Chain Analysis

Value chain is a chain of activities for transforming inputs into outputs that customer's value. Value chain can be defined as primary activities and the related support activities that create customer value. All the functions of the company like production, marketing, R&D, services, information systems, material management and human resource are significant in lowering cost structure and increasing efficiency of the firms. Thus, the value chain can be explained as primary activities and the related support activities that create customer value.

Value chain of the firm

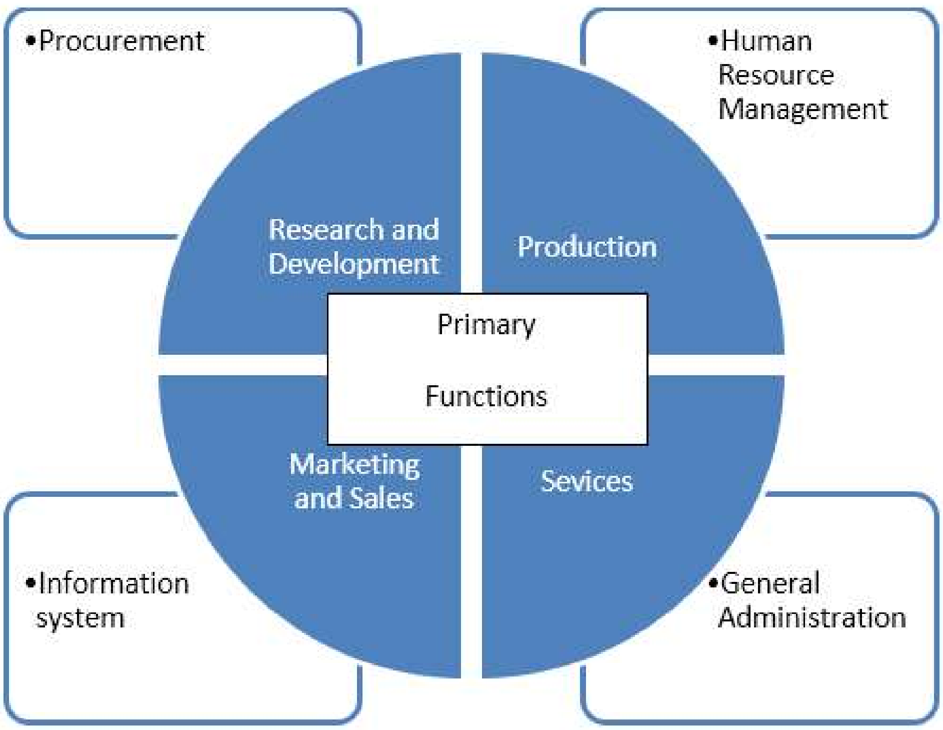

Fig 2.4: *Activities of the Value Chain*

Primary Activities

These activities are involved in physical creation of the product, followed by marketing and distribution and after sales support. These activities are also called as line functions. The four functions of primary activities are given below:

- ***Research and Development:*** This activity is concerned with the design of products and production processes. Superior product design increases functionality of products thus making products more attractive and add value for the customer. R&D in processes make the plant efficient and lowers production cost. Some sophisticated R&D if do not help in decreasing cost raises the utility of the product and allows firms to charge high price and reap high profit. Intel by continuous R&D improved and made powerful microprocessors. They even improvised profits and made the manufacturing process efficient. R&D is not only in the case of products but also in done in services. E-commerce websites, apps and innovations in banking system like smart debit cards are the products of new age development.

- ***Production:*** The manufacturing of goods and creation of services is known as production. An efficient production function of a firm helps them to lower their cost structure thus ensuring high profit and growth. The efficient production function of Japanese automakers like Honda and Toyota helped them achieve higher growth than their rivals like Ford and General Motors in the Indian Market. An efficient production function not only help firm to reduce cost but improve quality thus creating higher value for firms.
- ***Marketing and Sales:*** Market and distribution function of the firm like brand positioning and advertising creates value for the firm. Advertisement and appropriate marketing strategy create a positive impression on the customer's mind and creates utility. For example, Kellogg's cornflakes by marketing and positioning corn flakes as solid a breakfast created space in the minds of customers in the Indian Market. Marketing and sales can create value by understanding customer needs and communicating back to the design department, thus creating products that match customer requirement.
- ***Services:*** The service department of the firm provides after sales service and customer support. This includes services like installation, spare parts delivery, maintenance and repair, technical assistance and buyer inquiries and complaints. Solving customer queries and available support after the customers have brought the product create superior utility and brand for the firm. This function plays and important role in firm's growth. After sales service of LG in the Indian consumer durable goods market help them gain dominance over other firms' like Sony and Panasonic. Services play a major role in the industry where downtime is expensive. Better quality and timely service help firm to charge higher prices vis a vis there competitors.

Support Activities

The support activities of the value chain are those services or inputs that allow primary activities to function smoothly. The major support activities are divided into four parts which includes material management or procurement, human resource management, information technology and general administration.

Material Management: This includes activities and cost associated with purchase of raw materials, supplies, services and outsourcing necessary to support firm and its activities. More efficient is the material management significantly lower will be the cost and hence creating more value. Toyota has an efficient material management process. By tight controlling the flow of components from its suppliers to its assembly plant significantly lowers costs thus reducing inventory holding cost. Lower material movement time, low inventory cost leads to higher profit and greater value. The success of Amazon is also dependent highly on material management.

Human Resource: This includes the activities cost and asset associated with recruitment, hiring, training and development and compensation of all level of personnel's hired by the firm. This also includes labour relations and development of knowledge based skills. This function is highly important as it ensures that a firm has the right mix of people to perform its value creating activities effectively. Proper functioning of human resources leads to higher employee productivity and better customer services, thereby reducing cost and enhancing utility of the firm. American Express has a highly efficient staff for customer services and this function help it to penetrate in Indian corporate market.

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Information Systems: Information systems plays a crucial role in managing inventory, tracking sales and orders, pricing products, handling customer service inquiry and other communication features of the firm. Information system along with the Internet improves efficiency and effectiveness with which a firm manages its primary value creation activities. Zara, a Spanish fashion brand has world class information system, its designers are in constant contact with the stores on understanding the trends in the market. They also communicates effectively with the store managers to identify the latest fashion hits and consumer preference.

General Administration: This includes functions related to general management, accounting and finance, legal and regulatory issues, safety and security and other overhead functions of the firm which ensure smooth functioning of the business and thus create value for the firm. General administration creates organization structure and corporate culture. Top management role is significant in ensuring the smooth administration.

Once the value chain has been documented, managers need to understand buyer satisfaction and market success which are crucial for the growth of the firms.

2.5 LEVELS OF ENTERPRISE STRATEGIES FOR GROWTH

Growth planning of the firm is done at three levels: corporate, business and functional levels. Strategy for growth is planned at each level but all the three levels need to align to ensure maximum outcome of the efforts. Non-alignment will lead to failure or less effectiveness of overall corporate strategy. The three level of enterprise growth strategy is mentioned below:

Corporate Level Strategy

Corporate level strategy should provide an overall direction to firm's growth and hence referred to as 'grand strategy'. This strategy deals with the general direction where the top management intends to undertake tasks which are in coordination with the firm's stated vision and mission. Corporate level strategy is approved by the CEO and Board of Directors. Strategic options at the corporate level will likely require a commitment of a significant portion of the firm's resources over a large period of time and the results will directly impact the future strength of the organization. Growth planning at this level need to be robust, and must consider the future operating environment of the firm. At the corporate level careful consideration will be given to the overall core competencies of the firm and where the boundaries lie between corporate and business level responsibilities.

Check Your Progress

8. How is an organization depicted in static synergy?
9. Define value chain.

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Corporate strategy deals with three key issue:

Directional Strategy which takes into account the firm's overall orientation towards growth (expanding firm's activities), stability (making no change in firm's current activities) and retrenchment (reducing firm's activities). Out of these the most widely pursued is growth strategy design to achieve increase in sales, assets or profits. Continuous growth for the firm means increasing sales and taking advantage of experience curve. This reduces per unit cost and thereby increases profits. The cost reduction becomes extremely important if the industry is growing at a fast pace and competitors are engaged in a price war to gain significant market share. Reliance Jio is an example where when firm gain significant market share by competing on the basis of the price.

A firm can grow internally by expanding its domestic and global operations or it can grow externally through mergers, acquisitions and strategic alliances. ***A merger*** is a transaction in which two or more firms combined in such a way that both firm cease to operate and a new entity emerges. Mergers usually take place between the firms which are similar in sizes and are usually friendly. Airtel has merged with Telenor to gain advantage against Reliance. ***An acquisition*** is the purchase of a firm that is completely absorbed as an operating subsidiary or division of the acquiring firm. Procter and Gamble acquired Vicks to gain the Vicks brand and oil for Olay. Flipkart is buying eBay India operation to help Flipkart to enter into international market. Acquisitions are usually between the firms of different sizes and they can be hostile or friendly. ***A Alliance Strategic*** is a partnership of two or more corporation or business units to achieve strategically significant objectives reaping mutually beneficial outcome. For example, ICICI bank and Vodafone have a strategic alliance to launch mobile payment services.

Growth is an attractive strategy for firm. Apart from internal growth two other strategies of growth are concentration and diversification.

Concentration

If a firm's product line has growth potential the concentration of resources on these product lines ensures growth. The basic concentration strategies are vertical growth and horizontal growth.

Vertical Growth: Taking over a function previously provided by a supplier or by a distributor is vertical growth. Being one's own supplier or distributing one's own output reduces cost, ensures availability of scarce resources, guarantees quality of a key input and connects to high potential and key customers. Vertical growth can be achieved internally or through acquisitions. For example, Tata motors receives supplies of steel from Tata steel plants ensuring timely and quality availability of key input. Cisco Systems bought Radiata Inc. a maker of chipsets of wireless network to gain access to the technology for high speed wireless communication.

Vertical growth leads to **vertical integration**. Taking over the function previously provided by the supplier is called as ***backward integration***. It means purchasing or merging with companies farther back in the supply chain in an effort to control the supply of materials and costs in the production process. Amazon.com backward vertically integrated when it became not only a bookseller but a book publisher and

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sold books of not only other publishers, but from its own publication house as well. Taking the role previously provided by distributor is known as ***forward integration***. The forward integration allows sustaining a firm's profit while avoiding leakage of profits to intermediaries. In forward integration, a firm replaces third party distribution or supply channels with the in-house set up in order to consolidate operations, reduce costs, and become a step closer to the end consumer. Zara has more than 1,000 outlets worldwide. They not only design and produce their clothing line but distribute and market it themselves.

Vertical growth is the most appropriate strategy for the industry or business with strong competitive position in a highly successful industry. To sustain or improve its own competitive position, firms takes the route of forward integration to gain more control over product distribution and customers and firms use backward integration to reduce resource acquisition cost, and reduce operational inefficiencies.

Horizontal Growth: Firm achieves horizontal growth by expanding its product line into untapped or new geographical location or by extending the product line by new range of products and services offered to the current market. Firm grows sideways in the industry's value chain. Horizontal growth results in horizontal integration. **Firms increase** production of goods or services at the same level of the supply chain. A company may do this via internal expansion, acquisition or merger. Horizontal integration can lead to monopoly if a company captures the vast majority of the market for that product or service. The merger of Kraft foods and Heinz increased the product line in the food processing industry. Disney acquired Pixar studios to increase its product line and strengthen its market share. Jet Airways provide world class service and benefits of frequent flyers to the customers through the alliance with Etihad Airlines.

Diversification

Consolidation leads to the maturity of the industry. Most of the existing firms having reached the limits of growth using vertical or horizontal growth strategies maintain competitive position in the markets firms by enter either into less matured market or expand internationally. Another way of continuous growth is diversifying into other industries. Diversification can be done in related or unrelated industries.

Concentric (Related) diversification: Related diversification happens when firm add new but related products and services. The firm tries to establish strategic fit in a new industry where firms' experience, product knowledge, manufacturing capabilities and marketing skills can be put to good use. The firm's lines of business still possess some 'common thread'. The common points can be similar technology, similar product, distribution channel or same management. A concentric diversification strategy can have several advantages. The most obvious is that it allows the organization to build on its expertise in a related area. A related diversification strategy involves diversifying into businesses that possess some kind of 'strategic fit'.

A diversified firm that exploits the strategic fit and activity-cost chain interrelationships and captures the benefits of strategic fit achieves a consolidated performance greater than the sum of what the businesses can reap pursuing independent strategies. This effect which can produce a combined return on the firm's resources greater than the sum of its part is frequently known as synergy. Flipkart.com originally use to sell books online but it moves to concentric diversification by selling now vast range of products from consumer durables to hand made artefacts.

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Conglomerate (Unrelated) Diversification: Conglomerate diversification is a growth strategy that involves entering into the businesses that are significantly different from the organization's present products or services. Conglomerate diversification takes place when the firm diversifies into an area(s) totally unrelated to the organization current business lines. Most conglomerate diversifications are based on the rationale that expansion into unrelated industries has a very attractive potential. Instead of maintain a common thread throughout the organization managers are focused on financial consideration of cash flows or reducing risk.

Firms doing conglomerate diversification emphasize on financial consideration rather than product market synergy. A cash rich firm with limited growth opportunities in its own industry moves to an industry with high growth potential and less availability of cash. For example, ITC Ltd diversified itself from only tobacco products into paper, agro products, food processing and hotel businesses.

Stability Strategies

A firm can focus on stability over growth continuing its current activities without any significant change in direction. Stability strategy is successful when firm operates in a reasonably predictable environment. This strategy is highly popular with the firms operating in a niche market. However such a strategy is successful in the short run but firms need to plan for long run to avoid stagnation.

A pause/proceed with caution strategy- It is a conscious effort to make only incremental growth or improvement until a certain business environment situation changes.

No Change Strategy- This is a decision of a firm to do nothing, i.e., a choice to continue current operations and policies for the foreseeable future. This strategy is successful if no major change takes place in the business environment. There are no obvious opportunities or threats to the firm.

Profit Strategy- This strategy is detrimental to the firm's future. This strategy is an attempt to artificially support profits when the firm's sales are declining by reducing short term investment and discretionary expenditures. This strategy is useful to help company get through temporary difficulty. Unfortunately, if followed for the long term, it will lead to serious problems in a firm's competitive position.

Retrenchment Strategies

Retrenchment strategies are adopted by the firm when the firm has weak competitive position in its product line due to poor sales performance. In order to improve the performance of the firm and remove its weakness, the management may follow the following retrenchment strategies:

- ***Turnaround Strategy***- This strategy is adopted when a firm's problems are not critical and firm emphasizes improvement of operational efficiency. The two turn around strategies are contraction where firm cut down size and costs and consolidation where firm implement a program to support leaner firm. Firm reduces unnecessary overhead and makes functional activities cost justified. IBM was largest computer maker till 1990s but understanding the market scenarios, in 2000s IBM transformed itself into dominant service provider.

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- ***A captive Company Strategy***- A firm in distress may not be in a position to adopt turn-around strategy hence management search for an angel by offering to be a captive company to one of its largest customers and ensure continued existence. This strategy reduces the cost of the firm significantly as well as scope of some functional activities like marketing. However the strategy ensures long term sales.
- ***Divestment Strategy/Sell out***- If a firm has weak competitive strategy it can also adopt a policy of sell out. The strategy is beneficial if the management obtain good price for their shareholders and employees can retain their jobs. Tata Oil Mills sold themselves to Hindustan Unilever. Sometimes when firm have multiple business line it sells off low growth potential arm, this is called as divestment.
- ***Bankruptcy/ Liquidation Strategy***- Bankruptcy involve giving up management of the firm to the court in return for some settlement of the firm obligation. Bank of Rajasthan was merged with ICICI on account of going bankrupt. Liquidation is the strategy which terminates the firm. Management choose to convert as many saleable assets as possible to cash which is distributed to shareholders,

Portfolio Analysis

Portfolio analysis is a systematic way to analyze the service lines and product lines that form a firm's business portfolio products and services. All firms (except the simplest and the smallest) are involved in more than one business. Each business consists of a portfolio of products and services. For example, a publishing business might include a professional journal, a lay magazine, specialized newsletters aimed at different member segments, CDs, a website, social networking sites, etc. Portfolio analysis helps firm to decide which of these products and services should be emphasized and which should be phased out. Portfolio analysis consists of subjecting each of the firms' products and services through a progression of finer screens. During a time of recession and scarce resources, it is essential to screen out products and services that are not essential to most members.

Portfolio analysis offers the following advantages:

- It encourages management to evaluate each of the organization's businesses individually and to set objectives and allocate resources for each.
- It stimulates the use of externally oriented data to supplement management's instinctive judgment.
- It analyzes the issue of cash flow availability to be used in expansion and growth.

Portfolio analysis does, however, have some limitations.

- It is not easy to define product/market segments.
- It provides an impression of scientific precision when some idiosyncratic judgments are involved.

The most popular approach of portfolio analysis is the BCG Growth Sharing Matrix.

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BCG Growth Share Matrix

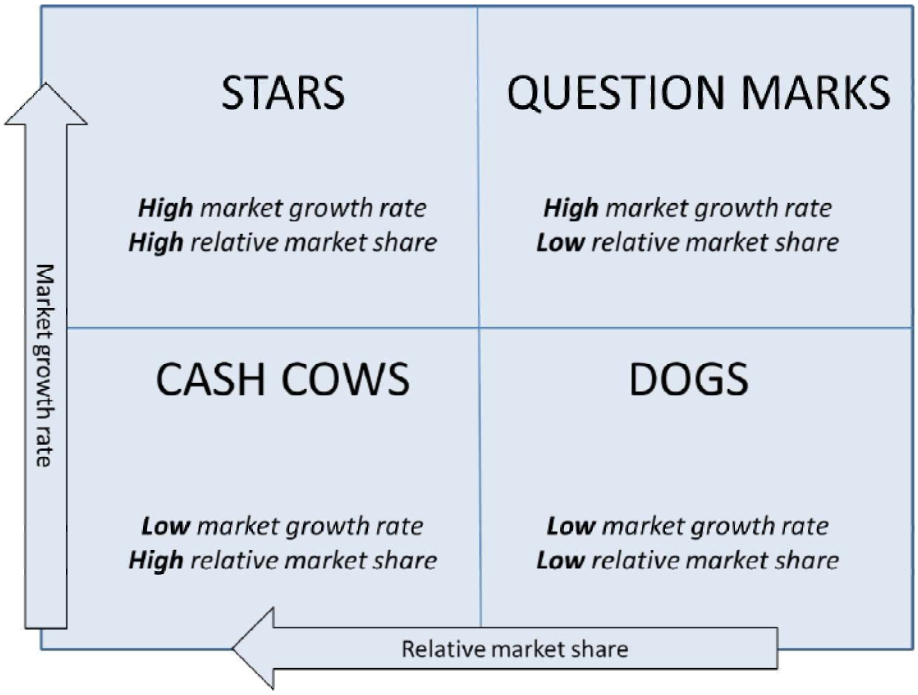

Fig 2.5: *BCG Matrix*

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business line portfolio and its potential for growth. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions divulge likely profitability of the business portfolio in terms of cash needed to upkeep that unit and the cash created by it. The general purpose of the analysis is to help understand which product line the firm should invest in and which ones should be divested.

There are four quadrants into which firms product lines are classified:

- **Dogs:** Dogs possess low market share compared to competitors and operate in a low growth market. Overall, they are not worth investing in because they generate low or negative cash returns. However, some dogs may be profitable for a long period of time or they may provide synergies for other business unit or can act as a defence mechanism for competitors. Therefore, it is always important to perform deeper analysis of each product or SBU to make sure they are not worth keeping or to be divested.
- **Cash cows:** Cash cows are the most profitable product lines and should be tapped to provide as much cash as possible. The cash gained from the 'cows' should be invested into stars to support their future growth. According to the growth-share matrix, a firm should not invest into cash cows to induce growth but only support them so they can sustain the current market share.

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However, cash cows are also capable of new innovations and can become new stars with right support.

- **Stars:** Stars function in high growth industries and maintain a high market share. Stars are both cash generators and cash users. They are the primary units in where firms invest its money because stars are expected to become cash cows. Yet, not all stars become cash flows. High technology industries are rapidly changing and firms who fail to understand market dynamics can see their stars becoming dogs instead of cash cows.
- **Question marks:** Question marks are the product lines that require much closer consideration. They hold low market share in a rapidly growing market consuming a large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become a cash cow.

Corporate Parenting Strategy

The corporate parent refers to the levels of management above that of the business units, and therefore without direct interaction with buyers and competitors. There are three ways of corporate parenting:

- ***Financial Control:*** The corporate parent monitors and evaluates the financial performance and investment portfolios of the business unit it is parenting. Managers act as agents to shareholders and identify and acquire viable assets and business. Parents set performance standard on the managers for control purposes.
- ***Strategic Planning:*** Corporate parents ensure synergy across business units. Corporate parent envision to build a common purpose and facilitate cooperation among business units. It also provide central services and resources to business units.
- ***Strategic Control:*** Corporate parent leverages its resources and competences to build value for its business. Corporate parent use its parenting capabilities to capture opportunities for growth.

Functional Strategies

These strategies are designed to achieve corporate and business unit objectives by maximizing productivity. It is concerned with developing and nurturing a distinctive competency to provide the firm with competitive advantage. Functional strategies are guided by its parent business unit strategy. Functional strategy have the best chance of success if it is built on distinctive competency of the functional area. If a firm does not have distinctive competency in a functional area that particular functional area can be outsourced. A core competency of a firm is the competency where a firm can do extremely well. A firm must invest continuously in its core competencies. When these core competencies are superior to those of the competitors, they are called as distinctive competencies.

A firm can have following functional strategies:

- **Marketing Strategy:** This strategy deals with the pricing, selling and distribution of a product. Developing a market strategy helps a firm to capture

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a large market share for current products through market saturation and market penetration or develop new markets for current products. FMCG (Fast Moving Consumer Goods) giants like Colgate, Palmolive and Procter and Gamble are experts in using advertising and promotion strategy to gain market dominance in those product categories.

- **Financial Strategy**: Financial strategy scrutinizes the financial implications of corporate and business level strategic options and identifies the best financial course of action. The firm gets competitive advantage through a lower cost of funds and a flexible ability to raise capital to support a business strategy. Financial strategy attempts to maximize the financial value of the firm. A very common financial strategy is leverage buyout and management buyout. Dividend to shareholders is also an important financial strategy for firms.
- **Research and Development Strategy**: R&D strategy involves product and process innovation and improvements. This involves appropriate mix of various types of R&D and answers the question of how new technology should be accessed for internal development, external acquisition or for external alliances. For example, Nike spends more money than its competitors on R&D to differentiate the performance of its athletic shoes from its competitors.
- **Operation Strategy**: This strategy determines how and where a product needs to be manufactured, the level of vertical integration in the production process and the utilization of physical resources. The strategy also deals with utilization of technology the firm should use in its operations processes. CAD, CAM and Advanced Manufacturing Technology are affecting manufacturing process worldwide.
- **Purchasing Strategy**: This strategy deals with purchasing raw materials, spare parts, and other supplies needed for the operations function. The basic purchasing choices are sole multiple or parallel sourcing. Multiple sourcing takes precedence over sole supplier sourcing.
- **Human Resource Management Strategy**: HRM strategy address the issues related to hiring of employees in a business unit. A firm should hire low skilled employees in a large number (Mc Donald) or high skilled employees who are highly trained and well paid. MNCs use a self-managing working team who are highly motivated. Firms also believe that having diverse workforce will also increase their competitive advantage. Google maintains the ethnic and gender balance in its workforce to ensure diversification. This diversification brings onto the table innovative ideas.
- **Information System Strategy**: Firms are increasingly adopting IT strategies to provide business with competitive advantage. FedEx provides its customers with Powership computer software to store addresses, print shipping labels and track package location. As a result, its sales growth increased significantly. The use of the Internet allows employees of the firm to practice follow-the-sun- management, in which team members operational in different countries can pass the work in another country in which the work day has just begun. Information system ensures the firm to have closer ties with customers and suppliers. After identifying the pros and cons of

potential growth strategies and evaluating alternatives, the firm should select the appropriate strategy for implementation.

2.5.1 Ansoff Model

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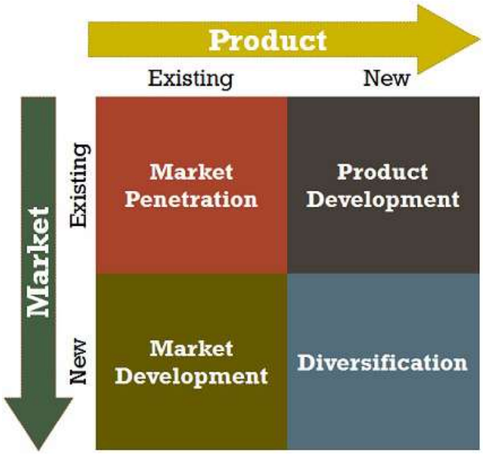

Fig 2.6: *Ansoff's Model*

Ansoff Model or matrix is also known as the Ansoff Growth matrix. It was proposed by the Russian-American mathematician Igor Ansoff. The model argues that product marketing strategy is dependent on four growth areas which includes market penetration, market development, product development and product diversification. The all four on a matrix creates the Ansoff Growth matrix. As part of a larger strategic planning initiative, an Ansoff matrix is a communication tool which helps you to see the possible growth strategies for the firm. The tough part is in selecting the right growth strategy.

Market Penetration: The first quadrant in the Ansoff matrix is market penetration. It is generally embraced as a strategy when the firm has an existing product with an identified market and needs a growth strategy within that market. The best example of such a situation is the telecom industry. Most telecom products exist in the market and must supply to that market. In such cases, market competition is intense. Hence, the firm may have to adopt intense strategies to increase market share.

Market Development: Market development is the second growth strategy in the Ansoff matrix. This strategy is used when the firm aims at a new market with prevailing products. There are several examples. These include leading footwear firms like Adidas, Nike and Reebok, which have entered international markets for expansion and after tapping metros in India, they are penetrating into tier 2 towns. These companies continue to develop their brands across new global markets. For a smaller firm, this strategy requires expanding from a current market to another market where its product does not currently has no competition.

Product Development: Product development in the Ansoff matrix refers to firms which have a significant market share in an existing market and therefore might need to introduce new products for sustenance and further expansion. Product development is needed when the company has loyal customers and knows that the market for its existing product has reached saturation. In this case, the market penetration strategy is not viable. A new product development strategy that caters to the existing market is a required to sustain in existing market.

Diversification: The diversification strategy in the Ansoff matrix is applicable when the product is completely new and is being launched into a new market. Diversification also implies expanding into new line of business for further growth. An example of diversification is Samsung. It began as a trading company, later expanding into insurance, securities, and retail. Today, it is mostly known for its electronics division. Samsung now has a market presence in a diversified global set of businesses including semi-conductors, appliances, cameras, watch making, apparel, music services, cloud computing, and home automation. How McDonald's developed an Ansoff Matrix to grow in Indian market is explained in Exhibit 2.2.

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Exhibit 2.2

Market Penetration: McDonald has presence in over 119 countries and had opened more than 36000 stores. It is trying to open more stores in the developed market and support events like Football and Olympics and also volunteer to contribute to grassroot programs.

Product Development: McDonald has improvised its menu for larger reach by adding healthy fruits like carrot sticks, semi skimmed organic milk, and so on. They provide good quality coffee for large meals. They have reduced the content of salt in fries and in a very clear product development strategy is collaborating with Disney creating happy meals.

Market Development: They have done extensive expansion in economies like India and other Asian nations and Africa. They are better marketing and packaging the value products.

Diversification: McDonalds is adopting a product diversification approach in Australia by launching a new cafe, The Corner. The firm is moving beyond its fast food options to offer healthy alternatives including Moroccan roast chicken breast, chipotle pulled pork, brown rice, pumpkin, lentil and eggplant salads, paneer tikka burger and sandwiches and healthy drinks.

2.5.2 Blue Ocean Strategy

The Blue Ocean Strategy was term coined by Prof. W Chan Kim and Prof. Renee Mauborgne in an answer to Michael Porter's five force model to deal with the competitors in the market. The blue ocean strategy tries to answer the question that instead competing with other firms in the industry, what if a firm sets its own pace, creates unique products and benefits from lucrative new markets? Instead of operating in a 'red ocean' the firm can redefine the terms of competition and move into the 'blue ocean,' where one has the water to yourself. The objective of these strategies is not to kill or reduce the competition, but to make the competition irrelevant. Blue Ocean strategy focuses on generating a sort of environment that guide the firm to be better off identifying strategies to gain uncontested markets than involving into conventional cut throat competition.

Blue ocean strategy: It is a strategy which focuses on generating a sort of environment that guide the firm to be better off identifying strategies to gain uncontested markets than involving into conventional cut throat competition.

Blue oceans are created by firms in the form of uncontested market space ripe for growth. The strategy involves the simultaneous act of high product differentiation and low cost, thus making competition immaterial for the firm. The strategy adopted by firms attracts more customers and increase the cost of competition. The firms can

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look for Blue Oceans by considering the four action framework. The framework put forth four key questions:

- **Raise**: What factors should be raised well above the industry's standard?
- **Eliminate**: Which factors that the industry has long competed on should be eliminated?
- **Reduce**: Which factors should be reduced well below the industry's standard**?**
- **Create**: Which factors should be created that the industry has never offered?

The above exercise forces firms to analyze each factor of competition, helping business leaders discover the array of assumptions they intuitively make while competing. The popular example of Blue Ocean Strategy is Cirque du Soleil. By completing reinventing the circus business, Cirque du Soleil achieved revenue that its competitors Ringling Brothers and Bailey could not achieve in the century. Cirque du Soleil did not steal the customers of Ringling to achieve this feat, rather they created uncontested market space that made the competition irrelevant.

Indigo Airlines in India is also the example of Blue Ocean Strategy where they tapped the customer base who fly for business purpose and are budget conscious. Adopting the strategy of flying early and on time to business destination helped them to gain profitable market share in the Indian Aviation market.

Exhibit 2.3

Ritesh Agarwal founded OYO Rooms, formerly known as Oravel.com, in the year 2013. This 4-year-old start-up has already disrupted the Indian hospitality segment with the use of technology. It eases travellers to find budget hotels which are on par with star hotels in value offering. Today, OYO Rooms has its presence in 174 cities with 4500+ hotels offering standardized stay experience. OYO Rooms provides standard facilities of Wi-Fi, breakfast, branded toiletries, a beverage tray and flat screen TVs in all its rooms.

OYO room successfully executed Blue Ocean Strategy in the hospitality Industry. Value innovation, product differentiation and concurrently reducing cost offered superior customer value. The business concept of OYO Rooms eliminated extravagant features of 3-star and higher hotels, such as stylish lounges, sports club, spa, and so on, at the same time, retaining standardized services and hygiene of sophisticated hotels. As a result, OYO Rooms could significantly reduce the price per room compared to three-star hotels and outperformed in providing superior customer value.

2.5.3 Porters Generic Competitive Strategies

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The ultimate source of above average profitability in the long run is sustainable competitive advantage. A firm can possess two basic types of competitive advantage: low cost or differentiation. The two types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, leads to three generic strategies for accomplishing above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two options, cost focus and differentiation focus.

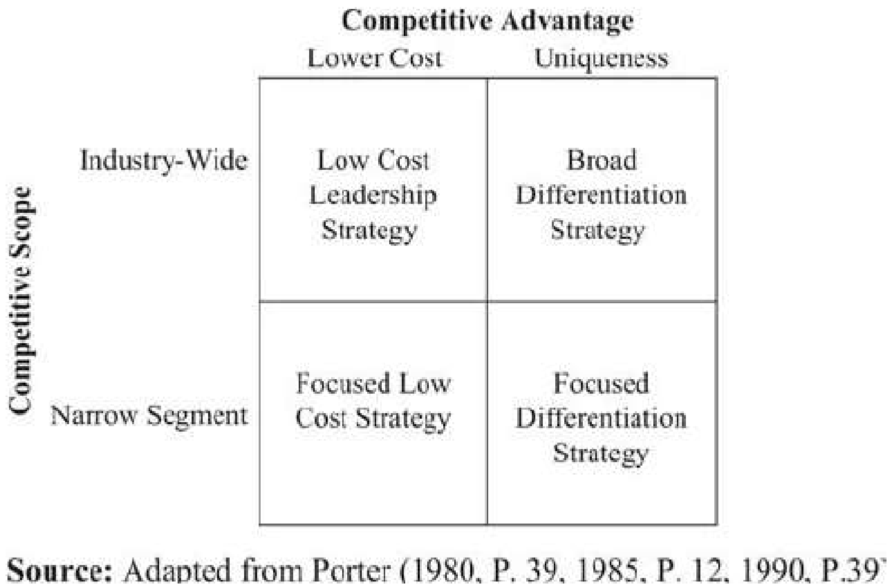

Fig 2.7: *Porters Generic Competitive Strategies*

Low Cost Strategy: This strategy is the ability of the firm to design, produce and market a comparable product more efficiently than its competitors. This requires a firm to construct efficient scale facilities, tight cost and overhead control and cost minimization in the areas lie R&D, after sales service, advertisements and so on. Low cost allows the firm to charge lower price for its products vis-à-vis competitors and yet make a satisfactory profit. Some firms successfully following the strategies and competing strongly in the market are Nirma, Timex, Gari Detergent, Dabur toothpastes. Low cost works as defence against competitors. High market share of a firm allows it to have high bargaining power relative to its suppliers and low cost and price serves as a barrier to entry. Therefore, cost leaders earn above average returns in the market.

Differentiation: The strategy involves the creation of a product or service that are considered unique throughout its industry. The uniqueness allows the firm to charge a premium for its products. The differentiation can be possible through design, brand image, technology, feature up-gradation, dealer and distribution network or customer service. Differentiation is required for new firms to develop their own distinctive capabilities to compete successfully and older firm need differentiation to sustain intense competition. Examples of successful differentiation strategy are Honda, Nike, IPhone, Asian Paints and Tesla. Differentiation is more likely to generate higher profit as compared to low cost strategy as differentiation becomes a better entry barrier.

Cost Focus: This competitive strategy focuses on a particular geographic market or a buyer group in an attempt to serve this niche, excluding others. Cost focus allows a firm to seek cost advantage in its target segment. The cost focus strategy is appreciated by those who believe that a firm that focuses its effort is better able to serve its narrow market more efficiently than its competitors. In such scenarios, the firm has to do a trade-off between high profitability and high market share.

Differentiation Focus: This strategy focus on a particular buyer group, product line or geographic market. The firm seeks differentiation in a target market segment. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader

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group of customers. For example, cutting edge technology of Mercedes Benz differentiates it from other automobile manufacturers and caters to a small group of rich buyers.

While strategizing growth, a firm evaluates various strategies to be followed at different organizational level. Organizations are operating in a dynamic business environment and most of the firms are operating in a global industry. Therefore, it is important for firms to select the best strategic alternative which ensures high growth. Strategy formulation is not the end, rather firms should devise developing policies and broad guidelines for implementation. Timely review of the growth strategies and managing change is the key for sustainable growth of the firm.

2.6 SUMMARY

Some of the important concepts discussed in this unit are:

- The main motive of any organization is to achieve sustainable corporate growth and enhance profitability.
- For organizational growth, firms tend to pass through a series of development phases as they grow in the market. Each phase begins with a period of evolution, with steady growth and stability, and ends with a revolutionary period of substantial organizational turmoil and change.
- Growth of a firm has become more challenging than ever due to global competition and the slowing down of economic growth in recent times.
- Disruption describes a process whereby a smaller company with fewer resources is able to successfully challenge established current businesses. Specifically, as incumbents focus on improving their products and services for their most profitable and loyal customers, they exceed the needs of some segments and ignore the needs of others.
- Organic growth strategy involves strengthening the firm using its own capabilities and resources. This approach to firm growth is slower than others, but it has relatively low up-front costs, making it an attractive option for small-business owners who want to expand their companies, but do not have large amounts of liquid capital.
- The most successful firms have developed aggressive venture strategies and have made ventures the critical components of their strategic and operating success.
- Acquired growth arises from mergers and acquisitions rather than an increase in the company's own business activity. Firms that choose to grow inorganically can gain access to new markets through successful acquisitions and takeovers.
- The task of planning a growth strategy begins with evaluating the organization's current state in which it operates.
- An in depth analysis of organization's external and internal environment is a prerequisite for any manager to design the strategy that could lead the company on the growth path.

Check Your Progress

10. What are the three levels at which growth planning of the firm is undertaken?
11. How do firms achieve horizontal growth?
12. What does the Ansoff model suggest?

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- Every company operates in a macroeconomic environment where political factors, economic scenario's, sociocultural forces, technological factors, legal factors and natural environment conditions have a strong impact on the company's growth prospects. An analysis of the impact of these factors is usually referred as PESTEL analysis.
- An operating environment or task environment comprises factors in the competitive situation that affect a firm's success directly.
- A SWOT analysis is a process of finding a strategic fit between external opportunities and internal strength while working on external threats and internal weaknesses.
- Synergy is based on the concept, 'total is greater than the sum of the individual parts'. When two organizations join, they work more effectively and competently than when they work independently. Synergy is of two types, static and dynamic.
- Value chain can be defined as primary activities and the related support activities that create customer value.
- Growth planning of the firm is done at three levels: corporate, business and functional levels. Strategy for growth is planned at each level but all the three levels need to align to ensure maximum outcome of the efforts.
- Apart from internal growth two other strategies of growth are concentration and diversification.
- A firm can focus on stability over growth continuing its current activities without any significant change in direction. Stability strategy is successful when firm operates in a reasonably predictable environment.
- Retrenchment strategies are adopted by the firm when the firm has weak competitive position in its product line due to poor sales performance.
- Portfolio analysis is a systematic way to analyze the service lines and product lines that form a firm's business portfolio products and services.
- BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business line portfolio and its potential for growth. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share).
- Functional strategies are designed to achieve corporate and business unit objectives by maximizing productivity.
- As part of a larger strategic planning initiative, an Ansoff matrix is a communication tool which helps you to see the possible growth strategies for the firm.
- Blue Ocean strategy focuses on generating a sort of environment that guide the firm to be better off identifying strategies to gain uncontested markets than involving into conventional cut throat competition.
- A firm can possess two basic types of competitive advantage: low cost or differentiation. The two types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, leads to three generic strategies for accomplishing above average performance in an industry: cost leadership, differentiation, and focus.

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2.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The phases of evolutionary growth are:
   - Creativity
   - Direction
   - Delegation
   - Coordination
   - Collaboration
2. Organic growth strategy involves strengthening the firm using its own capabilities and resources.
3. A merger is a strategy through which two firms agree to integrate their operations on usually equal basis.
4. An in depth analysis of organization's external and internal environment is a prerequisite for any manager to design the strategy that could lead the company on the growth path.
5. Political factors largely comprises of matters related to tax, trace agreement, fiscal policy, and the stability of the government.
6. A SWOT analysis is a process of finding a strategic fit between external opportunities and internal strength while working on external threats and internal weaknesses.
7. The SO Matrix is also known as Maxi –Maxi Strategy where a firm utilizes most of its internal strengths in order to grab the right external opportunities.
8. In static synergy, an organization is depicted as a fixed collection of available resources.
9. Value chain can be defined as primary activities and the related support activities that create customer value.
10. Growth planning of the firm is done at three levels: Corporate, business and functional levels.
11. Firm achieves horizontal growth by expanding its product line into untapped or new geographical location or by extending the product line by new range of products and services offered to the current market.
12. The Ansoff model argues that product marketing strategy is dependent on four growth areas which includes market penetration, market development, product development and product diversification. The all four on a matrix creates the Ansoff Growth matrix.

2.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What do you understand by disruption?
2. Write a short-note on venture strategies.

3. List the different entry barriers that discourages competition in the market.
4. What does the operating environment consist of?
5. Briefly discuss the TOWS Matrix.
6. What is static synergy?
7. What is a retrenchment strategy?
8. List the three ways of corporate parenting.
9. What is blue ocean strategy?

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Long-Answer Questions

1. Discuss the different phases of evolutionary growth.
2. Explain the stages of revolutionary growth.
3. Describe some of the best innovation strategies for a firm.
4. Examine the macroeconomic factors that influence a firm's action, structure and internal processes.
5. What is SWOT Analysis? What are its advantages and its limitations?
6. Describe the value chain activities of a firm.
7. Portfolio analysis is a systematic way to analyze the service lines and product lines that form a firm's business portfolio products and services. Discuss.
8. Discuss the three generic strategies needed for accomplishing above average performance in an industry.
9. Discuss the different quadrants of Ansoff's growth model.

UNIT 3 STAGING GROWTH

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Structure

3.0 INTRODUCTION

Most companies are always striving to achieve more and more growth, notwithstanding what might be their size. It is essential that organizations grow some amount annually so that they are able to accommodate the increased expenses which come about with time. With time, there is an increase in salaries, input costs increase, as does the cost of providing employee benefits, besides other costs. The cost of salaries and of employee benefits will always rise over time, even if there is no rise in any other expense. The raised costs cannot always be passed onto clients and customers as increased prices. So, for any business that wants to keep up, it is essential that they grow.

Small businesses that experience organizational growth attain many and varied benefits. Some of these benefits are raised efficiencies from economies of scale, heightened power, better ability to withstand market fluctuations, raised rate of survival, more profits and more prestige for organizational members. Many small firms desire growth because it is seen generally as a sign of success and progress. In the case of small businesses, organizational growth is an indicator of effectiveness as well is a very fundamental concern of a number of practicing managers.

For everyone, organizational growth does not mean the same thing. Organizations can use any of several parameters for growth measurement. Most companies keep profitability as the ultimate goal and due to this financial data, revenue and net profits

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are the basis for most companies to measure their growth. Some owners of businesses might assess growth by using one of the following criteria:

- sales
- number of employees
- physical expansion
- success of a product line
- increased market share

Ultimately, it is based on the set goals verse the current achievement that will be used by firms to gauge the growth and success of a firm.

3.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Discuss competitive compensation programs
- Describe how organizations take effective decisions
- Discuss how an organization implements a strategic staffing plan
- Examine the different types of change management tools
- Explain how effective employee development plans can be created

3.2 ORGANIZING FOR GROWTH

There are several reasons that cause the failure of an organizational initiative, such as a flawed strategy and imperfection execution. Nevertheless, a majority of the time, there is a failure of initiatives due the shortcomings of organizations and people. There is negligence on the part of companies in rallying their leadership in support of the initiative. They fail to back the initiative with the right capabilities and the right people or to tweak the organizational culture and structure to align with new initiatives. British businessman Archie Norman, who turned around many organizations, is of the opinion that, 'Behind all financial failures is organizational failure.' This also applies to growth initiatives. There are five people and organizational practices that lead to successful growth initiatives. While these are not capable of saving an organization from a poor execution or failed strategy, but without them, the best-laid growth plan is unlikely to take root and bear fruit.

Growth Starts with Leadership

Oftentimes, an organization's existing resource allocation and existing business models are challenged by its growth. Only when there is a visible and active support by senior leaders of a growth initiative, it can be smothered by the inertial forces of larger legacy businesses. It is possible that the leaders have to spend even more time and effort on a growth initiative than on other types of change, which will not disturb the internal power balance.

After having set a growth strategy, for a CEO, one of the primary jobs is ensuring that everyone in the senior leadership team provides committed support to the initiative and to the long-term success of the initiative. Ensuring this is not easy. While it could appear threatening to some senior executives, to some others it might not appear to require the same sense of urgency as it does to the organization and to the CEO. The failure of the growth initiative is assured in case the CEO is unable to bring around these people.

The senior leadership team's composition must be completely in line with changed focus of the company. In case every top leaders of the company is from its legacy parts of the business, it will appear to the employees that the initiative for growth is no more than a fancy that will soon pass. Similarly, the meetings of the senior leadership team and the board of directors should be disproportionately devoted to growth. In case top management is found carrying on with business as usual, it will pass a message to the others in the organization that even they can do the same.

There has to be a consistent, continual and clear passing on of the new growth initiative message by the leadership. They must celebrate the success of the initiative and show its leaders to be heroes and also acknowledge with honesty the challenges that stand on the way.

Nevertheless, celebration and talk can achieve just a limited amount. The final judgement will be passed on the leaders on the basis of what they do, how effectively they remove internal barriers to growth, and whom they promote to lead their growth initiatives.

Growth is ignited by Talent and Capabilities

To generate growth, companies will almost always need new organizational capabilities and individual skills. They might require functional and technical skills, like big-data or digital capabilities. Possibly they could be in need of various new kinds of leaders — those possessing of experience in emerging markets, or greater entrepreneurial skills, are agile and adaptive compared with the present persons handling the core business. Similarly, a product company which is turning to services could require sales executive(s) who have a better understanding of the sales business dynamics.

Last, but not the least, any agenda for growth will nearly always need cross-functional collaboration and fundamentally different ways of working. Though it is possible to frequently manage cost cutting within functions and even in the absence of new capabilities, growth cannot be attained in this way.

Organization Design: Nurturing the New Business

Along with a new growth strategy there come some significant organizational choices, yet several companies do not give them the required attention. Of them all, the most fundamental one is whether or not the initiative is aligned with the current business, whether it belongs on its own, or will be better if combined with some of the other new ventures. These decisions are never easy to make. Such questions cannot be answered with some existing formulaic practices or gleaned from the context.

Nevertheless, there do exist some basic principles that one can follow. In case the initiative for growth is disruptive to or distinct from the established core, it is best to go with separation. The new unit will be then able to tackle opportunities with its own cadence, incentives and talent. In case of the growth initiative being adjacent—and

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either supportive or nonthreatening—to the core, it should be included in the core business organization and operating model.

Irrespective of where companies house the new growth initiative, it has to be ensured by every company that they put processes in place for the promotion of cooperation across existing functional and business units. To foster such a collaboration, the most effective systems are cross-functional teams, councils and forums. When these groups meet, every department/part of the organization gather together and ponder over the progress, fine tune expectations, and make corrections in the path that is being followed. Such gatherings have the ability to make available opportunity for teams to celebrate successes, build engagement, and find a common purpose. Meetings also provide the ground for airing of disagreements and for striking trade-offs.

Generally, such forums are looked upon as being contests where there are losers and winners. They are not seen as avenues that can aid in effective team building. Executives have to make sure that the right people—with right motivation and right information —effectively collaborate for work completion. If the mechanisms are well-designed, it can help a growth initiative succeed.

Altering Culture to Creating the New Normal

We can define the culture of a company as being 'the way things get done around here'. This has the ability to throttle or accelerate growth initiatives. Oftentimes, there exists a chasm between what a company targets as its future culture and the culture that currently exists in the company.

A major role that is played by leaders is the establishing of a culture in the organization, in reinforcing behaviour and, furthermore, in bringing in people who are right for the organization and in promoting the right people. The culture of an organization is also greatly affected by such policies that define performance, compensation, promotions, and penalties. To take an example, if a company is not willing to modify its traditional incentive structures, there will be great difficulty in its bringing in the kind of people it wishes to employ and the problem will also be in its encouraging more entrepreneurial behaviour. Organizations even require weaving of existing practices with new approaches. Furthermore, an organization's culture is also influenced by organization design and more especially by the assignment of decision rights and the establishment of mechanisms to encourage collaboration.

Mostly, culture and behaviour, even though they should not be, emerge as afterthoughts. Inclusive in the growth initiative, there must be processes to ensure that the organization attains its target culture, and this will ensure that that organization's financial targets are easily achieved.

Change Management

An organization's change management capabilities will enable it to bring together all the different aspects of its growth initiative. It has been seen that the most effective change management happens where the senior leaders are agreeable on the goals and means of change and they follow it with sending out a consistent message to the employees, one layer at a time, all across the organization. The change monitoring process requires that the senior executives be able to obtain feedback from deep within the organization, where the actual fate of change rests, so that they can track progress and make any necessary adjustments. This process is referred to as *cascading change*.

For change delivery, it is essential for organizations to rely on soft as well as hard strategies. For hard strategies, they define accountabilities and metrics for individuals and make such authority and tools available to them that will help them to succeed at implementation. Progress is tracked by them against important milestones, know when initiatives are at risk of falling behind schedule, and take corrective action. They even engage and communicate with the key stakeholders to maintain their confidence and commitment during turbulent times. Such rigorous planning and implementation raises the possibility of a growth strategy's success.

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3.2.1 Inertia Escape

One can define **organizational inertia** as being 'the tendency of a mature organization to continue on its current trajectory. This inertia can be described as being made up of two elements — resource rigidity and routine rigidity' (Gilbert, 2005). While on the one hand the cause of resource rigidity is an unwillingness to invest, on the other hand, the cause of routine rigidity is an inability to change the logic and patterns which underlie those investments. 'Resource rigidity relates to the motivation to respond, routine rigidity to the structure of that response' (Gilbert, 2005).

Organizational inertia: It refers to the tendency of a mature organization to continue on its current trajectory.

When faced with change that is fast and/or discontinuous, if an organization wishes to survive, the inertia within that organization must be overcome by the organization. If the situation is competitive with new players emerging all the time, the incumbents become mostly vulnerable to this inertia's downside and in such a case the term generally employed is incumbent inertia.

When an organization starts its journey of growth, there is the need for it to understand and break free of the inertia that it faces. It has been seen that several organizations when they enter a situation of paradigm shift, they end up in a decline rather than growth. The decline is generally caused by the organization's inability to modify its existing strategies and its organizational architecture as quickly as required, and this is due to the organizational inertia.

Organizational inertia refers to both the external and internal and external forces which render it difficult to change an enterprise's architecture or strategy. The forces of inertia comprise:

- Cognitive schemata
- Internal political constraints
- Organizational culture
- Strategic commitments and capabilities
- External institutional constraints

Cognitive Schemata

During the implementation of their duties, cognitive schemata are formed by managers. These cognitive schemata are just mental models of the world that is inhabited by their enterprise. Included in these mental models are such things as beliefs regarding what will and what will not work in that specific business and what is not important and what is important with regard to the enterprise.

Cognitive schemata: It refers to the mental models of the world that is inhabited by the enterprise as formed by the managers.

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Cognitive schemata's models are based on experience. A management team that has worked together for a period of time, will generally begin to observe the same worldview—the same cognitive schema—which affects their decision making. While it is capable of helping to achieve quick decision making, those management teams that have a shared cognitive schema happen to pay no consideration to such suggestions, data and events which are not in the preview of their schema and this is like their having cognitive blind spots. Due to this, they may fail to recognise the threat that they could face from new enterprises and new technologies. The key reason for adopting cognitive schemata is that in the past they have been a success. It has been proposed by Danny Miller that in successful enterprises the senior managers will majority of the time form powerful cognitive schemata for the correct manner of conducting business, and due to this they become particularly vulnerable to cognitive blind spots when there is the emergence of new technologies or new competitors.

This has been termed as the 'Icarus paradox' by Miller. The story of Icarus, from Greek mythology, goes like this: Icarus was helped to escape from an island by his father who made him a pair of wings which were stuck to Icarus with the help of wax. Since he flew beautifully with the wings, he kept climbing higher, closer to the Sun and finally the heat of the Sun melted the wax, leaving Icarus to fall into the sea and die. The paradox: Icarus' ability to fly was his greatest asset which was the cause of his death. According to Miller, this is applicable to enterprises which were successful at a time.

Miller opines that the managers of companies that were once successful are so taken in by that success that they think the same effort will also lead to success in the future. They work with their own powerful cognitive schemata for what they think works. But the truth is that their ideas are capable of being rendered useless by the new technologies, and generally the manager are not ready to see this and then it is too late. To make this clearer, let us look at an example that Miller puts forth.

Digital Equipment Corporation (DEC) was founded by Ken Olson, and was amongst the dominant computer companies during the 1970s-80s. It had attained its success and position through manufacturing minicomputers (smaller than a mainframe computer and much greater in power than the personal computers of the day). The emergence of the personal computer was not seen by DEC as a threat mainly due to the fact that it did not lie within the company's cognitive schema. Olson, in 1977, was asked his opinion of the personal computers that were then beginning to emerge. His answer was: 'There is no reason anyone would want a computer in their home.'

Olson had not recognized the fact and DEC could not take advantage of the personal computer revolution. On the other hand, such persons as Michael Dell at Dell Computer, Bill Gates at Microsoft and Steve Jobs at Apple, were at that same time happily creating foundations for a revolution in the computer industry.

Internal Political Constraints

We can look at organizations as being political systems inside which there exists a distribution of influence and power. The influence and power that the different managers enjoy within the organization is a function of several things, including their perceived expertise, their control over valuable information and resources and their position in the hierarchy. Another source of power are a manager's personal attributes: for example, physical endurance, empathy towards others, articulateness and energy.

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Nevertheless, power is accumulated and those who possess it will not easily or willingly let it go, which is the key problem. The smallest change, nearly by the definition itself, will modify an organization's existing power and influence distribution. It is but natural that those who feel a threat to their power due to the change will oppose the change, possibly calling it an inappropriate change. Since these persons possess power, they can exert considerable amount of opposition to the change and even to the extent of preventing the change from happening. According to Miller '… this constitutes a source of organizational inertia that might slow or stop change.'

This point can be made clearer with the example of Philips NV which was the large Dutch multinational enterprise of the1990s. The company augmented the roles and responsibilities of its global product divisions while lessening it for foreign subsidiary companies so that it could rest the power in the hands of divisional heads, so that they could reap economies of scale and lower costs through shutting factories in various countries and running production in a few efficient plants. This would lead to the lessening of power and influence of managers who were running the foreign subsidiary companies and had had a lot of power within Philips. True to form, these managers of foreign subsidiary companies resisted the change, leading Philips to slow down the change and putting it at a competitive disadvantage to various other global players like Mitsubishi and Sony.

Organizational Culture

A company's existing culture which is visible in its norms and value systems is a major source of organizational inertia. Value systems are very closely linked with cognitive schemata and they reflect beliefs that are deeply held and are very difficult to modify. For example, in case within the organization the informal and formal mechanism of socialization have emphasized a consistent set of values for a long period, and in case these values have all been reinforced by such systems as associated with hiring, promotion and incentive, a sudden announcement of the appropriateness if these values and a required change to them will most probably lead to the employees resisting it and can produce resistance and causing discord.

Strategic Commitments and Capabilities

A firm's nature of prior strategic commitments is a key determinant of the organization's ability to respond to new competition. The meaning of strategic commitments is an organization's investments in tangible and intangible assets which supports a specific business model or manner of conducting business. While intangible assets comprise capabilities (knowledge and skills) which get accumulated over time, the tangible assets comprise the buildings, plants, and equipment.

After making a strategic commitment, an organization will find it difficult to be easily responsive to new competition if it will require the organization to break from its existing commitment. An established firm that comes with a deep commitment to some specific manner of conducting its business and has created supporting capabilities for the same, will naturally be slow in imitating or adopting the strategies of an innovating firm or a technology that is radically new. This is partially due to the fact that such firms are not willing to part ways with their current commitments; possibly the capabilities

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they have are not right for the new competitive environment, and due to this they continue with what they have been doing and knowhow to do, whether or not it works now.

Let us take the example of IBM. IBM was majorly invested in the business of computer mainframe during the 1980s. Then there was a move in the market toward personal computers. But IBM was still holding significant assets that were only specialized for carrying on the business of the declining mainframes: right from its manufacturing facilities to its research organization and to the sales all were only capable of handling the mainframes' business.

Since IBM's capabilities and assets were not right for the developing business of personal computer, it was inevitable, in the 1990s, for IBM to face difficulties. Because of its prior strategic commitments IBM was locked it into a business which had begun to shrink. If IBM shed these assets, there was sure to be hardship for all organization stakeholders.

External Institutional Constraints

Another source of inertia can be the external constraints that are applied by various powerful institutions, like labour unions and government agencies. To take an example, unions could stand up against job cuts or try to bring in flexible work rules, which could lead to slowing down the ability of a firm to manage new competition.

In the same way, it is possible for government regulations to restrict a firm's ability to change its organization and strategy to tackle new competition.

Organizational Inertia and Escape Velocity

A rocket on the earth's surface can only escape the earth's gravitational field when it reaches its escape velocity, which is approximately 11.2 kilometres per second (roughly Mach 34). The rocket can manage this with any acceleration greater than zero. If the acceleration is small, the time taken to escape will be more than if the acceleration was larger. If the acceleration is too small, it will lead to the rocket running out of fuel and getting pulled by Earth's gravitational force back to earth.

The same holds true for organizations. The higher the *Organizational Inertia* the longer it will take to affect any change. If it takes a long time, people's belief will be lost and the organization loses trust and faith in the transition and organizational gravity wins.

Activation of growth

Organizational factors are of prime importance when it comes to making a growth strategy a reality. The processes and structures in an organization that are currently holding it in good stead could be inappropriate for the challenges that the organization will need to face at a later stage. Similarly, it is possible that the company's key employees are not fit to meet the demands of tomorrow since that do not possess the skills required for the greater complexity which will accompany growth.

Stifling structures

In large organizations, it is their well-defined organizational structures that have defined the norms and roles which enable them to accomplish things. So, when new things are required to be done basis the growth plans, it is worth the time and energy to look at the current organizational structures for their flexibility for providing support for the new initiatives. Oftentimes the structures will not have the flexibility.

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Unscalable processes

Growing companies must examine their business processes and this is one area that is generally overlooked. The organization must be aware off which processes will feel the strain when growth is on.

Unprepared people

Along with growth come novel processes and interactions, generally very quickly. Ambidextrous qualities are required in those employees who have to face these expected/unexpected changes. Such qualities will help the employees to be willing to take on initiative that are not part of their assigned role and job, will enable them to cooperate and build linkages across the organization, and to accomplish several tasks simultaneously. Oftentimes, organizations do not pay attention to these capabilities within the units on the path of growth.

The above must be a key area of concern for organization that are on the path of activation for growth.

3.2.2 Well Thought Out Implementation Plan

There is need for well-defined and well thought out processes and systems for the successful implementation of the strategy and business plans of an organization. While it is not easy to do, yet plans and strategies can be converted to individual actions, which will together lead to amazing business performance. Several organizations fail again and again in actually motivating its employees to contribute enthusiastically towards achieving the corporate objectives and goals. Many organizations also are incapable of translating their thoughts and theories into action plans to successfully implement and sustain their strategy and business plans.

Let us look at some ways of having well thought out implementation plans. While companies have their own strategies, a few of these companies actually achieve these even though strategic success depends on effective strategy realisation.

Let us look at the essential elements of strategy realization. These are:

1. Motivational leadership
2. Converting strategy to action
3. Performance management

1. Motivational leadership

The key purpose of motivational leadership is to concentrate on attaining sustained performance via personal growth, values-based leadership and such planning which has an understanding of human dynamics. For genuine growth and effective competition, there is need for real leadership. People look to leaders to bring meaning, to the apparently never-ending requirement of results and desire that individuals have of find some value and purpose. It is leadership which is common to all aspects and stages of the process of turning the strategy into actual results and it is also a major aspect of ensuring that the mind and heart of every individual is engaged in the process in a positive manner.

2. Strategy into action

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Strategy into action: It refers to a phased approach which follows a path of performance factors, in which the strategic thrusts are linked with activities on the project, departmental, and individual level.

Turning **strategy into action** requires a phase-wise movement that will connect the identified performance factors with strategic projects and initiatives that have been designed such that they will optimize and develop the activities, be that individual or departmental ones.

The planning which is referred to as 'Strategy into Action' is a phased approach which follows a path of performance factors, in which the strategic thrusts are linked with activities on the project, departmental and individual level. The final goal is of enabling organizations in being effective while proceeding from strategic intent to attaining the desired results via a process that is both powerful and clear. In actuality, the requirement is that the strategy be unfolded systematically and creatively, via creating integrated action plans across the length and breadth of the organization so that there is proper aligning of all of the divisions and functions for achieving the goal.

Based on the questions asked, three separate phases can be seen:

The business strategy is to be distilled to attain clear intent

- What is the intent of the strategy?
- How does it apply to the organization's various operational unit?

The strategic thrusts and broad based action plans is to be developed

- Which set of key themes should be worked for achieving the intent?
- Which will be the sub-themes and projects?
- What will spell success and what will the criteria for measuring it?

Creating a detailed, in-depth work plan

- What will be the way to resource and lead projects?
- Has the responsibility of each task been fixed?
- Have all of the individual work plans been aligned?
- What is the process that will be followed for review?

When this process is followed, directors, managers, and team members, and so on, are able to create a road-map that will enable the attainment of the strategic plan. It is imperative that the right people be involved for arriving at the right decisions on priorities, and for coming up with clear and aligned action plans. It is essential that everyone has a clear understanding of the strategy and how their specific task is furthering adding to the attainment of the goal.

3. Performance management

The task of performance management comprises the creation of organizational capabilities and associated processes which are imperative for achieving performance through people delivering results.

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To ensure that the organization's strategy will not get pushed to the background or fall victim to the firefighting of everyday tasks, it is essential that each person in the organization be kept engaged to take action. This can be achieved through:

- Clear communication of the strategic intent, thrusts and action plans
- Delivering the change agenda via rigorous principles of project management
- Aligning the individual targets and work plans with the strategic priorities
- Consistent measuring of progress and providing of performance feedback

With effective performance management it is easy to have the entire organization mobilised and aligned towards working in tandem to attain organizational strategies and goals.

A good and effective performance management system has the following characteristics:

- Should communicate the strategy
- Should be capable of performance measurement in real time
- Should provide an integrated capability for project management
- Should enable emotional (psychological) contracting with everyone in the organization

Generally, organizations tend to overlook the element of emotional contracting which leads to the people in the organizations performing differently than was required of them and expected by the organization. Emotional contracting stands as the joining factor for the intent of the organization and the people's aspirations, values and motivations.

Effectiveness of strategy realisation

It is easy to assess the effectiveness of a strategy realisation process. Let us look at some.

- Check out the results in business and how the delivery is progressing with respect to the set targets and the listed key performance indicators (KPIs).
- Check for signs which indicate that the corporate message has been clearly understood and is being followed.
- Check for how closely the employees associate their roles in the organization with the purpose of the organization. Do they how where and how they fit into the entire integral effort?
- Check if the people are enthusiastically a part of the effort.

3.2.3 Competitive Compensation Programs

The current times are such that employees are fully aware of the prevalent salary in their industry and placement. For an organization it is essential to have a competitive salary strategy that is based on accurate data if it wants to bring in and retain the best talent.

The following are ways to achieve a competitive compensation strategy.

1. Understand the market pulse

Keep a close eye on the quarterly trends in pay by location, industry and job category and check the salaries in your organization comparative to these.

2. Benchmark your job positions

Be sure that the top employees are being paid at the correct rates for the job they are doing. Ensure that these is minimum once-per-year salary benchmarking so that turnover high-flight-risk employees can be identified, and better decisions can be made pertaining to labour budget allocation.

3. Create a compensation plan

A compensation plan does not limit an organization's ability to make good business decisions. The absence of a formalized compensation plan, generally leads to organizations missing the opportunity of structuring the pay decisions in a manner which will aid in supporting their business goals. If there is no formalized plan, the growing organizations and growing employee compensation expenditure will face problems of pay inequities, employee retention, and engagement. It is more cost effective and easier to put a structured compensation plan in place right at the beginning instead of coming up with ways as and when required.

4. Identify pay inequities

In the absence of a formalized comp plan, pay inequities creep in across and within departments and organizations. These lead to high turnover, possibly overpayment and could go so far as litigation. It is essential to identify and resolve all existing inequities in pay.

5. Make the compensation strategy be clearly known

The employees must be aware of the compensation plan and this plan must support as well as reiterate the organization's business goals. The employees must be aware how the work they do is aligned with the organization's goals of the organization, and how this is reflected in the compensation that they receive. Employee morale is greatly heightened when they are aware of the organization's investments in talent.

For business needs to be supported, the compensation review practice and policy must be clearly aligned with and linked to the HR processes, like succession and talent planning, performance management and values and culture. The process of employee compensation review should be just a single aspect of the entire employee 'value proposition'. It is imperative to have effective planning, especially liaison with finance. The planning needs to start much before the dates of the implementation of the pay review, especially emphasizing effective liaison between the reward/HR function and finance/the business at all times.

Data must be gathered and accurately interpreted. Gathering of data on issues such as market pay rates and inflationary pressure, and interpreting the same is a crucial step in the process of planning, and oftentimes this consumes the most time and is a very difficult task.

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The processes must be extremely simple. The process of salary review must match very closely with the needs of the business, and there should be full clarity as far as the process's individual aspects are concerned, more so if the budget for the salary is small. It is also possible to have decision making be supported by appropriate management tools. The lessons from previous reviews must be used to make the current process stronger. There should be clear defining of responsibilities and roles, since missing clarity will lead to several avoidable problems. It is essential to ensure that the risk of other initiatives being 'crowded out' is minimised. The possibility exists that various important reward initiatives can be crowded-out by the process of salary review, yet clear planning in advance can help in avoiding or at least minimising this problem.

The compensation review process can be used as a vehicle for positive change since these arrangements could be used to support broader reward management changes if used as a vehicle for particular reward initiatives or for capitalizing on wider benefits like the opportunity to reinforce employer branding when communicating the pay award.

Business success can be easily fostered if the review procedures are effective. Though the process is an intensive effort and a highly time consuming one, all the effort and time that goes into it leads to great benefits. This is because an effective compensation review process is considered to be key for the employees' and the business's success.

3.3 SUPPORTIVE ORGANIZATION CULTURE

Let us look at some ways in which an organization can create a supportive organizational culture and environment for the employees, along with ensuring that the bottom-line improves.

Treat employees not as resources but as human beings

The aim of motivation is to make the employee do the required work by providing support. Providing support is not superficial, it runs deeper. It is about caring for the employee also as a person, not just for the employee's performance and output. In the words of Shawn Murphy (CEO of Switch and Shift), 'The 20th century viewpoint that believes people are a means to an end has run its course. We are seeing employees refusing to play by the tired rules from the previous century. They are leaving jobs to start their own work. They are leaving companies that treat them as a finite asset in hopes of finding someplace where they are valued.'

In a supportive work environment there is the recognition for an employee's aspiration for balance between work and life, there is the honouring of the promises of flexibility and a reinforcement of the trust relationship between employee and manager. Where the employees are respected by the CEOs as being not mere work resources, employees go on to attain high level of performance and iteration rates go down.

Check Your Progress

1. When does the most effective change management take place?
2. Define organizational inertia.
3. What is the task of performance management?
4. What is the key purpose of motivational leadership?

Achievements need to be acknowledge post being attained

Instead of maintaining a heavy focus on motivational incentives, there must be goals that have to be defined clearly. When these goals are met, it must be acknowledged and celebrated, since there is more power in such celebrations than in motivational incentives.

When the achievements of employees are recognized, a positive organizational culture gets created in which employees are encouraged to excel at their jobs. For example, when a person is the recipient of praise for a job well done, the person will strain to maintain that level of performance and better it, too.

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Provide autonomy to the employees

When creating a supportive foundation, it is essential to begin to trust the employees to utilize their hours at work to achieve their set targets.

To quote a research printed in the *Psychological Science*, 'even the least powerful employees will commit to finding ways to make their organization more efficient if given the autonomy to make decisions and execute the improvement measures they find most useful.'

It is essential that the employees feel that they are not being micromanaged but rather have been empowered and this can easily be achieved via providing then a strong sense of autonomy.

Inclusion of families in the business

All employees deserve and even strive for maintaining some reasonable balance in their work and life. This can be provided to them by having flexibility during normal workday hours so that they can participate in family events that might arise, like events related with the school of the children, appointments with doctors and so on. Workplace flexibility which leads to work/life balance enables employees to be more engaged and productive and enjoy better mental and physical health.

Treat the employees just as though they were family

Generally, an employee spends an average of 1,950 hours in a year with co-workers, which is more than that which is spent their own families. While an article in the *Harvard Business Revie*w of 2014 opines that a business is not a family but a team. Yet, it is seen that people working in close proximity do soon become just as family and become each other's support system. Such ties must be taken into account while building a company that is growing and while hiring potential long-term employees.

Ensure that all fear is removed

The work environment for the employees must be such that the employees are not all the while scared that they will continue to be judged by their past mistakes. A good supportive environment is one in which employees try and are not scared of what will happen if they fail. When they have this confidence, employees tend to become surprisingly able and innovative.

3.3.1 Strategic Core Competencies in Place

Let us study core competencies.

Core Competencies

For a company, its core competency is the deep proficiency which it has and which helps it to provide its customers that unique value and maintain a sustainable competitive

Core competencies: It refers to the deep proficiency which a company has and which helps it to provide its customers that unique value and maintain a sustainable competitive advantage.

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advantage. The core competency comprises the collective learning of the entire organization, especially those associated with how to coordinate diverse production skills and integrate multiple technologies. The core competency enables an organization to branch into a wide variety of related markets. When a company is working with a core competency, it becomes extremely difficult for others to procure or copy it. When a company understands core competencies, it is able to make investment in such strengths which make it stand apart from others and it also sets such strategies which bring together the entire organization as unified whole.

Companies use core competencies for:

- Designing of competitive strategies and positions which will capitalize on their corporate strengths.
- Unifying and bringing together the organization's functional and business units as also improving skill and knowledge transfer between them.
- Enabling the employees to fully understand the priorities of the management and to implement them.
- Using technology to implement business processes.
- Making resource allocation decisions.
- Making decisions pertaining to partnering, divestment and outsourcing.
- Broadening its innovation domain, creating new services and new products.
- Inventing new markets and speedily getting into the markets that are emerging.
- Enhancing of the organisation's image along with furthering customer loyalty.

The following actions need to undertake by an organization that wishes to develop its core competencies:

- Glean out the key abilities and work on them to make them strengths that run across the entire organization.
- Maintain a constant comparison with other same-skill organizations so that it can continue to develop unique capabilities distinct from the competitors.
- Understand what capabilities its customers value and invest in developing and sustaining them.
- Undertake competence building with goals that follow a clearly defined organizational road map.
- Undertake licensing arrangements, acquisitions and alliances to further the strengths of the organization in its core areas.
- Be encouraging of involvement and communication pertaining to core capability development throughout the organization.
- When the business is redefined and the management expands, ensure that the core competencies are not lost.
- Outsourcing or even divesting of all of the non-core capabilities will help to free the organization's resources which then can be diverted to further the core capabilities.

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Core Competency Theory of Strategy

The theory of strategy, which is referred to as the core competency theory, is the strategy that is used to define actions that should be performed to obtain competitive advantage in the marketplace. According to the core competency concept, organizations need to play to the strengths of the functional areas where their competency lies. A core competency has to add value for the end user/consumers who benefit from it. Companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm.

Firms have specific core competency areas, for example, technical superiority, superior customer relationship management, or even vastly efficient processes. An organization can make use of its core competency in various products and markets and this area of strength provides value addition to its consumers. It is essential for an organization to not give undue focus on such areas that it does not have competency in, but rather to nurture its core competencies and to build its business around these competencies. The organization must leverage its core strengths, furthering them and taking full advantage of them.

3.3.2 Frequent, Two Way Communications

In every organization, communication is of prime importance, for the smooth running of the business and organizational success. Clear, good communication within the organization also leads to motivated and loyal employees. Organizations with missing or poor communication face issues like lack of innovation and creativity, customer dissatisfaction, absenteeism, high level of defects, high rate of turnover, to name a few. Where there is appropriate amount of communication, it will lead to the creation amongst the employees of self-worth and a sense of belonging, which in turn will result in a fall in the rate of absenteeism and turnover.

With two-way communication, the seniors know what the juniors think and where they are coming from, and the juniors also understand the point of view of the seniors. The same is the case with peers interacting with one another or the employee's communication with their clients, be they internal or external.

Here are the main types of two way communications which can take place within an organization:

- Upward communication
- Downward communication
- Diagonal communication
- Horizontal communication

Two-way communication performed in the various ways listed above is capable of serving a different purpose and several messages can be sent via these communication by adopting various ways. Let us look at the above mentioned four forms of communication in brief.

Upward communication: This communication occurs when persons at the lower level in an organization communicate with those at a higher level. Such communication is used, for example, to glean what changes need to be implemented within the organization. It can provide a clue to the satisfaction levels within the organization. This type of communication could also take place basis a work situation.

Downward communication: Downward communication is conducted from the higher levels within an organization to its lower levels. One example of a manager assigning the various tasks to the team leaders, even the development of training programs for communicating organizational safety is an example of downward communication. Downward communication could be used by higher levels to communicate pay change, etc.

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Diagonal communication: In diagonal communication, we can take the example of interdepartmental communication which takes place amongst people at different levels of the organization. For example, the marketing manager speaking with the human resources assistant about his requirement for more persons in marketing.

Horizontal communication: In this form of communication, people at the same level (peers), communicate with each other. For example, the marketing head speaking with the finance head about the advertisement budget. Horizontal communication generally takes place for the purpose of interdepartmental work co-ordination.

3.3.3 Strategic Staffing Plan

When an organization is implementing a strategic staffing plan, the decisions enable it to account for and organize for demands that arise for personnel without pushing the organizational vision and goals to the back burner. On the other hand, the strategic staffing plan also aligns the objectives of the organization with type and number of personnel which are required to be hired and retained for achieving and sustaining the set objectives.

Process of Strategic Plan

The process of strategic plan is one which is employed across several different business aspects. The strategic plan approach enables one to clearly look at and plan out actions which will set the organization on a path which will reach it to the desired place from the current position. Once the objectives have been defined, it is time to make an assessment of the present situation. It is now time to ascertain the limitations and opportunities (external as well as internal), which are capable of hampering the attainment of the objectives or help in advancing towards them. The next step is to create action plans for the objectives, followed by initiating the actions.

Recruitment

It is essential to have strategic staffing plans so that the needs of the company can be met by attracting the appropriate personnel. At the time of analysis, one must evaluate the required staffing positions and, more importantly, the staff traits, qualities and criteria necessary for attaining the organization's objectives. It will enable in recruitment pool expansion and also targeting of the right applicants to attain the goals of the organization.

Retention

After bringing in the appropriate personnel, it becomes essential to retain them. In the analysis segment of a strategic plan, there is the ability to assess procedures to keep personnel on the roll while examining the skill levels required to attain the objectives of

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the organization. In the action and implementation stage, factors such as employee training and development are evaluated which help to attain the necessary requirements of skills and growth. It is also possible, at this stage, to explore and execute ideas to help manage common life-work obstacles which are an obstacle to retention.

Budget

A budget is an estimate of income and expenditure for a set period of time. The time period for a budget is a short-term one and so the plan is also a short-term one. Generally, budgeting comprises the act of determining the required staff levels and the costs associated with that specific budget cycle. With a strategic staffing plan it becomes possible to analyze and implement long-term strategies for the type, cost and volume of employees required to meet company objectives.

Staffing Strategies for Growing Companies

Let us now look at staffing strategies for growing companies.

Single or multiple strategies

Having one comprehensive strategy does not serve as a blanket policy which can take care of staffing issues related to all aspects of the business. With multiple strategies, it becomes possible to handle the various needs and required focuses associated with specific departments and specific areas. All of them will comprise long-as well as short-term plans which will be in line with the goals for growth set for the organization. Generally, a long-term plan is made for a five years period and it identifies and proactively addresses critical staffing issues during the duration of several periods of planning. A short-term plan is used for gleaning actions which will address strategy objectives for any single given period of planning. For each strategy, its benchmarks are for measuring the results and decide when there is need for small or even large modification in a short-term plan or strategy.

Strategic Planning Perspective

While always maintaining a long-term perspective is not easy, but a move to a short-term focus will make the staffing move reactive instead to proactive. Those plans that work well with a narrow focus will not work in the long-term, and this is truer when the business is on the path of growth. To take an example, if there is a huge backlog of administrative work, it might be a good idea to hire some more personnel to tide over the problem, but this will put an unnecessary burden on the budgets since these persons might not be of actual usefulness in the long term. So, such a plan is not a good one for the long-term.

Staffing Strategies

Appropriately handling long-term staffing needs spanning multiple periods is only possible with planning at a high level. To take an example, in a management-oriented staffing strategy which spans a period of five years, there might be a plan to use internal promotions to cater to 65 per cent of the hiring requirements while only 35 per cent will be fulfilled by external candidates. Programs for employee training and development will augment the existing skills of the employees and also increase versatility through teaching new skills.

Creativity Incorporation

Thinking outside-the-box helps to tackle the problems that arise for growing businesses as far as finding and attracting quality applicants is concerned. One idea could be to collaborate with educational institutes to set up an internship program which could provide a long-term option for filling vacancies as they arise. As an alternative, it could help to take on for project basis independent contractors who have specific technical skills, going in for outsourcing or taking on temporary personnel to handle emergencies.

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3.4 EFFICIENT DECISION-MAKING

Let us now discuss efficient decision-making in an organization.

Although it is true that that value of a company will not be more or less than the sum of the decisions made and implemented by it, till the organization (its managers and executives all across the organization) does not make and implement the decisions that are right for it, the organization's structure, capabilities and assets will be merely useless.

When a complex organization needs to make sure that correct decisions are being made and implemented, it must first make sure that all the roles and responsibilities for making and executing critical decisions are clear and for this, the complex organizations will have to be broken down into manageable pieces. One effective way to know what the important decisions for a company are is by looking at the sources of value in the business and organize the macrostructure around these sources of value. Further, it has to be remembered that when big changes have to be brought about, these changes have to be followed with several and many small changes.

When an organization's reorganization is to be decision-driven, one challenge is determining what exact authority is required by the decision makers for good decision making and efficient execution of the same, irrespective of their organizational status. When there is even the slightest change in the structure of the organization, it will have to be followed up with corresponding modifications in the decision roles, incentives, information flow, performance metrics and processes.

It is also essential to provide aid to the managers for them to develop such skills which are required for constant quick decision making and implementation. It is a good decision on the part of an organization to weave together the capabilities of an individual for the demands for decision making in the organization. Such organizations invest when required to empower the decision makers with such skills that will be required to constantly make and implement the correct decisions quickly.

Adjusting to New Structures

When a new strategy is to be implemented or an existing one has to be executed in a new way, there will be a need for micro-changes as well as macro-changes to the structure of the organization. Change in the structure will come with new boundaries being created which could be difficult for people to cope with, which could make is difficult to carry on with effective decision making. For resolving such a problem, it might become essential to overlay the new company structure with those connections which could aid the people to move beyond the boundaries that have come up.

Check Your Progress

5. What is a core competency?
6. Why is it essential to have strategic staffing plans?

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Having parallel decision-making authorities seems to conflict with the principles of clear accountability and simplicity, yet is creates a process that is a more streamlined one. Organization overlays bring in valuable expertise which is not easy for formal structures to accommodate. With them, only few people can be part of the process of making critical decisions and implementing the same. This effectively decreases how many decision nodes there are.

It is essential to remember that in a growing organization, the speed of decision-making is a defining characteristic for efficient decision making. Speedy decision-making can be imbibed and made a habit via prolonged, proactive effort to develop it. As mentioned above, the speed has to be attached with both making of the decision and its efficient implementation. It is said that if a good plan is executed aggressively today, it is better than a perfect plan that will be ready for execution only after a week. What is of final importance is when the decision is made and not so much what the decision is.

It does not mean that each and every decision has to be made with speed, some need more information since they are more critical and complicated. Same is the case with decisions that are reversible, and those that will cause harm when they are poor or badly implemented. Then again, there are decisions that do not have to be made immediately to keep the organization on the path or growth. It is important to understand that, 'Deciding on when a decision will be made from the start is a profound, powerful change that will speed everything up.' Essentially, organizations must internalize how irreversible, fatal, or non-fatal a decision could be. It is not essential that a single leader make every decision. Input must be taken from the affected team, and a final decision arrived at in such a manner that clearly depicts that all input and perspectives have been considered. This strategy helps to arrive at the right decision faster, and also obtain the team's buy-in.

Decision Execution

All actions, other than those on the critical path, do not have to be taken immediately. To judge, it is essential to question, for example: 'Why can't this be done sooner?' if such questions are raised habitually, reliably and methodically, the organization's speed can be impacted to a huge extent. Essentially, it is good to understand that for tasks to be completed and actions to be taken, generally 'today is better that tomorrow, and now better than later.' Along with fixing deadlines, it is also important that for an actionable item all the dependencies be teased out and tackled aggressively. That which can wait, should be allowed to do so while handling more critical jobs. The good way is to have people work in parallel rather than take the serial approach. People gravitate to assume dependencies even when none exist.

A leader can change serial dependencies into parallel action by radically accelerating things through insert self at different points in a process. A leader's job is also to recognize non-dependencies and dependencies, and take action on the basis of the criticality and due date of the same. A project could be extremely complicated leading to everything else coming to a stand-still. So, if large parts of such a project can be completed early, the overhead of the remaining project a can be decreased by as much as 90%. These opportunities exist and need to be recognized and grasped.

Urgency can be added to a decision by remembering that there is competition, but this should be carefully done. The speed of the decision and implementation should not be due to panic, neither should the implementation be done in a paranoid manner. An organisation has to make decisions on the basis of whether it wants to be the one others react to or if it wants to be itself reactive to the market.

After a decision is make, the next task is convincing others that the decision is right and here it is essential to understand that one is, in this case, possibly just dealing with one person, for example, another company or vendor. The organisation can provide this person what he wants while at the same time getting what the organization wants. Yet, there has to be a logic for putting forth that argument. Whichever route is chosen, it is essential to back up the decision with logic.

The best weapon to counter inertia are questions and this also leads t working smart instead of hard. While to some extent speed compromises quality, slowing down leads to a loss of competitive advantage.

3.4.1 Full Delegation and Accountability

Delegation and accountability go hand in hand, without accountability, delegation is bound to fail. With delegation, it becomes possible to accomplish more tasks in lesser time. Delegation also helps to build team capability. Let us look at what steps can be taken to accomplish successful delegating. Here are the six steps one should work through when delegating:

Prepare

Expectations from the task must be clearly told to the task doer. The expectations should be well thought out and should not keep changing. It will not be possible to deliver good results if the delegated task is not thought through. What is required as the result has to be clearly thought out.

Assign

While assigning a task, ensure that it is clear to the doer what the timing, budget, context, etc. are. Also, expectations have to be set for the communication of the progress of the task, how frequent the updates to progress have to be communicated and what the format and frequency of the same has to be.

Confirm understanding

Once the requirements of a task have been communicated, it is essential to ensure that the same have been clearly understood. Clear understanding of requirements is a key determinant of the task being performed as expected. One can know if the task has been understood by asking the person to paraphrase the requirement.

Confirm commitment

It is essential that the employee be asked if they are willing to commit to the task assigned to them. Oftentimes it is just assumed that since they have been given the task they will accept it. Commitment on the part of the employee will show that the task has been successfully handed over. The commitment has to be to the expected result, laid out process, tools, budget, timelines and the alignment of the goals of the employees with the goals set for the task. The employee must also be aware of the consequences for self, team, company if the task fails on any of the commitments.

Refrain from 'reverse delegation'

It should not be necessary for a manager to end up performing a task that had been delegated by him. If it happens, the reason could be that the preparation was done in a hurry before delegation, and the employees have faced problems that has not been addressed during the pre-delegation preparation stage. In case an impasse is reached by an employee while performing a delegated task, it should be considered a learning opportunity and the employee should be provided all support and knowledge to perform the task on his own. This will make the employee capable of handling this task and similar tasks in the future.

Ensure Accountability

Delegation of a task to an employee makes him accountable for all aspects of the task, be it deadlines, appropriate communication, end result, process, documentation, and such. When there is accountability of all aspects all along the implementation duration, it will be possible to catch any problems that are happening and foresee any that might arise and handle them timely and appropriately. This will lead to the task being completed in the desired manner.

3.4.2 Team Based Environment

In a workplace, it is essential to have a team based environment so that tasks can be accomplished with ease since members of a team have common goals and complementary skills. One can define a team via its goals, culture and composition.

When an organization functions in a team based environment, it maximizes its human resources. Every member in a team gets helped, coached and led by every other member in the team. All the members will be affected by the failure/success within the team, and not only the individual within the team. Failure is taken to be a learning opportunity. Since an individual is not blamed for failure, team members feel the courage for taking a chance. As with failure, success is also felt by all the members of the team. This pushes the team to strive for higher success. Teams, compared with individuals, accomplish superior output even in the face of odds because a team has a synergistic effect which helps them outperform a group of individuals.

Within a team there is continuous improvement. Individual and personal motives take a backseat to the goals of a team. Team environment refers to the environment in which a team functions. The environment is made up of three elements:

- Team's composition (people and skills in the team)
- Team's culture (team's shared values)
- Team's goals (the aims that they are looking to accomplish)

Definition

According to Booz and Co. partner Jon Katzenbach and McKinsey partner Douglas K. Smith, 'A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable.' For a good team based environment, it is essential to have the following five within the teams:

- Clear definition and purpose
- Compelling goal
- Complete skill set to achieve a set task
- Relevant resources
- Available advice and training

Creating a compatible environment for the functioning of teams within an organization must also be followed with teams being designed carefully, taking care of the task characteristics, team size, team composition and team roles.

3.4.3 Performance Management Program

Generally, performance management is looked at in the human resources context. But, nowadays, it is a better idea to also add to it the angle of the organizational outcomes since an individual's performance impacts that of the organization and an organization's performance impacts the individual's. These two perspectives together will lead to greater success of the performance management programme.

When there is *continual progress, it will have a positive impact on the key indicators of the business.* An organization's strategic plan along with the planning process form the appropriate tools which are required for performance management. In them lie the changes required for a positive impact on the key indicators and showing the importance of changes. If there is no clear strategy, different organizational units will have their own agenda, and the improvement efforts will be unfocused and un-coordinated. It is to say that it is the strategic plan which defines why and how the performance management goals will be attained. Let us look at how the performance management program can be a success.

Better Performance is driven by Components of Strategic Planning

Better performance comprises of improved execution, improved growth strategy and innovation. For there to be better performance on a sustainable basis, the strategic plan needs to contain the best possible combination of these three. It can be achieved via two assessments: strategic and internal.

In strategic assessment the threats and priority opportunities to the business's innovation/growth are examined. Its outcome will be a list of executable strategies for growth. Internal assessment defines priority opportunities for better performance via better quality, better consistency, lower cost, better fulfilment, better systems, better morale, better leadership, and so on. Together, they provide the strategic or change agenda which will help to quickly attain better performance, implying that there is now a change agenda for performance management.

Using the Strategic Plan for Performance Management

After defining the change agenda all that is left is to get there. This can be accomplished with the help of the metrics and accountability tools. As far as it can be done, ever project of the strategic plan must comprise a measure/metric which will show if the

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chosen strategy is succeeding or not and whether or not the projects are working. Resources should be moved from the projects that are not working to those that are.

The strategic plan must have accountability. On every strategic and internal project on the plan, there must be milestone outcomes/tasks, due dates, person responsible for completion. The following two keys must be used to raise the rate of completion of the tasks:

- Maintain high visibility on the progress of the strategic plan
- Hold people accountable for their delivery promises basis the plan

Metric and accountability entails the team coming together and assessing progress. Having a strategic plan in place and regularly monitoring and discussing it is key to successful performance management.

Other Components of Performance Management

While a strategic plan is a vital tool, it is only one of the tools of performance management. The strategic plan sets the performance agenda, helps manage the agenda and measures the success of a strategy in performance improvement.

Some of the other performance management tools are given below.

- Balanced Scorecard/Instrument Panel for the measurement of the overall performance metrics
- Process Improvement
- Strong organizational structure that can support efficient workflow
- Production statistics for all employees and organizational units within the structure
- Incentives and rewards organization-wide and foe employees for improved performance

3.5 CHANGE MANAGEMENT TOOLS, SUPPORTIVE SYSTEMS AND PROCESSES

As you learnt earlier, in an organization, the process of change management is used to manage any change in the business process, culture and/or structure of the organization. The business environment is ever changing and so are the expectations of the customers. Even the marketplace is by nature volatile. Therefore, to better cope with it all, it is imperative that there will be changes in an organization's business process. Change in organizational structure and the culture aid organizations to cope with change in business processes. When organizational change is efficiently managed, it becomes easier to handle business process transformation and provide a dynamic outlook to the organization.

Key change management tools

Even though change management processes might vary, the change management tools for them all are common. A change management process can be implemented only with the aid of change management tools and these tools, as already stated, are common

Check Your Progress

7. Define team.
8. What does better performance comprise of?

to all change management processes. Generally, there are three types of change management tools:

- Strategic tools
- Analytical tools
- Planning tools

At the start of the change effort, it is the strategic tools that are mostly used. Strategic tools comprise: researching, assessing and strategizing. With analytic tools, it becomes possible to picture, quantify and measure change. With planning tools the organization is able to organize and carry forward the change effort.

Let us begin with looking at strategic change management tools which focus on researching, assessing and strategizing.

1. Assessing Organizational Culture

Organizations have their own distinct culture. They are ground on which the change has to be worked. The change effort has to be tailor made for the specific organizational culture and while some organizational cultures are more open to change, others not so. The information gathered at this stage will be factor that helps in the selection of the tools and processes that will be employed for implementing the change.

2. Assessing Change Readiness

There are times when assessment of the organizational culture also comprises assessment of change, but it could be also done as a standalone assessment. It is essential to distinguish a culture that is open to change from one which is ready for change. The focus of the change readiness assessment in on an organization being ready for change not one open to change. The tools aid in creating a timetable for change and fixing how much change can be handled by the group.

3. Network Mapping

With the network mapping tool it becomes possible to identify the politics and relationships of the group. The results of this help to shape strategy and the internal communication and marketing plans.

To take an example, the tool will depict who are considered by the people to be:

- Change agents
- Collaborators (Communicators)
- Influencers
- Leaders
- Subject matter experts

Historically, a general network map can be developed with the help of employee surveys and interviews. In the present times, there are several software options that are available that gather data through online questions and employ data analytics. Whatever be the method employed, it is important that the correct questions be asked and proper data analysis conducted.

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4. Strategy for Change Management

An indispensable, though common change management tool, the change management strategy, is helpful in three key ways as it provides guidance for:

1. Selection of the right change management process
2. Use of the other tools
3. Decisions that do not fit neatly into a process or tool

During any change effort, it is most difficult to have a plan in place for each and every possible contingency. The strategy provides a direction when there is uncertainty in the mind of the employees or they are lost. Refocusing on the strategy provides the way to go.

Role of Analytical Tools for Change Management

The purpose of the analytical tools is to picture, quantify and measure the change. Analytical tools are by nature more dynamic than the planning and strategic tools. If an analogy is use to distinguish the role of the three tools, then it can be said that strategic tools design the car, the planning tools are the engine and other moving parts that move the car forward and the analytical tools are the gauges that tell what is going on.

Let us look at some of the analytical tools.

1. Flowchart

The flowchart tool provides a picture of the status of change at various points. Typically, a flowchart is employed for changes to communications, logistics, reporting and process. When flowcharts are used along with network mapping, relational changes can be shown.

2. Force field analysis

The force field analysis tool is used to assess the forces that are retarding and driving change. It also encompasses the ones that are pragmatic and objective as well as those that are subjective, cultural and political. This is a dynamic tool and is capable of depicting the present status of the forces at any point in the change.

3. Metrics

Change is measured with the help of metrics, but it is essential to choose the correct one for the specific purpose on the basis the change that is being implemented. Certain forces, which are also important, do not lend themselves to being easily measured with metrics, such as morale. Due to this, such influences which are also critical ones tend to get neglected or even ignored. Metrics even provide help to other change management tools. They are of special importance to the analytical tools.

4. Data Collection

During metrics selection, it is essential to check the data collection tools present, which include software, workflows and sensors. If the correct tools are not chosen for data collection for the metric, change will be will retarded. The tool will provide answers to such questions as the following:

- How long will it take to collate it?
- How much effort will it take to collect the data?
- How much will it cost?
- How well can we track what we are monitoring?

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Purpose of Change Management Planning Tools

Planning tools stand complementary to strategic tools and help them implement the change strategy. They complement the analytical tools by enabling users to respond to the data that the analytical tools provide. In various ways, the planning tools enable the change to move forward. Let us look at the four major planning tools.

1. Project Plan

Project plan is widely known and widely used tool. A change effort often has several project plans and these generally come up as by-products of a comprehensive change management plan. How many project plans there are will depend on the change's complexity and scope.

Generally, a project plan is worked by a project manager. A change management consultant or a program manager coordinates a group of project plans and managers and also deals with the more relational and political aspects of change.

2. Internal Communication Plan

During a period of change, communication is key and the effort will not succeed in absence of communication. Use can be made of an internal communication plan for organizing and running change. Such a plan must comprise the following:

- Assess the forms of communication available to it
- Consider the audiences
- Define what needs communication
- Determine the best way to deliver those communications
- Identify the communicators
- Include guidelines, tools and templates to help those who will write the specific communications to fulfil the communication plan
- Set timetables for those communications
- Tailor the important broad points to those audiences

3. Internal Marketing Plan

There is a marketing bend associated with some internal communication. Still, there must be an internal marketing plan since very often marketing change gets discounted or overlooked. Generally what is said is not as important as the manner in which it is said. The questions of the type given below must be answered by the plan:

- How will common objections be addressed?
- What is the name or slogan for the change?
- What is the one line description of the change?

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- What keywords should be promoted?
- What message will the change agents give?
- What support tools will the change agents need?
- Which influencers are tapped as change agents?

An internal marketing plan is much the same as an external marketing plan. Just like marketing, even change requires selling and influencing.

4. Training Plan

Generally, the requirement of a change is that people do something new. This will generally mean that training has to be taken and conducted. Every training plan has to take care of the topics, the audiences and the methods. This can comprise coaching, online courses and group settings. Such a plan must consider that people learn differently and this will change the training's very form and pace.

3.5.1 Employee Development Plans

Employee development plans that are well thought out and clearly drafted provide opportunities to employees and focused concrete direction on what they can do to further their skills and careers. While employee development plans provide the employees with skills they also provide the organizations with better resources to handle the tasks and clients. Employee developments are not just a financial burden for the organization and something that takes up the time of the employed which could have been spent doing some work for the reorganization. The outcome of these programs leaves the organization and the employee both as winners.

Let us look at what the considerations are for creating clear and effective employee development plans.

Take business goals into consideration

All objectives that are set for employees must be set after aligning the business goals/ needs with the development needs of the employees. The long- and short-term objectives of the business need to be taken into account. For example, even objectives such as a need for going digital in accounting in the next financial year and therefore needing to train some employees on the software now must be considered.

After the objectives and goals are identified, it is time to identify the competencies, knowledge and skills required to support and attain those objectives and goals. Check if employees already have the required skills and capabilities and only need to hone them or if they need to be taught the same from scratch. Companies greatly benefit from developing internal candidates to be gain skills needed for future.

The effort and time that goes into employee development save the same on new hiring and training of new personnel form outside. Also, this works as an incentive for employee retention when they have clarity of their path and can see that advancement and promotion opportunities are available via the employee development plans.

Take inputs from the employees

It should never be assumed that everything is known about the career goals and skill levels of the employees. Communication should be opened with each team member to gain input regarding their career aspirations. They should be asked to perform an assessment of their performance. They should be encouraged to talk about the challenges that they have faced/are facing. They should be asked if they feel that mentoring or training will help them work more easily and perform better.

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There could be employees who have clear career goals for themselves and also associated development goals, but have no idea where to be or if the organization will support their plans. Then again, there would be employees who are not aware that the organization sees any potential in them. There will be yet others who will easily arrive at the next stage with a little encouragement. When employees talk about their work, needs, etc., they and the organization can together decide on the role the organization can have in the plans of the employees and what opportunity the organization can provide them.

Potential/readiness

There is a vast difference between an employee being ready with a skill and one having the potential to acquire the skill. Readiness can take on several forms. It can have experience attached as also skills and desire to take on the task. For example, a person might have the skills but not the desire to take on a particular task and is therefore not ready for it. Another person might want to enter a management role, has some experience and desire but not the full skillset, he too is not ready.

It is essential to remember that all employees should move into management roles and some of them also want to do so, notwithstanding their current ability at their present position. It is essential to remember that doing versus managing are very different skills sets and devastation will happen if an employee who is not ready for a task is pushed into it.

Take into consideration every kind of training and development

When the objectives are clear, the next step is to decide how the employee will be made to acquire the identified skills. A developmental program need not be an expansive one and can be of several different types. Some of the forms are formal classroom training, online courses and self-paced learning programs.

Generally, learners will have to be engaged if they are to have an in-depth knowledge of the new skill or for acquiring new knowledge. For such learning, it might be a good idea to engage in some of the below mentioned forms of learning/training:

- Being associated with local networking groups
- One-on-one mentoring and coaching
- Working on stretch assignments and special projects
- Working with an SME (subject matter expert)

Handling pieces of the job above is a way to slowly learn and be ready for handling the job completely. This method provides the employees with less experience a chance to obtain learning and growth, and helps the organization to build a bench for internal promotions.

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Create a plan for before, during and after

After specific learning opportunities have been identified, make a plan that has timely goals. Measuring of the progress of an employee is more difficult with vague objectives or objectives without deadlines or those that are overtly broad. Then it has to be seen what it is that will make this plan work? What has to be the preparation? Is there requirement for the employee to take time off work? Will there be need for substitutes to replace them during their absence?

Prior to the commencement of the new assignment or training, it needs to be ensured that the employees understand why they are being asked to learn this new skill, what you expect them to learn and how this benefits the company and their careers. Post the training, help them apply their new skills in the workplace. A lot of money and time goes into to help employees hone skills and develop new ones. To avail the best return on investment, it is essential that employees use their learning and new skills for better performance in the organization. Opportunities need to be created for the employee to apply the skills and learning so that they can get practice and further refine and better imbibe what they have learned. Newly learned skills if not used tend to be lost.

Succession plan: It refers to a strategy for passing each key leadership role within a company to someone else in a way that the company continues to operate after the incumbent leader is no longer in control.

3.5.2 Succession Plan

Succession planning is a strategy for passing each key leadership role within a company to someone else in such a way that the company continues to operate after the incumbent leader is no longer in control. Simply put, it is a process for identifying and developing new leaders who can replace old leaders when they leave, retire or die. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available.

With succession planning an organization is able to make sure that employees are recruited and their development is so geared that they are made capable of filling each key role within the company. With this process, it can be made sure that at no point in time will there be a key role open for which some employee is not prepared and has to be filled from outside recruitment. With a succession planning process, superior employees are recruited, their abilities, skills and knowledge are appropriately developed so that they can be made ready for promotion or advancement to roles within the organization which are more challenging. For preparing an employee for the next role, the employee might be transferred to a different department and/or job, and placed in on-the-job shadowing for the employee to observe several jobs.

According to thebalance.com, ‘Job shadowing is a type of on-the-job employee job training in which a new employee or an employee desiring to become familiar with a different job, follows and observes a trained and experienced employee. Job shadowing is an effective form of job training for certain jobs.’ When succession planning is pursued actively, it ensures that employees are ready and waiting to take on new roles as they arise. Every organization, irrespective of size, must pursue succession planning. Even if a company is small or has very few employees and possibly cannot have potential successors for every role, it is still possibly to minimally cross-train the employees.

With cross-training it becomes possible to prepare employees to at least babysit the key job in case the employee resigns so that that employees responsibilities do not suffer in his absence. While it is not the same thing as a person trained for that job performing duties, yet it is better than a vacant post and works well when it is not possible to have a successor for all the roles in the company. Even in the present times, a majority of the organizations do not have a succession plan in place. There are other organizations that have verbal, informal plans for succession associated with key roles. There are organizations where senior leadership teams suggest employees who are believed to be strong players having great potential in the organization and this makes other senior leaders aware of who can be potentially reassigned or promoted or reassignment if an employee is needed for taking on a key role.

When an organization has a more formal succession plan, it actually displays a commitment for employee mentoring and development to make the employee ready for filling other positions. A succession plan lets every managers be aware of who are the key employees in all areas of the organization. The managers are then able to take into consideration these specific employees when key roles need to be filled.

Advantages of Succession Plan

An effective succession plan provides the employees as well as the employer with several advantages. Let us look at these.

Advantages for employees:

- Those employees who are aware that they are in line for the next role have higher sense of self-worth and they work as more valuable and efficient employees for the organization. This knowledge also makes the employees turn their focus to their career development more keenly and they look for better skill development from the organization.
- The employer finds it easier to identify the experiences and skills and development opportunities essential for making the employee ready for progression when required.

Advantages for employers:

- Information of the key, skilled, contributing employees within the organization is made available to all the managers across the organization and with this information managers are able to choose from many candidates to fill a position.
- The organization is able to pass on the 30-40+ years of knowledge, experience, working relationships, and information from the seniors to the newer employees in the process of getting them ready to fill higher jobs as they arise.

Develop Employees for Succession Planning

There are various practices available for developing employees based on succession planning, such as:

- Assignment to special projects
- Internal and external training and development opportunities
- Lateral moves
- Team leadership roles

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Via the succession planning process, it becomes possible to retain superior employees since they have the ability to appreciate the development, attention and time that has been invested in making them ready for higher positions. With a career path visible to employees for their continuous development and growth, employees remain engaged and motivated. The employees' developmental needs must be understood, resources focused on employee retention. The employees must be aware of the role and path chosen for them.

For effectively succession planning within an organization, the long-term goals of the organization must be identified and only superior employees hired. One thing of key importance in the process of succession planning is the understanding of employment trends in the specific area and awareness of the roles that the organization will not be able to easily fill by hiring an outsider.

3.5.3 Warding off Organization from Signs of Slowing and Losing

Even in a fundamentally solid company, there will come periods of slowdown. But it is possible for the persons in the top positions in the company can lessen the speed of the slowdown and even reverse it. For putting any action in place, it is essential to understand what pulls down large successful companies.

Law of large numbers

With the growth in size of a company, every percentage of incremental revenue is a bigger and bigger figure. With the growth in its base, the company sees that the amount of new business required for making any material difference to its earnings keeps rising, and this in turn puts more and more pressure on sales for gaining newer markets and categories and geographies. So, the larger a company, the harder it has to work.

Market maturity

This is an inhibiting factor in the growth of a company. With time, markets show patterns that are more predictable since buyers get familiar with specific brands are also loyal to them. The market gets more crowded, prices stabilize and the ability for growing via increased prices declines. There will be markets that will attain saturation point, possibly due to limited demographic growth or due to product commoditization. Together, the forces of market and product life-cycle stress the typical growth for sales and for marketing sources.

Psychological Self-protection

With a company becoming larger, it is under greater pressure to preserve its base business and its willingness to cannibalise it via innovative new offerings becomes lower. So, just when new sources of growth are required, the company gravitates to safe play with a greater focus towards adapting existing services and products over breakthrough opportunities. This provides a path for potentially disruptive competitors and hold the company back from entering that which it sees to be 'risky' territory. Together, generally these natural forces put growth down and due to this it is not surprising that successful companies have periodic slowdown.

Let us look at what can be done to counter the slowdown.

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Re-examine the business model on a regular basis

Since the forces will work the way they do, generally a company's business model will become inappropriate and should be revamped or replaced. On a regular basis, it is essential to check what is being done and how. Check whether the what and how make sense in the present and whether it is still relevant. Ask if it is possible for others to provide the same to the market in a different way. Ask if the customers can get other choices or if the needs of the customers is now different. That is to say, not only must a company keep looking at creating newer and newer services and products, but also use research and innovation for coming up with some other business model(s).

Get smaller to become bigger

Another way to handle the problem of a slowdown is to perform pruning on a periodic basis. Organizational tendency to sprout out unnecessary braches harms its health. Such branches must be pruned so that resources can be diverted to other tasks. Ask if there are any services and products that are not giving the required amount of returns. Ask if letting go of some of the customers is a better idea than holding on to them. Acting on the answers to such questions will free up resources that can be better utilized for growth of the organization and to pull it out of the slowdown.

3.5.4 Resources for Growth

In an organization, the resources can be tangible (organization's physical assets like finance, labour and plant) and intangible (organization's non-physical assets like knowledge, reputation, and information). It is possible to segregate resources into the four categories given below.

- ***Financial resources*** – These comprise resources of capital, cash, debtors and creditors, and suppliers of money.
- ***Human resources*** – These include the number and mix of people in an organization. In the case of these resources, their intangible resource of knowledge and skill is of great important.
- ***Intellectual capital***– These comprise patents, brands, business systems and customer databases, and so on.
- ***Physical resources***– These are made up of number of machines, buildings or the production capacity of the organization. The nature of these resources, such as the age, condition, capacity and location of each resource is used for gleaning the resources' usefulness;

An organization's resources could be threshold resources that are required for meeting the minimum requirements of the customers so that existence is possible. The resources could also be unique which underpin competitive advantage and cannot be easily obtained or imitated by competitors. While these types of resources are of great importance, it is also important what the organization does with the resources.

A question to ask is what threshold resources does an organization require for supporting its specific strategies? In case the organization is missing those resources, meeting the needs of its customers will not be possible. It is essential to identify threshold

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Mentoring for growth: It refers to business mentoring which involves the mentors and person(s) from the organization being mentored.

resources. In case organizations overlook them, they might have to face severe penalties since they will not have appropriate and enough resources to carry on being competitive. Nevertheless, if unique resources are identified, then competitive advantage can be gained. Unique advantages are distinctive by nature and are extremely difficult if not impossible for competitors to attain or mimic.

3.5.5 Mentoring for Growth (M4G)

Mentoring for growth refers to business mentoring which involves the mentors and person(s) from the organization being mentored. It is possible to make use of mentoring for growth by any business, be it any stage of growth or business life-cycle. It provides benefits not only to the mentored (mentee) but also to the mentor.

Mentoring for growth could be for individuals or for the organization. It is possible to attain mentoring within an organization or from friends in a formal or informal manner. There are also mentoring programs that are run by industry associations and by governments that provide industry related and industry specific mentoring for companies. Within organizations, mentoring takes place all the time. Let us look at some characteristics of mentoring:

- It occurs outside of a line manager-employee relationship, with mutual consent of the mentored and mentor.
- It will have a career-focus or will be focused on professional development that may be beyond the work area of the mentored.
- It is based on a personal relationship – the mentor gives personal well as professional support.
- It could be a relationship created by the organization. The relationship may be initiated by a mentor or created by a match made by the organization or could have been initiated by the mentor.
- It is a relationship that goes beyond job boundaries.
- It could be a time bound relationship if the mentoring program is a formal one, or could continue in an informal manner.

In the case of mentoring for growth for organizations, the mentoring is conducted by experts of the field and industry and could be for any or several areas of a business such as business strategy, management and governance, technology and intellectual property, market and export expansion, and investment readiness, to name some.

3.5.6 Getting Focus and Balance-Monitoring Growth

Once a firm has set the growth goals and objectives and developed the best strategies to pursue, it needs to turn the attention to actually implementing and monitoring the strategies as the firm moves through the changes it needs to make to achieve desired goals.

Guidelines to implementing and monitoring growth

Ensure that all employees and staff members know what is to be implemented and by when. In a successful business, it is important to:

- Ensure each stakeholder of the business knows their roles and responsibilities
- Implement a set of clear base rules to reduce the risk of personal conflict.
- Discuss and finalize expectations concerning key areas of the business
- Plan a calendar that has regular review dates set in advance
- Invite regular business meetings to ensure all people in the business spend part of their time and energy working on the business, and not just in the business

The implementation of any business growth plan should be part of the annual operating plan of the firm. The aim should be to achieve change from current practice to new growth strategies in as short a time as possible. At the same time, ensure that cash flow maintains business equity and liquidity within the set limits. Develop a process that tests, highlights and sequences the best options to maximize return on investment of time and capital and annual business profit.

Monitor and evaluate

Monitoring and evaluation of progress are the basis for continuous growth of the firm. Monitoring provides an extremely important check on the accuracy of the inputs and predictions from the analyses used to set the firm's strategic direction. It is necessary to ensure that the plan is being implemented as intended and that the changes in business productivity and profitability align with predetermined targets of growth.

Monitor the productivity and profitability of business regularly

There is generally a strong association between ongoing monitoring and feedback and the successful implementation of a plan. Continual monitoring of physical resources, performance indicators and financial outcomes provides firm with the confidence that the strategies are either on-track or need revision. The system must be attentive to weaknesses in the enterprise operation and allow the management to take the necessary corrective changes based on accurate information. This helps to reduce the risk and uncertainty about whether changes made to ensure growth are leading to positive results.

Monitor tangible and intangible resources to ensure growth strategies are on-track

Undertake sufficient monitoring to effectively update the short, medium and long-term objectives from the results of the previous year. It also makes sense to review the strategic direction periodically in relation to changes that have occurred in technology advances, product development, and policy changes.

Manage the risks

Risks associated with implementing a new strategic direction in the growing firm can be managed by carrying out the below mentioned procedures. The main risks of transition are related to the failure to gain a higher profit from the firm restructuring. To ensure success, the following points need to be kept in mind:

- Management needs to have the knowledge and skills to manage change
- Implementing the transition plan in a logical sequence leads to greater productivity

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- Investments must be scheduled in the highest order of rate of return on investment
- Business changes are planned to control cost and maximize returns

Monitor key performance indicators

One needs to monitoring key physical and financial performance indicators that impact the enterprise, remembering that:

- Lag indicators can only be seen after the event and are more closely related to the ultimate measure of performance and return on assets (RoA). Examples of these include return on assets, cost of production and equity change.
- Lead indicators can be used in real time or before the event, with the aim being to track progress and reduce the impact of unforeseen events. These will be related to return on assets to varying degrees.

Hence, it is not only essential to plan growth strategies, a firm need to equally focus on monitoring the growth path and ensure affirm has health, focused and balanced growth.

3.6 SUMMARY

Some of the important concepts discussed in this unit are:

- There are several reasons that cause the failure of an organizational initiative, such as a flawed strategy and imperfection execution. Nevertheless, a majority of the time, there is a failure of initiatives due the shortcomings of organizations and people.
- One can define organizational inertia as being the tendency of a mature organization to continue on its current trajectory. This inertia can be described as being made up of two elements — resource rigidity and routine rigidity.
- The forces of inertia comprise:
    - o Cognitive schemata
    - o Internal political constraints
    - o Organizational culture
    - o Strategic commitments and capabilities
    - o External institutional constraints
- There is need for well-defined and well thought out processes and systems for the successful implementation of the strategy and business plans of an organization.
- The task of performance management comprises the creation of organizational capabilities and associated processes which are imperative for achieving performance through people delivering results.
- For a company, its core competency is the deep proficiency which it has and which helps it to provide its customers that unique value and maintain a sustainable competitive advantage.

Check Your Progress

9. Why is the process of change management used?
10. List the types of change management tools.
11. What is succession planning?
12. What are the types of resources in an organization?

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- The theory of strategy, which is referred to as the core competency theory, is the strategy that is used to define actions that should be performed to obtain competitive advantage in the marketplace.
- When a complex organization needs to make sure that correct decisions are being made and implemented, it must first make sure that all the roles and responsibilities for making and executing critical decisions are clear and for this, the complex organizations will have to be broken down into manageable pieces.
- In a workplace, it is essential to have a team based environment so that tasks can be accomplished with ease since members of a team have common goals and complementary skills.
- The process of change management is used to manage any change in the business process, culture and/or structure of the organization.
- Analytical tools are by nature more dynamic than the planning and strategic tools.
- Employee development plans that are well thought out and clearly drafted provide opportunities to employees and focused concrete direction on what they can do to further their skills and careers.
- Succession planning is a strategy for passing each key leadership role within a company to someone else in such a way that the company continues to operate after the incumbent leader is no longer in control.
- Once a firm has set the growth goals and objectives and developed the best strategies to pursue, it needs to turn the attention to actually implementing and monitoring the strategies as the firm moves through the changes it needs to make to achieve desired goals.

3.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. It has been seen that the most effective change management happens where the senior leaders are agreeable on the goals and means of change and they follow it with sending out a consistent message to the employees, one layer at a time, all across the organization.
2. One can define organizational inertia as being 'the tendency of a mature organization to continue on its current trajectory. This inertia can be described as being made up of two elements — resource rigidity and routine rigidity.
3. The task of performance management comprises the creation of organizational capabilities and associated processes which are imperative for achieving performance through people delivering results.
4. The key purpose of motivational leadership is to concentrate on attaining sustained performance via personal growth, values-based leadership and such planning which has an understanding of human dynamics.
5. For a company, its core competency is the deep proficiency which it has and which helps it to provide its customers that unique value and maintain a sustainable competitive advantage.

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6. It is essential to have strategic staffing plans so that the needs of the company can be met by attracting the appropriate personnel.
7. A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable
8. Better performance comprises of improved execution, improved growth strategy and innovation. For there to be better performance on a sustainable basis, the strategic plan needs to contain the best possible combination of these three.
9. In an organization, the process of change management is used to manage any change in the business process, culture and/or structure of the organization.
10. There are three types of change management tools:
    - Strategic tools
    - Analytical tools
    - Planning tools
11. Succession planning is a strategy for passing each key leadership role within a company to someone else in such a way that the company continues to operate after the incumbent leader is no longer in control.
12. The types of resources in an organization include:
    - Financial resources – These comprise resources of capital, cash, debtors and creditors, and suppliers of money.
    - Human resources – These include the number and mix of people in an organization. In the case of these resources, their intangible resource of knowledge and skill is of great important.
    - Intellectual capital– These comprise patents, brands, business systems and customer databases, and so on.
    - Physical resources– These are made up of number of machines, buildings or the production capacity of the organization. The nature of these resources, such as the age, condition, capacity and location of each resource is used for gleaning the resources' usefulness.

3.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is organizational inertia?
2. List the essential elements of strategy realization.
3. What are the main types of two way communications?
4. What do you understand by the term 'retention'?
5. Write a short-note on an organization's team based environment.
6. List some of the tools of performance management.

7. What are the advantages of a succession plan?
8. Write a short-note on mentoring for growth.

Long-Answer Questions

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1. Describe the forces that organizational inertia consists of.
2. Examine the ways to achieve a competitive compensation program.
3. Discuss the ways in which a supportive organizational culture can be created.
4. What is a company's core competency? Discuss the theory of strategy.
5. Discuss how an organization implements a strategic staffing plan.
6. Examine in detail the different types of change management tools.
7. Discuss the guidelines for implementing and monitoring growth.
8. Explain how effective employee development plans can be created.

UNIT 4 SYNCHRONIZING FOR GROWTH

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Structure

4.0 INTRODUCTION

Synchronization stands for the procedure of accurately coordinating two or more activities or processes in time. The term 'growth' implies change. Now, let us understand synchronization for growth in the context of the business environment. Here, it implies harmonizing, aligning and synchronizing internal and external actions, plans and methods in an organization to improve its performance and competitiveness in the global scenario. In this unit, you will study about the importance of synchronized effort in the business environment, Greiner's model of Crises Induced Growth, management of concept 'growth fatigue', managing the momentum of growth and the creation of high growth road map.

Synchronization: It is the procedure of accurately coordinating two or more activities or processes in time.

4.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Interpret the importance of synchronized effort in the business environment
- Discuss Greiner's model of Crises Induced Growth
- Explain the management of concept 'growth fatigue'
- Know how to manage the momentum of growth
- Analyse the high growth road map

4.2 SYNCHRONIZED EFFORT

Industries emerge and business organizations grow when vital elements such as business organization strategy, technology, investment, supply networks, production markets and government interact with each other for growth and their efforts are synchronized. Synchronization is defined as coordination of multiple business elements so that they

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reach a particular stage simultaneously and contribute to growth of a business organization and allow an industry to emerge. Inventors and business organizations can benefit from better understanding of multiple elements influencing the progress of their technology. Investors can make better informed decisions about their funding of business organizations and policy makers can coordinate their efforts with inventors, investors and strategists.

4.2.1 Directing the Growth–Resource Mix

A business organization positions itself in the industry and uses a right resource mix to support its stand in the market. When business organizations enter the market they search for the apt opportunity and once they are established they set standards in the market. For example, Intel in microprocessor chip industry and Honda in automobile industry. Business organization begins to compete for market share as the industry grows. The business organizations focus shifts from product to process innovation and they focus on operational effectiveness through the right resource mix.

Business organizations need to focus on the following aspect for driving growth:

- **Technology:** The process of technological development begins with research, followed by creation of working model of the technology and leading to the deployment and functional use of technology.
- **Investment:** Investment is the lifeline of research, technology, innovation, value chain and commercialization of any product. Investment provides the business organization an opportunity to grow by supporting various ventures. Availability and sourcing of finance defines the success of corporate strategy and growth of the business organization. In the initial phase, entrepreneurs begin a new enterprise with their personal finance and this process is known as bootstrapping. However, as the business grows, business organizations find angel investors and venture capitalists.
- **Supply Networks:** Supply networks are essential for the business organization to collaborate and help in the expansion of the business. Supply networks in the form of raw materials, distribution channels and technology partners influence a business organization's market growth, strategy and development of product and production process.
- **Production:** Production or action of manufacturing goods transform ideas or research discoveries into tangible products. Business organizations need a larger range of production capabilities, as business organization grows in order to make their products. Development of new products is also essential to attract investment from the market.
- **Markets:** Development of markets is essential for business organizations to grow. Creation of markets for new products depends on the technology at hand and potential customers. The most important characteristic of the market is the level of adoption, in order for users to appreciate the value of the product. Apple was successful in creating huge market for IPhone based on the level of adoption.
- **Government:** The governing entity of the nation influences the direction and pace of the growth of industries and business organizations. Government

is most likely to provide infrastructure for the development of technology and markets. As industries grow, government provides research support and focus on ways of addressing the upcoming challenges. Protection of intellectual property is also required for the business organizations in the new emerging technological environment.

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Resource mix: It is the optimal of mix of resources possessed by an organization which a pivotal role in its functioning.

Resource Mix

A business organization's resources and capabilities are the fundamental building blocks that define its growth. In directing growth, it is essential for the managers to take the stock of their business organization's full competencies in the form of resources and capabilities.

Resource is a productive input or competitive asset that is owned or controlled by the business organization. Some resources are more competitively valuable in comparison to others. For example, in the case of Coca-Cola, a company's brand is a resource with enduring value.

*A **capability*** is the capacity of a business organization to perform some internal activity competently. Capabilities vary in the form of quality and competitive importance. Apple's innovation capabilities are considered far superior to those of its competitors.

Types of Resources of a Business Organization

Broadly, the resources of the business organization can be divided into two main categories: Tangible and intangible resources.

Tangible resources are those which can be touched and readily quantified. This largely includes business organization's physical resources, financial resources, technological assets and organizational resources.

- **Physical resources**: Sophistication and location of a business organization's plant and equipment, distribution facilities, product inventory, land and real estate, equipment and distribution facilities and access to natural resources are a business organization's physical assets or resources.
- **Financial resources**: A business organization's capacity to borrow and generate internal funds constitute its financial resources. This includes cash, marketable securities and other assets like business organization's credit rating.
- **Technological resources**: Stock of technology, such as patents, trademarks, copyrights, technological process and trade secrets are identified as technological resources.
- **Organizational resources**: Formal reporting structures, IT and communication systems and planning, control and coordination system form a part of business organization's organizational resources.

Intangible resources are difficult to discern as they do not have their physical existence and are often embodied in something material. Intellectual capital, brands, relationship and business organization culture are considered as intangible asset for the business organization.

- **Human resources:** Knowledge, trust, skills, collaborative abilities, experience, knowledge, cumulative learning, managerial talent and leadership skills form the human assets of the business organization.

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Management Information System (MIS): It is a collection of information management methods involving computer automation (software and hardware) or otherwise supporting and improving the quality and efficiency of business operations and human decision making.

- **Relationship and alliances**: Joint ventures, partnership, technological collaboration, specialized know-how and networking with stakeholders is a valuable asset for the business organization.
- **Reputational resources:** Brand name, perceptions of a product's quality, durability, and reliability, loyalty, goodwill and positive reputation with stakeholders are a part of reputational resources.

Capabilities

Capabilities develop with the passage of time through complex interactions among tangible and intangible resources. Capabilities are activities that a business organization performs exceptionally well in comparison to its rivals through which a business organization adds unique value to its goods or services over an extended period of time

Capabilities exist when resources have been purposely integrated to achieve a specific task or a set of tasks and are often developed in specific functional areas.

- Distribution: Effective use of logistic management technique, for example, Walmart's supply chain provides it a competitive edge.
- Human resources: Motivating, empowering and retaining employees. Apple supports their employees to innovate and Google provides the world's best working environment to its employees.
- **Management Information Systems** (MIS)–Effective and efficient control of inventories.
- Marketing: Effective branding, promotion and innovativeness in marketing strategy. For example, Procter and Gamble has been constantly reinventing and promoting its products in the fast moving consumer goods industry.
- Management: Ability to envision the future. Example, Zara takes a fashion lead by managing an effective store and designer management.
- Manufacturing: Product's design and quality. Example, Sony maintains superior quality and design of its products.
- Research & Development: Innovative and cutting edge technology. Example, Intel stays ahead of its competitors in chip market by continuously engaging in R&D.

  All resources that an organization has may not have strategic relevance. Only certain resources are capable of being an input to a value creating strategy which put the organization in a position of competitive advantage. An organization's resource should have four attributes to provide the potential for competitive advantage. These form the VRIN characteristics. VRIN stands for:

  - Ø Valuable
  - Ø Rare
  - Ø Inimitable
  - Ø Non-substitutable

Let us now study these characteristics briefly.

- **Valuable:** When resources are able to bring value to the business organization they can create competitive advantage.
- **Rare:** Resources have to bring an exclusive strategy to provide a competitive advantage to the business organization as compared to the rival business organizations. Consider the situation where a resource is valuable but it is possessed by the competitor business organizations as well. Such a resource is not rare to provide competitive advantage.
- **Inimitable:** Resources can be a basis of sustained competitive advantage if competing business organizations cannot obtain them. When a resource is valuable and rare but the competing business organizations can copy them easily then such resources have no competitive advantage.
- **Non-substitutable:** Resources should be such that they cannot be substituted by any other strategically equivalent valuable resources. If two resources can be employed separately to implement the same strategy then they are strategically equivalent. Such resources are substitutable and so do not provide competitive advantage.

The **VRIN characteristics** mentioned above are individually necessary for the resources to be valuable.

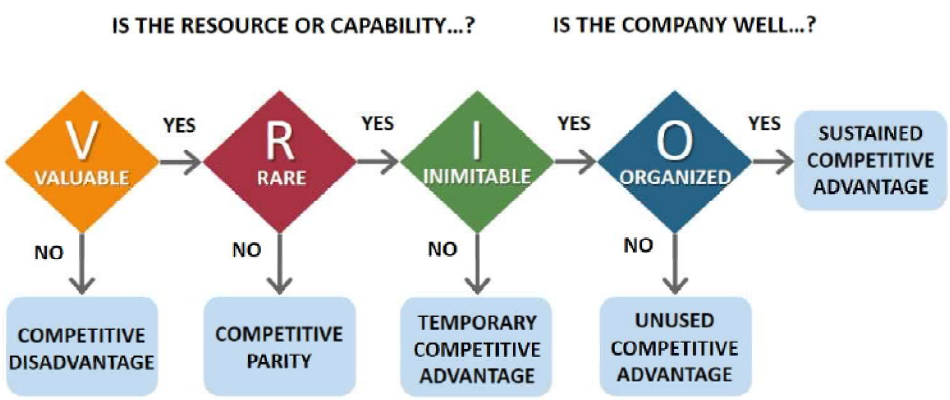

Figure 4.1: *VRIN Characteristics*

4.3 GREINER'S MODEL OF CRISES INDUCED GROWTH

An organizational developmental theory by professor, Larry E. Greiner helps in examining the problems associated with the growth of business organizations and the impact of change on employees. He has suggested that growing business organizations pass through five relatively quiet periods of evolution, each of which ends with a period of crisis and revolution.

The evolutionary period is characterized by the dominant management style leading to growth, while each revolutionary period is characterized by the dominant management issue that must be solved to ensure continuous growth.

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VRIN characteristics: It refers to the characteristics like valuable, rare, inimitable and non-sustainable which make the resources valuable.

Check Your Progress

1. What are tangible resources of a business organization?
2. State one difference between tangible and intangible resources.

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Greiner curve: It is a structured approach of thinking about the crises that organizations experience as they grow.

Rapidly growing business organizations can often be overexcited places to work. As capacities and capabilities of business organizations increase exponentially, methodologies and business strategies which have worked well in the past start fading. Teams and individuals get overwhelmed with work. Efficient and effective managers start making mistakes as their job domain expands. While growth is exciting when things are working well, however, when things go wrong, this chaos can be extremely taxing. Moreover, these problems can be damaging (or even fatal) to an organization.

The **'Greiner Curve'** is a structured approach of thinking about the crises that organizations experience as they grow. By understanding and closely following it, business organizations can quickly understand the basis of many problems they will be encountering in the fast growing business. Moreover, business organizations can anticipate problems before they occur and can resolve them .

Greiner's Growth Model describes phases that business organizations experience as they grow. All sort of business organizations from design shops to manufacturers, construction companies to professional service business organizations experience these phases. Each growth phase witnesses a period of relatively stable growth, followed by a 'crisis' when major organizational change is required if the business organization needs a continuous and sustained growth.

Dictionaries define the word 'crisis' as a 'turning point'. However, business organizations get perturbed by the term crises. Therefore, if business organizations plan in advance by identifying these crises they can avoid panic and can call such phases as transitions.

Larry E. Greiner originally proposed this model in 1972 with five phases of growth. Later, he added a sixth phase (Harvard Business Review, May 1998).

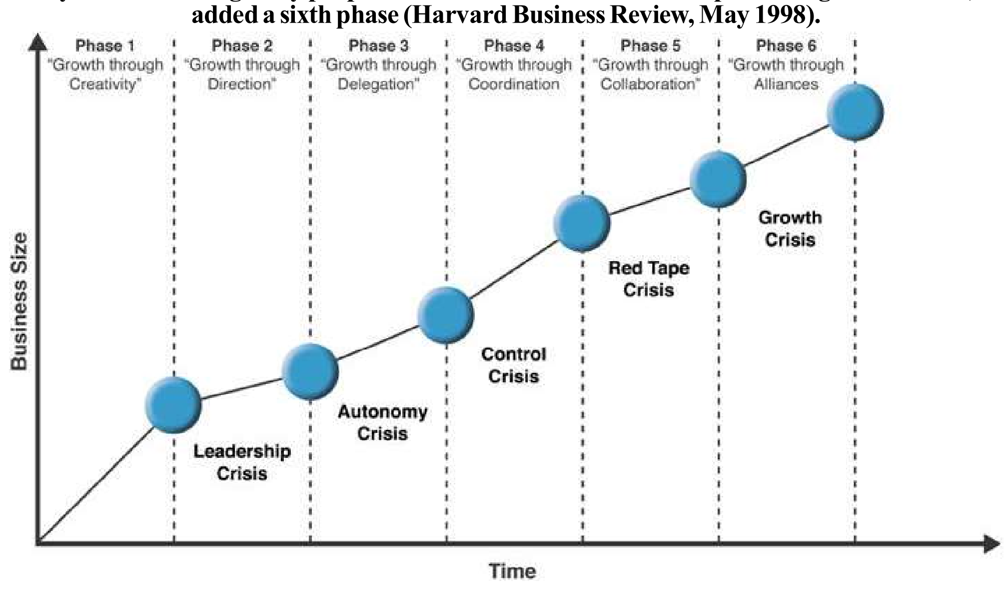

***Figure 4.2:** Greiner's Growth Model*

Source: HBR Article: 'Evolution and Revolution as Organization grow'

The six growth phases have been discussed as follows:

1. **Growth through creativity/Crisis of leadership:** The first stage of organizational growth is termed as creativity. This stage is led by the founders of the business organization, and the focus is on both creating a product and

developing a market. These founders have technical or entrepreneurial orientation, and they scorn management activities. Their physical and mental energies are channelized entirely in creating and selling a new product. However, as the organization grows, management problems arise that are difficult to be handled through informal communication and dedication. Thus, the founding members find themselves engrossed in undesirable management responsibilities and conflicts among the members of the top management. Here, we have observed growth through creation of a new product and market, nevertheless, we have witnessed that there is problem of leadership crisis as well.

2. **Growth through direction/Crisis of autonomy**: It is at this point that the crisis of leadership occurs and the first revolutionary period activates. 'Who is going to lead the organization out of confusion and solve the management problems challenging the growth of the business organization?' The solution is to identify and place a strong manager who is in line with the founder's vision and can bind and drive the organization together. This guides the business organization to the next evolutionary period—growth through direction. During this phase, the new manager and vital staff take most of the responsibility for growth direction. The lower level employees and supervisors work as functional specialists not as autonomous decision-making managers. As the organization grows, the lower level managers claim more autonomy, eventually leading to the next revolutionary period—the crisis of autonomy. The solution to this crisis is usually greater delegation.
3. **Growth through delegation/Crisis of control**: It is difficult for top managers who were earlier quite successful at being directive to give up powers and responsibility. Moreover, lower level managers do not have the authority to make decisions on their own. As a result, many business organizations struggle during this revolutionary period, following centralized strategy, while lower level employees grow more dissatisfied and leave the business organization. However, the business organizations which get to the growth stage of delegation, begin to develop a decentralized organizational structure, which involves and instills a sense of belongingness among the lower level employees. However, gradually, the next crisis begins to evolve as the top managers realize that they are losing control over a highly diversified and grown business organization. The crisis of control often leads to centralization, which is detrimental and creates resentment among those who had been given power.
4. **Growth through coordination / Crisis of Red Tape**: A more effective solution to the above crisis should initiate the next evolutionary period—the coordination stage. This period is characterized by designing a formal system for achieving greater coordination by defining the role of top management as 'watch dog'. However, most coordination eventually fails and results in the next revolutionary period-the crisis of red tape. This crisis most often occurs when the business organization has grown too large and complex to be managed through formal programmes and predefined strict systems, thus, driving the business organization towards growth through collaborations.
5. **Growth through collaboration/Crisis of internal growth**: The crisis of red tape can be overcome, when business organizations move to the next evolutionary

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period—the phase of collaboration. While the coordination phase was managed through formal systems and procedures, the collaboration phase emphasizes greater spontaneity in management action through formation of teams and the skillful confrontation of interpersonal differences. Social control and self-discipline take over from formal control. Greiner is not certain what the next revolution will be, but he anticipates that it will centre on the 'psychological saturation' of employees who grow emotionally and physically exhausted by the intensity of teamwork and the heavy pressure for innovative solutions.

6. **Growth through extra-organizational solutions/Crisis of unknown**: To solve the crisis of internal growth, Greiner recently added the sixth phase which suggests that growth may continue through extra organizational solutions which includes merger, outsourcing, networking and other solutions involving other business organizations in the same or different industry. Use of technology and adopting innovative solutions can lead the business organization on the growth path.

   Growth rates may fluctuate between and even within phases. The duration of each phase depends on the rate of growth of the market and business environment in which the business organization is operating. The longer a phase lasts, the harder it will be to implement a transition.

Limitations of Greiner's Growth Model

- The model is simplistic with less details
- Not every business or business organization will suffer crises as it grows. Many adapt quickly before crisis arises without suffering any obvious panics.
- The model fails to take into account the pace of growth, particularly in an increasingly dynamic external environment and ever changing global business dynamics.

Using the Tool

The Greiner Growth Model helps the business organization to think about growth for the organization, and therefore, better planning to cope with the next growth phases involving transitions.

To apply the model, use the following steps:

1. Based on the descriptions above, think about where your business organization is now.
2. Think about whether the business organization is reaching the end of a stable period of growth, and nearing a 'crisis' or transition. Some of the signs of 'crisis' include: Employees feel that the managers and business organization's procedures are getting in the way of doing their jobs. Employees feel that they are not fairly rewarded for the effort they put in.
3. Ask yourself what the transition will mean for you personally and your team. Will you have to: Delegate more? Take on more responsibilities? Specialize more in a specific product or market? Change the way you communicate with others? Incentivize and reward you team differently?
4. Plan and take preparatory actions that will make the transition as smooth as possible for you and your team.
5. Revisit Greiner's model for growth again every 6-12 months, and think about how the current stage of growth affects you and others around you.

Check Your Progress

3. What does the 'Greiner Curve' denote?
4. Name the six stages of Greiner's Growth Model.

4.4 MANAGING GROWTH FATIGUE: CONCEPT AND OVERCOMING THE SAME

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Growth fatigue: It refers to a common point where many initiatives taken by a business organization hits a major roadblock leading to organizational failure.

Concept

Growth fatigue stands out as a common point where many initiatives taken by a business organization hits a major roadblock leading to organizational failure. This is the stage when complexities and inefficiencies in a business organization's operations can *substantially* slow down the business.

The top five growth fatigue causes are:

- Lack of skilled labour
- Issues of government relations and compliance
- Increasing competition
- Reduced growth of market demand
- Availability and cost of finance

Common challenges of growth fatigue are:

- Keeping employees motivated
- Greater operational challenges
- Less agility
- Loss of momentum
- Decreased sales

Overcoming Growth Fatigue

The slowdown of the business organization caused due to growth fatigue can be overcome by following the simple steps mentioned as follows:

- **Lead through a growth plateau:** There are a range of strategic and innovative tactics a business organization can take to push the business out of a growth plateau, including activities such as strategic planning, conducting market research, and embracing innovation. These could lead to external activities such as sourcing capital, partnerships and finding new markets.

  Julia Bickerstaff, who facilitates strategic planning sessions with medium-sized businesses and runs the Business Bakery (an online school for microbusinesses), has the following tips for leading through a growth plateau. She says that business organization should strategies business, with three and five-year goals.

  Business organizations should have innovation on the agenda of the business in every management meeting or quarterly strategic meeting, and focus on three key priorities for the business and how business organization is going to get there. Brainstorm with an executive management team and also have a board of external directors to offer insight on what's happening in other companies. The best learning come from one's own customers. Managers should spend time with customers and assess how they interact with the product or service.

- **Build innovation into your business:** Being alert and adapting quickly is crucial for innovation and business organizations need to observe the market cautiously. Business organizations need to constantly reinvent the way they provide value to the customers. It is important to understand the need of the customers constantly. These innovation thinking skills are not only for the top management, but business organizations need to hire and develop these skills in people throughout their organization.

  There are four key megatrends that are affecting the economy and emphasizing the importance and need for innovation.

  Most people are connected via mobile devices, either through their phone or tablet. Business owners need to identify how this affects their offering and the way they communicate with their customers.

  Social data is being aggregated on a scale that has never been done before. A business can now correlate information about their customers with readily available public information and increase their customer base.

  Big data is about aggregating a number of data sets to work out a trend, buying pattern or information to help business organizations sell more products or services. A huge database aids business organizations to be more competitive and solve customers' problems.

  The Cloud means businesses do not need to own technology platform from an operational perspective. Not owning own hardware means a business organization can reduce cost and be competitive in comparison to the rivals.

- **Harness leadership:** Inspiring employees to understand and be committed to the business organization's vision is what leadership is all about. Developing the skills or appointing the right person to lead is the right move. Leaders needs to be passionate and proactive, as they need to set the direction for the business, facilitate change and have a long-term vision for the growth of the business organization.

  Other ways of managing growth fatigue are:

  - High growth business organizations innovate, export, train and delegate.
  - High growth business organizations have a product portfolio rather than just a single product and innovations in the pipeline to replace existing products as they complete their life span.
  - Innovative business organizations chase long-term business sustainability over short-term returns.
  - High growth business organizations hire the right people and manage their finances well.

4.5 MANAGING THE MOMENTUM OF GROWTH

Every business organization aims to grow its business. However, only a few know how to sustain it for the long-term or look beyond short-term goals. Growing a business requires the right intellectual capital, well-selected strategic partnerships, and products and/or services with strong demand in the market. Beyond these basics, sustaining growth requires a strong operational foundation—to reduce the risks to the business over time and find new opportunities.

Before the business organization grows and sustain its momentum, it must take into account six things to assure that a business organization builds a strong foundation for long-term growth and profitability.

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1. **Best Talent:** Without the right human capital, a business organization cannot grow and it certainly has difficulty in sustaining the momentum over time. A business organization is led by people and without the right people a business cannot grow and mature. Many a times, this requires the business organization to refresh its human capital in favour of the organization's business model and the unique needs of its clients. Most of the e-commerce business organizations are hiring senior level talent from various organizations to maintain and sustain their newly found growth.
2. **Operational Efficiencies:** Efficiencies reduce cost and develop a mindset within the organizational culture that makes people aware about costs. Efficiencies develop ways to streamline the organization, communicate and identify opportunities. This helps to assure that activities within the organization are in alignment with the needs of the business to create and sustain growth. The best way to create operational efficiencies is to assure that the workplace culture supports the tools to drive efficiencies within the organization–by design–not by accident. Operational efficiency allowed Toyota to compete strongly in the Indian Market and enjoy continuous growth.
3. **Seeking the Right Clients: Business organizations** must always embrace a business attitude to identify and seize the right opportunities. Developing a strategy when prospecting the right clients assures that the business not only grows, but also sustains the growth over time. If the business organization has clients whose business needs are not sustainable then it represents a zero sum game. Hence, identifying the best clients in support of a business organization's business model keeps acquisition costs low and assures client relationships are mutually beneficial. Reliance Jio targeted the youth to reach its dream of 100 million subscribers by understanding the client needs.
4. **Strong and Relevant Decision-Making:** Problem-solving is the essence of the business organization's growth. The top management's goal is to minimize the occurrence of problems. It is difficult to sustain growth when business organizations operate in an environment where they are constantly over reactive, rather than proactive. Sound decision-making is a matter of good judgment and the ability to identify good timing and depth. This assures that growth momentum is created and never disrupted.
5. **Great Leadership:** Leaders are instinctive decision makers and, thus, have the 360 degree vision to see opportunity in everything. Great leaders will become resistant to pressure situations and extremely intuitive about forming strategic, long-term plans for the future growth of the business organization**. Apple reached the pinnacle of growth due to great leaders like Steve Jobs.**
6. **Fearless Growth:** Employees should be encouraged to share their ideas and ideals, otherwise it becomes difficult for them to take ownership of the growing needs of the business. Momentum of growth needs to be shared with others in

Check Your Progress

5. What does the term 'growth fatigue' denote?
6. List the common challenges of growth fatigue.

NOTES

the organization and it should percolate to all levels. It demands that each team has the best interest of others in the business organization, and colleagues throughout the organization strive to achieve sustainable growth. Growth momentum not only demands a strong team, but collaborative departments/ business units that together make up a strong ecosystem with the right human capital.

When sustainability and continuous growth becomes a part of a business organization's central attitude, it will be in a position to remain ahead of other rivals and competitors in the market.

Managing the fast growing business organizations (Steady and Speed)

In business, there is no alternative to growth. With the increasing innovation, business organizations have to be in constant motion not only to maintain competitive position but also to manage their own profitability. If the business organization plans to move ahead, it needs momentum to carry business through the inevitable ups and downs. Regardless of how beneficial or detrimental the acceleration is for the business organization, it can follow the following strategies to manage fast growth:

1. **Design a medium-term goal**: While planning for a steady growth, business organizations have probably created plenty of short-term and long-term goals, but it is important to plan medium-term goals. According to Henry Hsu, (GM for growth and new markets at Nerd Wallet) business organizations should create:
   - A long-term vision and mission; the future state what a business organization wants from its existence in the market.
   - A series of medium-term objectives in support of that vision. These are the three to five-year milestones and goals that serve as the stepping stones to that vision.
   - Short-term 'plateaus'–Business organizations can seek skills, experiences, new products, markets or innovations. Business organizations can seek in the one year to 18 month timeframe to help achieve the medium-term objectives.
2. **Keep customers happy**: No matter at what stage of growth a business organization is currently in, one can never stop listening to the customers. Customers have the most relevant ideas, the most immediate feedback, they are increasingly happy to help (through social media) and they pay the bills. So design a formal approach to listen to customers all the time and act on their feedback.
3. **Have the right team**: Having team members who are smarter and innovative is essential for a fast growing company. It will be the team, not just simply the product and business strategy, that will steer the business organization to success.
4. **Consider financial implication**: As business organizations grow speedily, there are a number of financial implications that have to be taken into consideration.
   - Create a budget for your business
   - Understand your cash flow

- Evaluate equipment purchases based on numbers, not institution
- Plan for the manpower cost
- Seek outside financial help if required

5. **Subtract while you add:** There were several strategies that used to work best, but may not be relevant now. Hence, business organizations should eliminate those functionalities and strategies. Senior VP for HR at Adobe, eliminated performance reports altogether. By doing so, employees were freed of tedious work.

NOTES

The pattern of organizational attention affects a business organization's growth. Attention focus within and between divisions and corporate office shape the intensity and direction of the business organization's growth. Corporate interventions, appointment of managerial resources, prototyping, R&D, innovation and identification and advancement of new opportunities support the business organization's growth.

Alert and Advancing

Being alert, finding the strategic alternatives, objective assessment of the business is essential for the top management in the present business environment. Not only will this support management in forecasting adequately and adapting its business plan as the situation changes; it will also help in revealing strategic actions that the company may take to manage its position and its future opportunities.

Stakeholders and managers of the business organization should consider the following aspects for remaining vigilant in the current business scenario.

1. **Growth in the current market and focus on the current product:** A business can expand its horizons by modifying some of its approaches in an already established market. New products introduced to existing customers are a good idea for businesses that have long marketing/selling cycles. If the company has a good reputation, its customers will consider purchasing new goods more readily than consumers who are unfamiliar with the company. Improved customer service or enhanced quality can increase the average order size, the percentage of repeat business, and the number of referrals. It may sound obvious at first, but it is important to communicate the new improvements to existing customers. Growth within a business's existing market can also come through increased control over the channels of distribution or suppliers related to the product lines being offered.
2. **Stabilizing and growing existing businesses:** Today, banks expect companies to address — and exhaust — their internal operational issues before they ask for assistance, concessions, waivers, or amendments. This means that executives should look at the following areas within their control:
   - Shift fixed costs to variable costs through means such as outsourcing
   - Cut down the existing operations
   - Reduce material costs through sourcing
   - Optimize working capital by extending payables, contracting receivables, decreasing the order cycle, and validating supply chain lifelines

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3. **Restructuring and refinancing :** Internally companies should take more aggressive steps to:
   - Simplify their business model
   - Shed unproductive R&D programmes
   - Optimize sales and marketing
   - Tighten the alignment between operating plans and management incentives
   - Generate or conserve cash by shutting down facilities, reducing headcount, and increasing the frequency of forecasting
   - Constant communication is important.
4. **Divesting non-core assets:** Sometimes, the best performing companies stick to their strategies of cutting down their businesses and disposing of non-core assets. Today's market, though, will produce little to no value for certain assets, forcing some firms to bear loses. Hence, it is required for a firm to be alert as per market progression and divest non-core assets. Focusing on core capabilities and assets create high growth chances.
5. **Pursuing acquisitions:** Current conditions may present healthy, proactive private companies with opportunities to position themselves favourably for the future. For organizations in the position to acquire, it is important to clarify the acquisition strategy and the types of targets that are attractive to the business, if available. Persistence and continued communication can be critical. Situations may change with respect to deals initiated but never consummated; targets that initially were not receptive to purchase now may be in a different position. Finally, it is important to recognize that a business acquired out of bankruptcy or a troubled situation is not necessarily a 'tainted' asset. Many of today's troubled companies have sound businesses and strategies; they simply are too highly leveraged to avoid restructuring.
6. **Take control of today's challenges:** Well-prepared business organizations with strategies in place for both today and tomorrow will find they have ample opportunities to drive future value. Owners and managers should be optimistic to the extent possible and not afraid to express that optimism and confidence to their constituencies. But, they also must be realistic with respect to market threats, cash flow and liquidity. Communication with lenders, vendors, customers and employees is vital to maintaining continuing support for the business. So, too, is a proactive stance. Business organizations that take control of their challenges, rather than letting the environment control them, will be the best positioned to weather the storm and advance forward.

Check Your Progress

7. How does recruiting the right talent assist business organizations in managing the momentum of growth?
8. Give an example to illustrate the management of growth through great leadership.

4.6 HIGH GROWTH ROAD MAP

A high growth road map is a prototype of what actions are needed to help the business organization achieve its long-term goals for success. A well-designed strategic road map is like a GPS for the business organization. It not only chalks out a growth plan but also plans for operational efficiencies ensuring high growth and profitability. The following guidelines can be fruitful for the business organization to plan a growth road map.

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Growth through transformational partnership: A new age growth is feasible when business organizations hold a strategic business transformational partnership with its customers and suppliers. Transformational partnership allows business organizations to identify long-term common goals where both partners can strategically contribute. A partnership can be stronger and distinguished when partners share risks too. Growth can be accelerated when partners create new business models based on the feedback of global market. The most important aspect of growth partnership is to hire or acquire best talents for value creation. Infosys partnered with Procter and Gamble and executed several business critical programme for P&G. They migrated P&G shipping billing process to SAP and also did the integration of Wella PPC after its acquisition by P&G.

Growth through differentiation: Diversification provides new growth opportunities to the business organizations. It is not only a significant change in the variety of products but also how they are marketed in domestic as well as international markets. Business organizations need to weigh up cost and benefit for opting diversification as growth strategy. Infosys got a competitive edge and selected by Brit Insurance for IT support by diversifying their products. Infosys is engaged for the end-to-end management of business process, application development and maintenance and infrastructure services. Hence, it is evident that diversifying product line and geographies ensures growth.

Growth through enhance innovation: To gain competitive advantage, managers of innovative companies must be prepared to compete with small unknown rivals and new entrants in the market. Pursuing growth through innovation can be one solution to keep the business ahead. But, there is a lot at stake: the business organization's brand, growth, relevance and growth through innovation requires a delicate balancing act. Innovation needs to be anticipated by the leaders. They should view marketplace disrupters not as roadblocks but as opportunities to find new ways to solve problems and create value. They should have innovation strategies in place that allow a rapid response to disruptive threats and opportunities. Innovative offerings create more value for the business. Innovative products deliver business capabilities and differentiating functionalities. Mobile money service offered by Airtel is one example of offering innovative product to stay competitive and ahead of rivals in the market.

Nurturing right future talent: Human capital is the most precious asset of future growth. Building diverse workforce, understanding aspirations of the employees, restructuring and retaining global talent and providing timely and adequate training to the employees is the key to rapid growth of the business organization. Infosys believed in diversified and talented workforce as a path for accelerated growth and innovation.

4.7 SUMMARY

- Synchronization is defined as coordination of multiple business elements so that they reach a particular stage simultaneously and contribute to growth of a business organization and allow an industry to emerge.
- A business organization positions itself in the industry and uses a right resource mix to support its stand in the market.
- Supply networks are essential for the business organization to collaborate and help in the expansion of the business.

Check Your Progress

9. What is a high growth road map used for?
10. How is growth achieved through enhanced innovation?

NOTES

- A business organization's resources and capabilities are the fundamental building blocks that define its growth.
- Broadly, the resources of the business organization can be divided into two main categories: Tangible and intangible resources.
- Capabilities develop with the passage of time through complex interactions among tangible and intangible resources.
- An organizational developmental theory by professor, Larry E. Greiner helps in examining the problems associated with the growth of business organizations and the impact of change on employees.
- Rapidly growing business organizations can often be overexcited places to work. As capacities and capabilities of business organizations increase exponentially, methodologies and business strategies which have worked well in the past start fading. Teams and individuals get overwhelmed with work.
- Growth fatigue stands out as a common point where many initiatives taken by a business organization hits a major roadblock leading to organizational failure. This is the stage when complexities and inefficiencies in a business organization's operations can *substantially* slow down the business.
- Being alert and adapting quickly is crucial for innovation and business organizations need to observe the market cautiously. Business organizations need to constantly reinvent the way they provide value to the customers.
- Inspiring employees to understand and be committed to the business organization's vision is what leadership is all about. Developing the skills or appointing the right person to lead is the right move.
- Every business organization aims to grow their business. However, only a few know how to sustain it for the long-term or look beyond short-term goals.
- Being alert, finding the strategic alternatives, objective assessment of the business is essential for the top management in the present business environment. A business can expand its horizons by modifying some of its approaches in an already established market.
- In business, there is no alternative to growth. With the increasing innovation, business organizations have to be in constant motion not only to maintain competitive position but also to manage their own profitability.
- A high growth road map is a prototype of what actions are needed to help the business organization achieve its long-term goals for success. A well-designed strategic road map is like a GPS for the business organization.

4.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Tangible resources are those which can be touched and readily quantified. This largely includes business organization's physical resources, financial resources, technological assets and organizational resources.
2. Tangible resources are those which can be touched and readily quantified whereas intangible resources are difficult to discern as they do not have their physical existence and are often embodied in something material.

3. The 'Greiner Curve' is a structured approach of thinking about the crises that organizations experience as they grow.
4. The six stages of Greiner's Growth Model are as follows:
   (i) Growth through creativity/Crisis of leadership
   (ii) Growth through direction/Crisis of autonomy
   (iii) Growth through delegation/Crisis of control
   (iv) Growth through Coordination / Crisis of Red Tape
   (v) Growth through collaboration/Crisis of internal growth
   (vi) Growth through extra-organizational solutions/Crisis of unknown
5. A business organization is led by people and without the right people a business cannot grow and mature. Many a times, this requires the business organization to refresh its human capital in favour of the organization's business model and the unique needs of its clients.
6. For example, Apple has reached the pinnacle of growth due to great leaders like Steve Jobs.
7. Growth fatigue stands out as a common point where many initiatives taken by a business organization hits a major roadblock leading to organizational failure. This is the stage when complexities and inefficiencies in a business organization's operations can *substantially* slow down the business.
8. The common challenges of growth fatigue are as follows:
   - Keeping employees motivated
   - Greater operational challenges
   - Less agility
   - Loss of momentum
   - Decreased sales
9. A high growth road map is a prototype of what actions are needed to help the business organization achieve its long-term goals for success. It not only chalks out a growth plan but also plans for operational efficiencies ensuring high growth and profitability.
10. Pursuing growth through innovation can be one solution to keep the business ahead. Innovative offerings create more value for the business. Innovative products deliver business capabilities and differentiating functionalities. Mobile money service offered by Airtel is one example of offering innovative product to stay competitive and ahead of rivals in the market.

4.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on the importance of synchronized effort in running business organizations.
2. What are tangible and intangible resources of a business organization?

3. Mention the various causes of growth fatigue.
4. Mention the guidelines on the basis of which a business organization should develop its growth road map.

NOTES

Long-Answer Questions

1. What are the important aspects which assist business organizations in driving growth?
2. Analyse the significance of VRIN characteristics.
3. Discuss Greiner's model of crises induced growth.
4. Explain the various steps of overcoming growth fatigue.
5. How do business organizations manage the momentum of growth in the global times?

UNIT 5 SECURING GROWTH IN EVERY DOMAIN

NOTES

Structure

5.0 INTRODUCTION

The economic goals guide the strategic direction of almost every business organization and growth is the primary objective of every business organization. A business organization which adapts with the changing times is likely to achieve growth quickly as compared to its competitors. In other words, growth implies change and highly responsive change is the need of the dynamic business environment.

The growth of a business organization is regarded as the integrated working of the separate departments which function with precise focus and determination. They are structured according to certain business requirements and these domains will vary depending on the type of business being developed. Knowing the different functional areas of a business is a basic necessity for a business organization. According to business dictionary.com, '*Functional Areas'* is defined as the grouping of activities or processes on the basis of their need in accomplishing one or more tasks. It's also an alternative term for business unit.

In this unit, you will study about the steps involved in the New Product Development (NDP) strategy, the process of securing growth in the marketing domain, crucial role of competitors in the market and competition domain, role of a product's lifecycle in the asset and capacity domain, significance of financial forecasts for a business organization, the popular geographical expansion options, importance of the HR head in the people and organizational domain, importance of the HR head in the people and organizational domain, benefits of networking, ways of turning risks into opportunities and the unsought consequences of growth.

5.1 UNIT OBJECTIVES

NOTES

After going through this unit, you will be able to:

- State the steps involved in the New Product Development (NDP) strategy
- Interpret the process of securing growth in the marketing domain
- Explain the crucial role of competitors in the market and competition domain
- Assess the role of a product's lifecycle in the asset and capacity domain
- Analyse the significance of financial forecasts for a business organization
- List the popular geographical expansion options
- Summarize the importance of the HR head in the people and organizational domain
- List the benefits of networking
- Interpret the ways of turning risks into opportunities
- Identify the unsought consequences of growth

5.2 PRODUCT AND BRAND DOMAIN

Product development is an essential part of every business organization's growth strategy. It leads to growth in sales and increase in market share. Business organizations pursue new product development strategy followed by the branding strategy.

New product development strategy

The adoption of a well-considered New Product Development (NPD) strategy, can help a business organization reduce wastage of time, money and other resources. The NPD strategy will help business organizations to contemplate product planning and conduct research, gain an insight into customers' views and expectations, and accurately plan and finance the development project. The NPD strategy helps in avoiding

- launching a poorly designed product
- Uncovering business to risks and threats from unexpected competition
- overestimating and misreading the target market
- Inappropriately pricing of new products.

The following steps help in planning the NPD strategy:

1. Define the product

An accurate description of the product which the business organization plans to develop, will help keep the product development team focused and avoid NPD pitfalls such as developing too many products at once, or running out of resources to develop the products.

2. Identify market requirements

Successful NPD requires a detailed knowledge of the target market and its needs and requirements. A targeted, strategic and purposeful approach to NPD will ensure that the products fulfill the expectations of the target market. A business organization can gain fair insight into target market Answering following questions can gain a fair insight about the target market by answering the following questions:

- What is the target market for the proposed product?
- What does that market need?
- What is the benefit of the proposed new product?
- How will the product fit into the current market and competition?
- How the newly launch product will affect competitors?

3. Setting Time Lines

Adequate time is required to develop and introduce new products in the market. The objectives for developing new products will decide the time frames and deadlines for implementation as well. Some objectives might overlap but others will be mutually exclusive.

- The objective to remain ahead in the market competition will require efficiency from the team
- Aim to achieve a specific launch date will be influenced by seasonal demand and events.
- The objective to stick to business as usual and maintenance of other schedules will affect the resources available for the NPD strategy.

4. Identify significant issues and methods

There are many tasks involved in developing a product that is appropriate for customers. The nature of the business organization will determine how many of the below steps are required to be taken:

- Generating and screening ideas
- Testing concepts
- Analysing market and business strategy
- Developing and market testing products
- Implementing and commercializing products.

5.3 BRANDING DOMAIN

Creating and maintaining brand for the product and business organization is crucial for the growth of the business organization. There is a simple rule that successful brands follow: increasing household penetration (Penetration is defined as the percentage of households in a market buying a particular brand in a given year.) It is understood from research that loyalty across categories does not vary significantly over time, but household penetration does. Brands primarily sustain because more people buy them. For example, Pampers in baby diapers and Maybelline in color cosmetics all earned penetration rates that are significantly higher than the average of the top 20 competing brands—at least four times higher.

NOTES

Brand: Brand is a name given to a product and/or service such that it takes on an identity by itself.

Check Your Progress

1. What is the importance of product development in the growth of the business organization?
2. Name the first step of the NDP strategy.

NOTES

The steady path for receiving consideration and penetration requires devotion in key brand assets: memory structures and product portfolios.

(i) Memory buildings: Building memory structures imply securing the position of a brand in the minds of the consumers' long-term memories, using the full array of touch points. Business organizations broadcast a brand's message widely enough to be received by the largest possible band of consumers. To get into consumers' minds – and stay there – brands express messages that are distinct and memorable. Persistence, repetition and consistency is required as a part of the memory building exercise. Skin care brand Nivea has essentially been using the same visual indications for its core product for decades.

(ii) Product portfolios: A ***product portfolio*** is the range of items sold by a business organization. Too many brands can result in ineffective levels of advertising, leading to confusion among consumers and other afflictions that reduce penetration. Surprisingly, few innovations eventually result in increased penetration. They fail at a high rate and distract marketing and commercial teams from supporting core product development units.

5.4 MARKET AND COMPETITION DOMAIN

A market domain of the business organization is primarily linked to customers and competition. Therefore, a growth manager must be especially concerned about market position and marketing mix of the business organization.

Market position deals with the question: Who are our customers? This question refers to identifying areas for marketing concentration and can be well expressed in terms of market, product and geographical locations. Market research enables business organization to practice market segmentation with varied products and services which further provides managers an opportunity to search a niche market, develop new products and ensures that the business organization's products do not directly compete with one another.

Market mix: A combination of several ideas and plans followed by a marketing personnel to promote a particular product or brand is called marketing mix.

Market mix is a particular combination of key variables under the key control of the business organization that influence demand and gain competitive advantage. These variables are identified as product, place, price and promotion. All these variables need to be analysed in details in order to understand their impact on business organization growth. These variables need to be worked again and again as business organization grows. Another feature which ensures the growth of business organization in terms of market and competition domain is analysis of the product life cycle.

The business organization should focus on two generic competitive strategies to outperform other business organizations in the industry and continue growing: Low cost and product differentiation. Low cost is the ability of a business organization or a business unit to design, produce and market a comparable product more efficiently than the competitors and differentiation is the ability to provide unique and superior value to the buyers in terms of product quality, special features and after sale services. Ensuring the product to be low cost and well differentiated in the market positively influences the growth of the business organization.

Check Your Progress

3. What is a product portfolio?
4. State two generic competitive strategies which assist the business organization to outperform others in the industry.

5.5 ASSET AND CAPACITY DOMAIN

NOTES

Asset and capacity domain of growth determines how and where a product/service will be manufactured, the amount of resources deployed and the level of vertical integration in the production process. This domain also takes into account the optimum level of technology required by the business organization. Advance manufacturing technology is revolutionizing operations worldwide and will continue to have a strong impact on business organizations striving to integrate diverse business activities using computer –aided design (CAD) and computer-aided manufacturing (CAM). CAD and CAM, robotics, Manufacturing Resource Planning (MRP), Just-in-Time (JIT) and other techniques contribute to increased flexibility, quick response time, efficient asset and capacity utilization and overall higher productivity. It is to be noted that the use of these techniques is slightly expensive; however, their use enhances the business organization's scale and economies of scale.

Asset and capacity growth planning of the business organization is affected by a product's life cycle. As the sales of the product increases, there will be increase in production volume and more resources will need to be engaged. The production volume can range from lot sizes as low as one in job shop (using skilled labour) through connected line batch flow (components are standardized) to lot sizes as high as 100,000 or more per year for flexible manufacturing system(grouping of manufacturing system for mass production) and dedicated transfer lines (highly automated with less human intervention). Thus, flexibility ensures better capacity planning. Increased competition in various industries has forced business organizations to have continuous improvement production strategy. Continuous improvement strategy empowers cross functional teams to improve production process and in turn better asset and capacity planning. The result is the production of huge quantity of products of high quality. Low cost asset acquisition and better capacity planning provide the business organization with low cost competitive strategy. Mass customization is another improvement which requires people, process and technology reconfiguration to give customers exactly what they want. The classic example is Personal Pair proposal project introduced by Levis Strauss to combat the growing competition from private label jeans. The customer is measured at one of the company's personal pair outlets, the measurement are sent to Levis by computer and made to order jeans are prepared.

5.6 FINANCE AND PROFITABILITY DOMAIN

The management of the business organization needs to decide how the organization will be financed and strategically supported in its functioning and growth. The decision is influenced by ownership and the overall objectives of the business organization. If the organization is seeking rapid growth through acquisition or product development, it has different financial need as compared to when it is seeking to consolidate past performance. Growth strategies need to match the relationship between financial risk and financial returns to investors. The greater the risk, greater is the return demanded. Hence, it is important for the business organization that it balances business risk with financial risk. Debt has more financial risk in comparison to equity. At different stages of the growth, the business organization needs to keep in mind various funding strategies in order to earn profits.

In product launch stage, business risk is very high, therefore, financing risk need to be lower. The business organization needs to be financed by equity or venture capital and no dividend should be paid.

In the growth stage, business risk is high so financial risks need to be low. Funding by equity growth is a suitable finance option and dividend policy should be payment of nominal dividend.

In the maturity stage, business, risk is medium and, hence, financial risk is also medium. Here the business organization can use both the debt and equity method to finance the business and high dividends can be paid to stakeholders.

In the declining stage, business risks are low and financial risks are high. It is suggested the business organization should fund through debt and low dividend can be paid.

Sound financial planning is the foundation of any business growth strategy.

The following questions should be answered before investing in any growth strategy:

- When funds will be needed
- When it will be available
- How soon the business organization will be in a position to repay the capital
- How much investment is required to fund the venture

Financial forecasts

An elaborate capital forecast is essential because the exit of funds is certainly going to rise sooner and faster than revenues. The business organization should have sufficient financial resources for its smooth functioning. It is certainly a good idea to build in some surplus too, as most projects always take longer to bear fruit than originally anticipated.

Detailed forecasts regarding sales, working capital and sources of seed funding, and even second round funding, need to be drawn up.

Financial investment

Business organizations looking for capital investment, apart from finance from banks, have three main sources:

(i) **Equity finance** is money invested in a business that is not directly repayable. It is most likely raised through remortgaging a property, or money borrowed from others by giving a share in the ownership of the business.

(ii) **Business angels** are private investors taking a minority or majority stake in a business, often contributing valuable business experience in the form of advice and contacts.

(iii) **Venture capital** is also known as private equity finance. Unlike business angels, venture capitalists look to invest large sums of money in return for equity in the (i.e., a share in the ownership of) business organization.

Equity finance: It is a method of raising fresh capital by selling shares of the company to public, institutional investors, or financial institutions.

Assessment of Business Profitability

Preparing the balance sheet and income/expenditure statement is the crucial first step in calculating profitability, as all ratios are derived from data in the financial statements.

NOTES

- **Gross Profit Margin Ratio:** This is the basic profitability ratio that all companies have to calculate. Subtract the cost of goods sold from sales figures to get gross profit. Divide it by the sales figure and multiply it by 100 to get a percentage. This is used to calculate whether the business organization has sold enough goods and services to cover the cost of sales and still has capital left with it. Needless to say, this number always has to be positive and also high enough to have a substantial impact on the business.
- **Net Profit Margin Ratio:** Sale costs are not the only costs that the company is going to incur. Business organizations have to pay taxes on the profit earned as well. If enough profit is left after taxes, depreciation and other miscellaneous expenses have been paid, the business organization is in a sound business growth position. The net profit margin ratio gives an indication of this sound position. If the company is paying high taxes and has to set aside funds for interest payments and depreciation, then it might not have much left in terms of profit. In this respect, calculation of the net profit ratio will enable the business to boost sales figures.
- **Operating Profit Margin** : Companies might make profit in other ways, such as through the sale of assets or through their investments in non-core areas. However, it is important to calculate how much revenue is the core business area generating and how much does it cost to keep this core area functioning.

5.7 GEOGRAPHIC SPREAD DOMAIN

Geographic expansion can help the business organization to gain access to new markets and talent pools, reduce costs, and perhaps most importantly, provide a robust pipeline to propel future growth. A diversified growth strategy protects the business organization from country-specific economic downturns. It reduces risk by broadening the geographical presence. Further, if the business organization does not sell products/ services at the global platform, its key competitors can take advantage of this aspect. The competition is intense and unrelenting, and the business organization cannot afford to let competitors take lead in the global market. Hence, the business organization needs to take care of the following aspects:

- Formulate goals for entry into a new geography or region
- Assess government stability and friendliness to foreign investment
- Project a realistic growth path following market entry

Growth usually has international implications. The business organization can select from various strategic options to enter into foreign markets. The options can vary from simple exporting to acquisitions to managing contracts. For example, Asian Paints to increase its geographical spread purchased stocks of Berger International Ltd. Singapore. Wal-Mart has used horizontal growth strategy to expand its operation in entire Europe.

Check Your Progress

5. What is the main use of the continuous improvement strategy?
6. Define venture capital.

Some popular geographical spread options are as follows:

Exporting

Exporting is transporting goods produced in the company's home country to other countries for sales and marketing. It is a good strategy to minimize risk and experiment with specific products. Exporting is a lucrative strategy for small businesses and it has become popular owing to the popularity of the Internet.

Licensing

Licensing business organization grants rights to another business organization in the host country to produce and sell a product. The licensee pays compensation to licensing business organization in return for technical expertise. FedEx Couriers entered Indian market through its license to Prakash Air freight Couriers. However, in licensing a danger always looms that licensee might develop competencies and turn into a competitor.

Franchising

Franchising is a typical process for rapid market expansion gaining traction in many parts of the world. Franchising works well for business organizations that have a repeatable business model (for example, food outlets) that can be easily transferred to other markets. Two factors are to be considered when opting to use the franchise model. The first is that business model should either be very unique or have strong brand recognition that can be utilized internationally and second, the business organization may be creating your future competition in your franchisee. McDonald expanded in international market by using the franchise model.

Partnering

Partnering is almost a necessity when entering foreign markets and in some parts of the world (for example, Asia) it may be required. Partnering can take a variety of forms from a simple co-marketing arrangement to a sophisticated strategic alliance for manufacturing. Partnering is a particularly useful strategy in those markets where the culture, social, economic and other conditions, are substantively different than your own as local partners bring local market knowledge, contacts and if chosen wisely—customers.

Joint Ventures

Joint ventures are a particular form of partnership that involves the creation of a third independently managed company. It is the 1+1=3 synergy process. Two companies agree to work together in a particular market, either geographic or product, and create a third company to undertake this venture. Risks and profits are normally shared equally. The best example of a joint venture is Sony/Ericsson Cell Phone, further IBM entered India in 1992 by having joint venture with TATA. Starbucks Coffee entered Indian market by entering into a joint venture with TATA. Etihad Airways captured Indian customers fling to international locations by making a joint venture with Jet Airways.

Buying a Company

In some markets, buying an existing local company may be the most appropriate entry strategy. This may be because the company has substantial market share, is a direct competitor to your business organization or due to government regulations this is the only option for your business organization to enter the market. It is certainly the most expensive option and determining the true value of a business organization in a foreign market will require substantial due diligence. On the positive side, this entry strategy will immediately provide your business organization the status of being a local company and you will receive the benefits of local market knowledge, an established customer base and be treated by the local government as a local business organization.

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Turnkey Projects

Turnkey projects are particular to companies that provide services such as environmental consultation, architecture, construction and engineering. In a business environment, turnkey project is a kind of project that is completely handled by a team of contractual workers and leaders. A project idea is handed over to the contractual workers and their heads who then complete the project and hand it over to the client or customer. It is so called because the client just has to turn the key and the project becomes operational. The client has to do very little work in terms of establishment and running of the project.

This is a very good way to enter foreign markets as the client is normally a government body and often the project is financed by an international financial agency such as the World Bank so the risk of not being paid is eliminated. ECC (An L&T Company) built urea piling tower for State fertilizer Manufacturing Corporation of Sri Lanka.

Greenfield Investments

Greenfield investment is one of the novel ways of entering the foreign market through direct investment in that particular country. In this kind of investment, the parent company builds its entire production or manufacturing plant on a foreign soil. There are several benefits of the Greenfield investment. For example, where you buy the land build the facility and operate the business on an ongoing basis in a foreign market. From a broader business perspective, there are advantages like economies of scale, superior location, control over long-term approach and the ability to work with the central government from the beginning, among others. Honda, Toyota and General Motors established auto manufacturing units in rural areas of Tamil Nadu and Maharashtra.

5.8 PEOPLE AND ORGANIZATIONAL DOMAIN

The primary task of Human Resource (HR) head is to continuously find as suitable candidate for the respective vacancy. It is important for the HR head to do job analysis to obtain complete information about the job description so that it becomes easy for him to select the right candidate for the post. To manage continuous growth it is important to have proper employee selection, appraisal, training and development and proper salary and wage negotiation. Just as an operations manager must possess knowledge

Check Your Progress

7. What is a turnkey project?
8. Give one example of a joint venture undertaken by the business organization with the objective of geographical expansion.

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about manufacturing facilities, likewise, a people's manager must know what kind of individuals to be employed and the skills they must possess. Hewlett Packard for example, scrutinizes employees profile to ensure it has the right talent mix to execute its planned strategies.

HR managers need to employ manpower planning for the proper utilization of their team members. They should be knowledgeable about work options such as part time, job sharing and contractual jobs. More than two-third of large US business organizations are successfully using self-managed work teams in which each group of people work together without a supervisor to plan, assess and coordinate their work. Business organizations also use cross-functional teams. Companies like Apple, Boeing GE and others make use of cross-functional teams when they want a particular product to advance quickly to its development stage. For the successful use of cross-functional teams, the HR manager should ensure that the cross-functional team must receive appropriate training.

Another aspect of people domain which ensures growth of the business organization is the quality of work life and human diversity. The HR department has found that to reduce employee dissatisfaction quality of work life should be considered in preparing the job profile of workers. The HR manager should work relentlessly to improve the business organization's quality of work life by introducing sessions on problem-solving, restructuring of work. Another motivating factor is the introduction of reward and award system to make the employees enthusiastic about their work. Google has emphasized on work life balance by designing the workplace in a way such that employees can be stress free and can take small fitness breaks.

The workplace comprises of people from different races, cultures and backgrounds. An increasing percentage of minorities and women are now making their presence felt in the workforce in India. Thus, it can be said that business organizations are hiring people of various caste, creed and religion without any discrimination. For growth, it is essential that employees are treated fairly at job and not harassed by prejudiced coworkers or managers. For example, Coca-Cola had to pay $192.5 million because of discrimination against African-American salaried employees in pay, promotion and evaluation during the period 1995–2000. Skilled manpower and a healthy work environment is vital for the growth of the business organization.

5.9 NETWORK AND RELATIONSHIP DOMAIN

Networking in its purest form is simply talking to people, making connections and developing rapport to grow one's social circle. Developing long-term relationships with people is a social skill which likely to have a positive influence on the growth of the business organization.

Business networking should focus the attention on the growth of the business organization and developing two-way interaction between the parties involved.

Here are a few benefits of networking:

- **Sharing Information**: People of diverse backgrounds possess varied information. Networking provides an opportunity to interact and disseminate various views of people with each other. Not only this, managers should also hold discussions with their team members which helps them to come across diverse viewpoints. Hence, learning from other's 'best practices' helps save time, energy and other resources.

- **Connections:** When opportunity 'knocks' every business organization want to be in a position to take advantage of it. Many times, there is a need for information-sharing, joint ventures, partnerships, and even for services as well to take advantage of that opportunity. Having a wide network of individuals to contact may be the difference in seizing the moment or missing it completely. Hence, establishing real contacts is a must for every business organization.
- **Promotion**: A large network always assists in enhancing the growth whether promoting a product or your business organization. 'Word of mouth' is still one of the best forms of advertising. Spreading good information about business organizations may provide vital leads for the organization's growth.
- **Credibility:** Networking is extremely beneficial as it assists in enhancing the reputation of the business organization and finding financial and other support in times of need. If business organizations are successful at networking, they might get a reputation for being the favorite of their industry. A good reputation leads to support. Business organizations in your network might possess valuable information, ideas, and resources that prove beneficial to your organization.

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5.10 TURNING RISK INTO OPPORTUNITIES

Business organizations are not always internally structured to assess long-term risk. Nevertheless, business organizations can prepare strategies to deal with environmental risk, risks of exposure to litigation, political and security risks in certain countries, risks around resource availability and cost and dealing with reputational risks including social issues like child labour. In some industries, particularly in the oil & gas and mining industries, risk management is fundamental to maintaining a company's license to operate.

Suggestions to turn risk into opportunities include the following:

1. Get ahead of regulation, not behind it: It is more productive to invest ahead of time and be on the right side of regulation than to put in resources into pushing against it and having to pay for non-compliance as well.
2. Use technology to innovate and avert whatever risk the business organization is heading towards. Focus on eco-efficiency to reduce energy costs and risks.
3. Identify potential **reputational risks** and then prepare a strategy to mitigate them while building a reputation for good.
4. Recognize environmental risks including those related to climate change. Measure and monitor the situation closely. Work out a strategy for flexibility which ensures long-term growth of the business organization.

Reputational risk: It is the possible loss of the business organization's reputational capital.

Check Your Progress

9. State one important function of the HR head in the business organization.
10. Mention two benefits of networking.

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Supply Chain Risks Create Opportunities to Cut Costs of Materials

The Risk: There is the potential presence of toxic ingredients in materials purchased from suppliers. These ingredients can be harmful to the environment as well as to the health and safety of workers and consumers. This produces compliance risks regarding chemical regulations and reputational risks.

The Opportunity: After inquiring with suppliers about purchased materials (either through questionnaires on on-site audits), a company may determine that about 30 per cent of its suppliers are providing materials that could pose a risk. The company decides not to purchase material from these suppliers and instead purchases the remaining material from the 70 per cent suppliers who do not provide hazardous material. As a result, the company consolidates around a few suppliers and **purchases more material from each supplier**. This presents opportunities for cost saving through **bulk purchases or better pricing because of increased volumes**.

Risks of Losing Consumers Create Opportunities to Increase Profits

The Risk: A business organization faces the risk of losing substantial market share because consumers are increasingly demanding products mostly made of recycled materials, and that too which can be fully recycled.

The Opportunity: To mitigate the risk and continue retaining its market share, the company changes the product design and sources different production materials. This allows the product to be more marketable to an increasing base of consumers demanding green products. However, before embarking on this change, the company should conduct a market study and creates a business case showing that enough consumers would be willing to pay a 15 per cent premium that would **cover additional costs as well as earn additional profit**, thus, improving the profit margin of the product line. Addressing the risk can provide an opportunity not only to retain or increase market share, but also to **increase profits by charging a premium which a particular section of consumers are willing to pay**.

Compliance Risks at Facilities Create Opportunities to Save Audit Time and Costs

The Risk: A business organization has multiple facilities in a country. Each of these facilities has compliance obligations, thus, creating risks of non-compliance at each individual facility.

The Opportunity: To mitigate risks of non-compliance, each facility conducts self-audits to check and verify for compliance. Nevertheless, this creates a situation where assessments of regulatory compliance are performed through disparate and duplicate processes across facilities. By implementing an **automated and centralized audit management software**, business processes can be improved and organizations can better monitor their regulatory compliance status. In addition, a single enterprise-wide solution for audit management allows the **standardization of regulatory compliance assessment across the entire organization**, which increases the productivity of auditors, thus, **reducing audit time and costs**.

Risks of Knowledge Loss Create Opportunities for Knowledge Retention

The Risk: With a segment of baby boomers retiring or about to retire, there is a risk that a large amount of industry and company knowledge accumulated by such workers over the years could be lost by the business organization. This could result in a loss of productivity and increase the risk of adverse events due to loss of knowledge.

The Opportunity: Knowledge is a company's most valuable asset and must be preserved. To avoid losing knowledge, an organization decides to **use an integrated enterprise platform for** Environmental Health & Safety **(EHS) and** Governance, Risk, and Compliance **(GRC) as a repository of valuable knowledge** gained over the years, and that can be critical in the future. Such knowledge includes the best practices of the industry, work processes, impact of regulations on the organization, lessons learned and so forth. By having a mechanism in place to **capture and retain knowledge**,

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a company protects its **productivity and operational efficiency** from losses of knowledgeable employees due to turnovers, market downturns, budget cuts or retirements.

Reputational Risks from Social Media Create Opportunities to Foresee Issues

The Risk: Social media increases reputational risks because the velocity (or speed) at which issues impact reputation is greater than before.

The Opportunity: Chuck Saia, CRO at Deloitte, stresses that social media can also present an opportunity. For example, through social media, a company can get an **understanding of what its competitors are dealing with** as it plays out in social media, as well as a **real-time view into how stakeholders are reacting** to such issues. In turn, an organization can use that understanding to help get in front of potential emerging risk issues that otherwise, it would not have had time to get in front of, according to Saia. Thus, a company can gain insight and **prevent the type of reputational risks from social media affecting industry peers**. In addition, as news spreads very quickly on social media, it can be used effectively to **engage with stakeholders in a timely way** if something happens, and to **show a commitment to transparency**.

Source: Adapted from https://enablon.com/blog/2016/02/23/how-risks-can-turn-into-opportunities

5.11 HANDLING UNSOUGHT CONSEQUENCES OF GROWTH

As discussed in the preceding sections, the ultimate aim of any business organization is to achieve growth and progress. We have also discussed the importance of efficient management for tackling the patent challenges in achieving the objective of growth. However, growth is not always accompanied with only the anticipated positive changes but it also carries certain latent, unintended and un-sought challenges hazards.

While growth of a business organization promotes innovation, it also puts the onus on the management to keep experimenting with new ideas. The growth of a business also serves as a motivation for other players to enter into that profitable segment, which inadvertently increases the competition in the niche segment which has an impact on the profit margins and in turn, slows down the growth rate. Another unintended consequence of growth is that the exposure of risk to the entrepreneurs increases with the growth of business. Also, the financial requirements of a growing business increase manifolds with its growth and this may require greater planning from the business managers. Similarly, growth also entails complexity in the working and management which may have consequences in the form of loss of control and lack of communication with the workforce.

In the light of the above discussions, it is particularly pertinent that the growth strategies must be revised at regular intervals so as to tackle the said unintended, unsought consequences of growth. Identification of such consequences is the first step towards handling them before the unsought consequences overhauls the benefits of the planned growth and the expected beneficial consequences. In relation to some of the finance related consequences enumerated above, the entrepreneurs would be best served if they do keep a buffer cash flow for managing and accommodating the changing financial needs of a growing business. Similarly, pre-planning the ways for ensuring proper communication with the workforce and making it a part of the growth strategy

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could be considered. In relation to the consequences of increasing risk and the fluctuations in the profit margins, as thinker, AP Gouthey once said, 'To get profit without risk, experience without danger and reward without work, is as impossible as it is to live without being born' and, thus, such a result must be taken in a stride. It is actually the motivation which keeps the zest for keeping growth alive.

5.12 SUMMARY

Some of the important concepts discussed in this unit are:

- The economic goals guide the strategic direction of almost every business organization and growth is the primary objective of every business organization.
- Product development is an essential part of every business organization's growth strategy. It leads to growth in sales and increase in market share. Business organizations pursue new product development strategy followed by the branding strategy.
- Creating and maintaining brand for the product and business organization is crucial for the growth of the business organization.
- A market domain of the business organization is primarily linked to customers and competition. Therefore, a growth manager must be especially concerned about market position and marketing mix of the business organization.
- Asset and capacity domain of growth determines how and where a product/ service will be manufactured, the amount of resources deployed and the level of vertical integration in the production process.
- The management of the business organization needs to decide how the organization will be financed and strategically supported in its functioning and growth. The decision is influenced by ownership and the overall objectives of the business organization.
- An elaborate capital forecast is essential because the exit of funds is certainly going to rise sooner and faster than revenues.
- Geographic expansion can help the business organization to gain access to new markets and talent pools, reduce costs, and perhaps most importantly, provide a robust pipeline to propel future growth.
- Exporting is transporting goods produced in the company's home country to other countries for sales and marketing.
- Joint ventures are a particular form of partnership that involves the creation of a third independently managed company.
- The primary task of Human Resource (HR) head is to continuously find as suitable candidate for the respective vacancy. It is important for the HR head to do job analysis to obtain complete information about the job description so that it becomes easy for him to select the right candidate for the post.
- Networking in its purest form is simply talking to people, making connections and developing rapport to grow one's social circle. Developing long-term relationships with people is a social skill which likely to have a positive influence on the growth of the business organization.

Check Your Progress

11. Give any two suggestions for turning risks into opportunities.
12. Mention one way of handling unsought consequences of growth.

- Business organizations are not always internally structured to assess long-term risk.
- In some industries, particularly in the oil & gas and mining industries, risk management is fundamental to maintaining a company's license to operate.
- While growth of a business organization promotes innovation, it also puts the onus on the management to keep experimenting with new ideas. The growth of a business also serves as a motivation for other players to enter into that profitable segment, which inadvertently increases the competition in the niche segment which has an impact on the profit margins and in turn, slows down the growth rate.

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5.13 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Product development is an essential part of every business organization's growth strategy. It leads to growth in sales and increase in market share.
2. Defining the product is the first step of the NDP strategy.
3. A product portfolio consists of all the products which are produced by a business organization.
4. Low cost and product differentiation are the two generic competitive strategies which assist the business organization to outperform others in the industry.
5. Continuous improvement strategy empowers cross functional teams of the business organization to improve production process and in turn better asset and capacity planning. The result is the production of huge quantity of products of high quality.
6. *Venture capital* is a type of funding provided to a new or growing business enterprise. This financial funding is usually derived from *venture capital* firms that specialize in building high risk financial portfolios.
7. In a business environment, turnkey project is a kind of project that is completely handled by a team of contractual workers and leaders. A project idea is handed over to the contractual workers and their heads who then complete the project and hand it over to the client or customer. It is so called because the client just has to turn the key and the project becomes operational. The client has to do very little work in terms of establishment and running of the project.
8. The best example of a joint venture is Sony/Ericsson Cell Phone, further IBM entered India in 1992 by having joint venture with TATA.
9. The HR head of the business organization is responsible for finding suitable candidates for the vacancies coming up in the organization.
10. Networking is extremely beneficial as it assists in enhancing the credibility of the business organization and finding financial and other support in times of need.
11. Two suggestions for turning risks into opportunities are as follows:
    (i) Get ahead of regulation, not behind it: It is more productive to invest ahead of time and be on the right side of regulation than to put in resources into pushing against it and having to pay for non-compliance as well.

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(ii) Use technology to innovate and avert whatever risk the business organization is heading towards. Focus on eco-efficiency to reduce energy costs and risks.

12. The entrepreneurs should keep experimenting with new ideas in order to handle the unsought consequences of growth.

5.14 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on the New Product Development (NPD) strategy.
2. What are the main criteria of growth in the marketing and competition domain for a business organization?
3. Name the main sources of finance available to a business organization.
4. Define the concept of Greenfield investment.
5. Mention the various benefits of networking.
6. Prepare a short note on the various techniques of handling unsought consequences of growth.

Long-Answer Questions

1. 'Creating and maintaining brand for the product and business organization is crucial for the growth of the business organization.' Explain the statement.
2. 'Asset and capacity growth planning of the business organization is affected by a product's life cycle.' Clarify the statement.
3. Analyse the significance of a sound financial planning for a business organization.
4. Discuss the role of the HR head in the people and organizational domain.
5. Give examples to suggest how business organizations are turning risks into opportunities in the present global scenario.

UNIT 6 SUSTAINING GROWTH

Structure

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6.0 INTRODUCTION

The sustainable growth rate (SGR) is the maximum rate of growth that a firm can sustain without having to increase financial debt or look for outside financing. The SGR is a measure of how large and how quickly a firm can grow without borrowing more money. After a firm has passed this rate, its growth will decline in the long term, and it must borrow funds to facilitate additional growth. In this unit, you will learn about by achieving efficiency, managing excellence and effectiveness. Further, we will discuss the important concept of innovation in growth management and its types. The role of diversity and the strategies to manage rapid business growth.

6.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe how firm sustain growth by achieving efficiency, managing excellence and effectiveness
- Discuss the concept of innovation and continuous improvement
- Explain the importance of diversity
- Identify the strategies to manage rapid business growth

6.2 EFFICIENCY, EFFECTIVENESS AND EXECELLENCE

In this section, we will have a look at the important concepts of growth management: efficiency improvement, effectiveness enhancement and excellence management.

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6.2.1 Efficiency Improvement

The success in business operations for a firm is not the final step of the ladder. The firm could be running smoothly but there are always chances of improvement. Sometimes, the project can take a little longer than the desired time duration and many a times the highly productive meetings may not be relevant anymore. It is also possible that it may seem like the firm may not be able to catch up with the market dynamics. However, these issues can be fixed by focusing on improving the efficiency of the business.

In the new age business environment, the following strategies can be used by a firm to increase efficiency:

1. **Automation:** Whether the firm wants to increase the production by automating the line of production sending pay stubs to employees or sending receipts to vendors, business automation has become a one-stop-solution to increase the efficiency of a firm. Business automation is no more a luxury element, rather it has become a tool to manage firm's competitive advantage. Using ERP systems like SAP has automated the entire value chain of the companies like Philips, GE and Honda which has enhanced their competitive positions in the global market.
2. **Using updated technology:** Internet based and other technologies enable firms to dramatically improve the business operations. Technology help in increasing market share, aggressively pursue cost reduction and prevent customer related issues. Following technology based products can improve firm's efficiency.
    - ***Task manager software***: A task management software is an efficient tool designed for segregating work amongst designated teams to ensure that everyone works together in a coordinated manner, track the progress, and stay on task targets. The use of software saves everyone the time of having to go back and forth on emails, and it allows firms to track progress more effectively.
    - ***Smart inventory control system***: This helps firms reduce inventory, improve profitability and enhance customer query response time. Online order management system integrates inventory information with the firm's accounting, purchasing and procurement systems, and this allows the firm to easily track order status and movement of inventory within the firm. These updates also allow the firm to better plan its working capital management.
3. **Going digital:** By embracing and incorporating the digitization of activities in a firm, several financial benefits can be achieved. These include improving the speed taken for different activities, streamlines varied tasks and departments, helps in efficient transfer of information, decreases cost of supply and helps the firm become more environment-friendly. This digitization can be effectively brought about through restricting print-outs to only most important documents, sending the invoices and statements through emails to vendors, banks and clients. Such digital initiatives add to the competition of the firm.
4. **Identifying key performance and productivity factors:** A firm's performance is dependent on several factors like the level of customer satisfaction and the production stock. In order to achieve efficiency, two important things can be done: identifying and setting realistic goals and delegating the achievement of

these goals to specific workers. To ensure that the task is progressing as planned, regular evaluation and feedback must be done. Remember Pearson's law which states, 'that which is measured improves.' Take for instance, a company dealing in tiffin box manufacturing. They can set a goal of producing 5000 tiffins consistently with high customer satisfaction. The management can then plan to bring about efficiency in the process through periodically monitoring and checking the manufacturing process and conducting surveys to gain an understanding of the customer's mindset and response to the product. This key information can then be utilized to improve the performance.

5. **Assessment of management of resource and capabilities:** After identifying key performance indicators it is essential for the firm to assess how resources are utilized. It is important to ensure that a firm has the right workforce with the right skills and availability, on the projects at the right time or a firm risks eating away its profit margin. If the inefficiency of the firm is identified, it is crucial that resources are reallocated where they are most needed.
6. **Encourage employees to interact physically**: Although sending a quick email or chat message to a colleague looks like a more efficient way of getting a response oftentimes, it can have the opposite effect, given the fact that subsequent back-and-forth of emails may take longer than a quick and more clear face-to-face interaction. Applications like Skype, Google Chat and other online communication tools are always helpful when trying to shoot over a quick message to your colleagues, however, a face-to-face interaction considerably speeds up the process of solving a problem, answering a question, and getting something important clarified.
7. **Outsourcing**: Outsourcing is a cost effective way to put emphasis on the tasks the firm does best as a business and enhances the productivity gains. The firms also have the option of outsourcing different functions like logistics, accounting, payroll, public relations or IT related activities. But it is very important that the firm carefully analyses what drives costs and profits for the firm. Major IT firms like Cap Gemini have outsourced their payroll to Hewitt to increase its HR efficiency, so that the HR department can focus on other tasks related to staffing and training and development.

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6.2.2 Effectiveness Enhancement

Firms usually strive to increase and improve the efficiency of their operations and sales processes. While working with limited resources, they would prefer to maximum utilization of the resources, from budget and technology to time and sales. However, by pursuing efficiency at all costs, some of these firms are missing a valuable chance to take a step back and look at their overall effectiveness in the bigger picture. Effectiveness closely relates to the efficiency of a business. The firm should focus on revenue model effectiveness and value chain effectiveness. *The* ***value chain effectiveness*** *is the ratio of buyer value added to the firm's cost to serve. The firm's* ***revenue model effectiveness*** *is measured by the ratio of price the buyer is willing to pay to the buyer value added.* The business model advantage is the product of value chain effectiveness and revenue model effectiveness.

Value chain effectiveness: It is the ratio of buyer value added to the firm's cost to serve.

Revenue model effectiveness: It refers to the ratio of price the buyer is willing to pay to the buyer value added.

The key to organizational effectiveness is using the right tools and strategies to accomplish a specific goal. The following matrix explains what a firm needs to be efficient and effective simultaneously.

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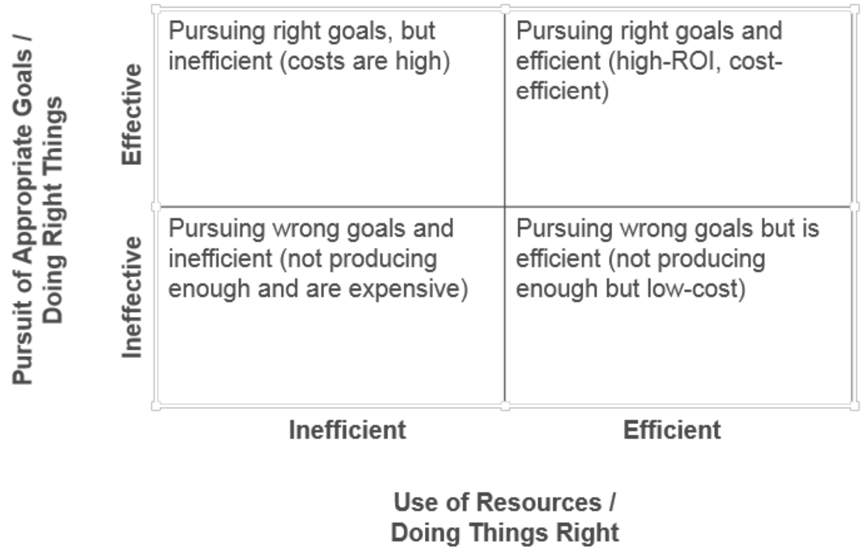

Source: www.insight squared.com

Figure 6.1 *Efficiency and Effectiveness Matrix for a Firm*

Measures to enhance firm's effectiveness

1. **Effective use of human resource:** The human resource of any firm is key to its effectiveness. Human resource personnel provide support to the organizational effectiveness by helping with the design of new business strategies. Since the human resources professionals in a company play an essential role in hiring new employees, they also impact the firm's vision and goals. They offer distinctive perspectives that the leaders may overlook and play a significant role in identifying the right professionals for new positions within the firm.
2. **Focus on growth:** A leader must identify the strength and weakness of the firm before making and acting plan to improve the effectiveness. Before making any change in the firm a leader must identify the existing resource capabilities of the firm and identify the areas of improvement where the focus is required. Firm should focus on the growth by accumulating necessary resources and skills, and by building effective teams. The main purpose is to develop capabilities and teams with complementary skills and strengths and enhance their effectiveness.
3. **Quality of product and service**: A business must also identify an appropriate level of quality for the products or services provided. The key is focusing on the balance of quality with cost effective solutions. The goal of any business is improving the products without exceeding a set budget or price range.
4. **Effectiveness by becoming customer centric:** Quality management is just as important as the overall efficiency of the company. If a professional does not provide a quality product or service, then customers look for alternatives for their needs and goals. Identifying what customers want from the firm or the services they find the most valuable for their needs and goals can not only increase firm effectiveness but also provide it a competitive edge.

5. **Adopting latest technology**: Technological tools play an essential role in the efficiency and effectiveness of a company. Make use of computers, tablets or smartphones to improve the efficiency of the company. Use software or sharing tools to keep different members of a team up-to-date with the state of a project, even when they are not actively working on a specific portion of the project. Using latest production technology streamlines the process and save cost of the operations. Technology usage in marketing and distribution provide the firms an advantage above the rivals by keeping them connected to suppliers on one side and customers on the other side of the value chain.

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Excellence Management: It refers to the art of reconciling all stakeholder needs, from the outside-in as well as from the inside-out.

6.2.3 Excellence Management

As operational excellence becomes the standard rather than the exception in business, firms need a new foundation of competitive differentiation. Continuously, market leaders are crafting strategic advantage through their ability to manage the performance network, rather than just transactional processes. This new phenomenon is called Excellence Management. To achieve it, firms need to become smart, agile and aligned.

The Strategy-to-Success (S2S) framework enlarges the scope of traditional performance management to offer a framework by which companies can accomplish excellence management. Enterprise Performance Management Systems (EPMS) then enable firms to realize their management process goals by connecting incongruent management activities and bringing together strategy creation, implementation and feedback.

Excellence Management is the art of reconciling all stakeholder needs, from the outside-in as well as from the inside-out. To deliver it, firms need a process framework that accounts for all of its components. For example, the car manufacturer that gains insight into dealer relationships, they will derive strategic advantage from managing relationships rather than from managing processes.

Firms ensure growth by focusing and relying operationally on three pillars cost, quality and speed. However, those firms which focus on excellence management have three additional qualities and these are: Smart, agile and aligned. Let's have a look at these qualities:

- **Smart**: Internal and external data is available in abundance in every firm. Successful firms today focus on leveraging existing data obtained from both internal and external sources. With better insight, these firms can move faster than the rivals and gain a competitive edge. Smart companies match the right technology with the best methodologies and processes to turn an increasing amount of data into meaningful information that supports decision-making processes across the organization. CFO of Stryker Corporation, a medical device company, believes that smart way of handling data is crucial for every business' success. Similar are the thoughts of CFO of SAUR, a water treatment and distribution firm in US, he emphasizes that handling information and technology certainly enhance the performance of the firm.
- **Agile**: Being smart is only valued if it transforms into action. The firms most likely to succeed are ones that can adapt to changing circumstances. Global competition, abundance of information and shrunken markets may bring new entrants, or new technology developments may bring new business

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Invention: It refers to new concepts or products that derive from individual's ideas or from scientific research.

Check Your Progress

1. Mention the function of the online order management system.
2. What is the cost effective way to put emphasis on the tasks the firm does best as a business and enhances the productivity gains?
3. The three pillars of ensuring a firm's growth are cost, quality and speed. What are the other additional pillars?
4. Define the Strategy-to-Success (S2S) framework enlarges the scope of traditional performance management to offer a framework by which companies can accomplish excellence management.

models, and the firm needs to change operational styles. Agile firms need less time to understand how changes in the market affect their own operations and success. Whether they are first mover or followers in a market, they are able to identify alternative actions more easily and may even take an active role in driving change into a market. Top management of Schneider Electrics a leader in electricity distribution and automation indulge in excellence management every day. For such firm challenge is to meet each year's goals while generating productivity gains and ensuring a high quality of service and that too without increasing head count.

- **Aligned:** In order to innovate and succeed, organizations throughout the value chain need to collaborate closely. Aligned firms evolve from a command-and-control approach to a collaborative model that incorporates contributions from all stakeholders and shares information through integrated systems and processes. Alignment is a key for Stryker Corporation as well. All their divisions, which are located in Israel, Puerto Rico, San Jose, and Dallas, store their data into a common system and then it's consolidated for meaningful interpretation and outcomes.

6.3 INNOVATION

Peter Drucker defines innovation as 'the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual in the family kitchen. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth'.

As per the Merriam-Webster Dictionary, 'Invention refers to new concepts or products that derive from individual's ideas or from scientific research. Innovation on the other hand is commercialization of invention itself.'

Innovation can be of 3 types, on the basis of extent of change they cause in market: **Discontinuous innovations, Continuous innovations** and **Dynamic innovations.**

- **Discontinuous Innovations**: These type of innovations bring new products to the existing markets and are therefore, discontinuous in every market segment. The nature of these new products bring about a sort of redesign of markets and the competition as they are very different from the existing products. For instance, communication has gone a sea of change with the introduction of mobile phone technology and the Internet.
- **Continuous Innovations:** Continuous innovation is on the other end of the spectrum referring to the minimal changes brought to the existing products in consideration of keeping the customer habits and market dynamics unaltered. These innovations are such that often times the customers are not even aware of the changes done to the products even though the firm may have put a lot of money to improve its current products. Examples include shampoos which are different from existing products only in its brand name, fragrance, color, and packaging is also a new product, though it is a continuous innovation.

- **Dynamically Continuous**: Dynamically continuous innovation falls between the discontinuous and continuous innovation. The customer habits do alter with such innovations but not to the extent as in a discontinuous innovation, and not as insignificant as in a continuous innovation. Some examples include the progression from a manual to an electronic type-writer, and the advent of cable and satellite television.

We will discuss some of these types in detail in this section.

6.3.1 Continuous Innovation

Customer expectations have radically increased in recent years with the advent of Information Technology. Since the emergence of disruptive industry challengers, firms have begun to establish not only new markets, but new ways of consuming existing or traditional services. As we head deeper into the digital and artificial intelligence age, new products, services and processes are emerging all the time, and customers have come to expect these to be delivered to them quickly. The speed at which the consumer market is moving is forcing companies to innovate at an ever increasing rate. With the variety of choice and ease of switching manufacturers erode customer loyalty; this innovation has to be delivered to the highest standards. Gradually, firms are finding that in order to survive, let alone grow – they need to change the process and operations. At the same time, they're being pushed to do more with less (or at least the same) making it vital that organizations work smarter, not harder.

A continuous innovation process begins by connecting ideas from across an organization, as well as strategic external groups, like strategic partners, vendors and customers. Ideas can also be generated by market opportunities such as mergers, acquisitions and dissolutions. Many firms are mistaken by focusing only on internal ideas, which represent a missed opportunity to integrate the feedback from those that use your products and services in the market. To determine the ideas that are worth investing into, take feedback of customers and understand their concerns. According to a recent analysis by the Boston Consulting Group, 78 per cent of strong innovators generate ideas internally. An additional 70 per cent of respondents have generated ideas from strategic partnerships and 68 per cent have generated ideas from customer suggestions. The bottom line is that the strongest innovators tap all channels when generating new ideas.

Once the firm validated the idea's value proposition, it should move on to the Business Model Generation phase. Once the market and customer segment has been defined, firm can continue to grow thorough answers to key questions like: how much will this product cost? How will we reach our customers? And how will we get this idea or product developed? Firm should check whether or not have the internal resources, what the features are required for minimally viable product (MVP), and firm identify partners to fill internal gaps. This is where private equity and venture capital organizations have a distinctive advantage. They have ongoing opportunities to reach into their ecosystem to pinpoint a partner company that can help see an idea through to development and then to market. Firms can also choose external partners to develop business models.

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Continuous innovation: It is the type of innovation which refers to the minimal changes brought to the existing products in consideration of keeping the customer habits and market dynamics unaltered.

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Six management principles explaining continuous innovation

There are numerous researches that have been done on continuous innovation. In this section, let's have a look at the broad management principles that represent how companies efficiently undertake continuous innovation.

1. **Dynamic capabilities:** This refers to the firm's adaptation to increasingly altering surrounding factors in terms of developing, integrating and reconfiguring competencies both internal and external.
2. **Continuously changing organization:** The firms should have in place a structure to adapt to change proactively rather than waiting until the moment becomes all too pressing. The problems should be dealt with actively and not brushed aside until it becomes too late.
3. **People-centric approach:** A continuously innovation intensive company must have an environment that encourages people to use their creative faculties. The management principle must be people-centric, focusing on liberating the individual's thinking capabilities.
4. **Ambidextrous organization:** This management principle advocates the balanced functioning of two varied forms of organizational logic harmoniously in the same organization: daily production with conventional planning and innovation with experimental and open attitude.
5. **Open organization networking with its surroundings:** There can be two types of companies i.e., one with closed and clearly demarcated boundaries away from the world and others which interact with other companies and surroundings more openly. In the long-term, it is prudential to have a healthy network with the surroundings.
6. **Systems approach:** This approach of working is characteristic of mutually dependent components and other dynamic factors which go on to create new forms of characteristics of the system, which can be difficult to understand, predict and work with. These characteristics may be of positive, negative nature or a combination of two. Then these demand additional measures, such as decreasing the fallout from unexpected negative system effects.

The aforementioned principles of management are the fundamental principles which have been seen to contribute to a firm's aim to bring about continuous innovation.

> During its first 15 years, Google succeeded in creating and maintaining a very successful management model for continuous innovation. Innovations such as a new search engine (Google Search), AdWords, Gmail, YouTube, Android, Google+, and Google Glass all come from Google Inc. Some of these have radically changed the logic of entire industries and, in the true spirit of Schumpeter, have led to creative destruction.

6.3.2 Radical Innovation

This type of innovation is also known as disruptive innovation. It affects the economic activity of the firms and the market massively. The novelty of the innovation in such type of innovation is given a backseat with the focus on the impact of innovations. The impact on the market due to the innovation could range from creation of new markets,

Radical innovation: It is the type of innovation which affects the economic activity of the firms and the market massively.

change in the current market structure or the existing products becoming obsolete or outdated. But it is not always so that the disruption in the market is visibly perceived until a long time period after its introduction. Additionally, the cut-off point between incremental and radical innovation might be set at different levels. In Schumpeter's view 'radical' innovations create major disruptive changes, whereas 'incremental' innovations continuously advance the process of change (Schumpeter, 1942).

In fact, it must be understood that radical innovation is not an outright discreet event but one which is compounding in its process. It is complex, lengthy and laced with risks. One of the most important potent players involved in radical innovation are new market entrants or smaller firms.

The diffusion of radical innovations nearly always depends on several factors including: incremental improvements, refinements and modifications, the development of complementary technologies, and organizational change and social learning.

Radical Innovation is also sector specific in nature. This is to say that some sectors are characterized by more pronounced rapid changes and radical innovations, while others are involved in smaller, incremental changes. In high-technology sectors, R&D plays a central role in innovation activities, while other sectors rely to a greater degree on the adoption of existing knowledge and technology. Low- and medium-technology industries (LMTs) are often generally characterized by incremental innovation and adoption.

An example of radical innovation is Amazon. The firm made headlines last year when it launched its Dash buttons, small Wi Fi connected devices that allow you to reorder household essentials such as toilet paper, razors or washing powder at the click of a button. Both the technology and the business model of relying on repeat orders are both new but we're yet to see if this radical innovation will be a hit with customers. Internet of things and virtual reality are new age radical innovations disrupting various business models.

Radical Innovation can be understood at three levels:

1. Breakthrough innovations help in delivering radical solutions to challenging business problems.
2. Disruptive innovation creates a new niche market for the product or service
3. Game changing innovations transforms not only business but also markets and societies.

Radical innovations help a company to stand out of the competition ahead of rivals and enable rapid growth. It creates high return on investments.

6.3.3 Kaizen

The word Kaizen means 'continuous improvement in small steps' or 'change for the better'. Kaizen costing is a term which was developed in Japan immediately after the Second World War. Kaizen is thus a Japanese workplace philosophy which focuses on making continuous small improvements. The practice of Kaizen focuses upon continuous improvement in manufacturing processes, purchasing, logistics, other supporting business processes and management. Kaizen costing is based on the belief that nothing is ever perfect, so improvements and reductions in costs are always possible.

Kaizen: It is a practice of focusing upon continuous improvement in manufacturing processes, purchasing, logistics, other supporting business processes and management.

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Basic characteristics of Kaizen include

1. Small ideas. Kaizen is small ideas. It is based on the premise that small ideas result for the company.
2. Continuity. Kaizen is continuous flow in small improvements and when added together represent enormous savings of ideas for improvements on day-to-day basis. It is not periodical in nature.
3. Participation. Successful implementation of Kaizen requires the participation of all employees in the improvement. Involvement of all employees also results in their improved morale.
4. Permanent changes. Once the change/ improvement is made, it is adopted on permanent basis.
5. Practical approach. Changes made have to be within realist or practical constraints.

Kaizen is considered as the 'Key to Japan's Competitive Success.' It was first implemented in several Japanese businesses after the Second World War when American occupation forces brought in American experts for the rebuilding of Japanese industry. Kaizen has been successfully applied in many Japanese companies, such as Toyota and Canon. It has taken over 50 years of slow accumulation of many small developments in process and quality that has helped make Toyota the lowest cost and highest quality automobile company in the world. Kaizen has spread throughout the world and has been applied in banking, healthcare, government and many other fields. However, some critics of kaizen claim that the cost-cutting measures come at the expense of fair labor practices and quality of products. For example, accusations of death by overwork at Toyota that included unpaid 'so-called voluntary quality control meetings held after regular work hours'.

Toyota Uses Kaizen for Efficiency in Indian Plants

Toyota uses the concept of 'muscle memory' to train its employee towards achieving efficiency. This will ensure precision in the work of the workforce. For instance, a new recruit advances to the next level of training only after he masters the art of picking up exactly five pairs of nuts and bolts from a box. This has resulted in certain units achieving the efficiency of 95 per cent!

After a plant reaches peak efficiency, the management reduces the number of workers slightly thus not compromising on efficiency and able to reduce the workforce which could be used else-where.

Five S of Kaizen

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'Five S' of Kaizen is a logical approach which leads to robust systems, standard policies, rules and procedures to develop a healthy work culture in the firm. For instance, it is a rarity to find a Japanese employee speaking ill of the company he/she is working for. Employee and customer satisfaction are very crucially linked through the process of Kaizen. For increased productivity and growth, Kaizen tools must be brought in use. One of the essential aims of the Kaizen approach is to ensure that the employees dedicate themselves to their companies and its growth objectives.

The five 'S' of Kaizen:

1. SEIKETSU- It refers to standardization which must be present in every organization in the form of rules and policies to ensure superior quality of product delivery.
2. SEISO – It means 'shine the workplace'. This is to say that the neatness and cleaning of the workplace is to be kept by the workforce. This includes small activities like de-cluttering the work station. Proper filing of necessary documents in their proper folders and files. Arrangement and storing of personal belongings and things in cabinets and drawers.
3. SEIRI – It stands for 'sort out'. This principle states that employees should sort out and organize things well. Labels like 'Necessary', 'Critical', 'Most Important', 'Not needed now', 'Useless' etc., must be used for different items. Other activities include eliminating the unnecessary, keeping aside the unneeded items and safely placing critical items at secure location.
4. SEITION – It means 'to organize'. It has been found by many researchers that half of the time of the employees get wasted in locating the misplaced important documents. This is why, this principle dictates that each item must have its own space and must be kept at its place only. Not only the employee time but the productivity gets enhanced due to this.
5. SHITSUKE – It refers to 'self-discipline'. This principle states that employees need to respect the policies and rules of the firm. This pertains to the dress code, work procedures, identity cards etc. This practice of self-discipline gives the employees a certain sense of pride and respect for the organization.

Best Kaizen Tools

Let's have a look at some of the best Kaizen tools as per their application:

- **Fishbone Diagram**

  If the company finds itself in a problem, the best tool at the manager's disposal is the fish bone diagram. Through this tool the possible cause and reasons can be identified and studied. The tool also helps in segregating the problem into manageable parts. The reasons recognized are then further examined to find a minimum of five contributing factors. On the conclusion of such task, an extensive list of possible causes is in front of the manager. This comprehensive picture allows an easy elimination of the problem altogether at micro level. This tool is beneficial to use only for key problems only given that it is very complex and comprehensive.

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- **SIPOC**

  It is a cross-functional analysis, which helps in the analysis of Kaizen events in terms of Suppliers, Inputs, Process, Output and Customers. This mapping tool is crucial for diagnosing work-flow problems which can be further applied for improving work procedures, eliminating zero-value activities and optimizing the process cycle time.

- **Pareto Analysis**

  High priority problems can be identified through the Pareto Analysis. It is also known as the 80/20 rule. As per this rule, that dealing with the important 20% causes that account for 80% of the problems will make sure that most of the problems related to the Kaizen event gets resolved by themselves.

- **Value Stream Mapping**

  The core structure of the product flow can be easily identified and studied through the toll value stream mapping. This mapping technique is advantageous for identifying activities which demand improvements immediately, wastage and other concern areas.

The analysis comprises studying the flow of materials and information. Along with that it is also required to look at the process flow for both value-adding as well as non-value-adding activities.

6.4 HARNESSING DIVERSITY AND GROWTH STRATEGIES

Diversity is the presence of people from a wide range of backgrounds and possessing different traits. Some possible contributors to diversity include differences in age, race, ethnic origin, culture, physical abilities, religion and sexual orientation.

Diversity: It refers to the presence of people from a wide range of backgrounds and possessing different traits.

Diversity Management

Early 21st century can be regarded as the time when diversity management as an organizational concept has been seen to have emerged especially with reference to gender and ethnicity. Diversity training and promotion of tolerance and acceptance of differences between individuals can be seen as the ingredients working towards embracing diversity. Diversity has many different nuances but in the context of growth management, it is one of the most important factors contributing towards innovation at work place.

Check Your Progress

5. Give some examples of discontinuous innovation.
6. What does the ambidextrous principle of management indicate?
7. State the meaning of SEIRI principle of Keizen.
8. Which tool of Kaizen is used for understanding the core structure of product flow?

Diversity Leads to Business Innovation

Creative thinking is slowly becoming the key element in expanding organizations and innovative business models. These companies now require a workforce who are above the traps of conventional, limited and restrictive thinking and brings forth different educational backgrounds and experiences in life. Formal qualifications and life experiences translate into different ways of examining, solving and implementing business strategies, customer service issues, sales programs and operational problems.

Global marketing, sales and business dealings in an increasing connected world gets impacted by factors ranging from different cultures, languages, races, lifestyles,

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infrastructural facilities, etc. If a company dreams of expanding its business beyond the national boundaries, then having a culturally diverse workforce in a global firm would seem to be natural.

There are minimum concerns of discrimination and harassment in an organization in which cultural diversity is not only an accepted but also a clearly articulated goal. An assurance to a culturally diverse workforce opens a pool of recruiting sources from which to choose the best and the brightest of future employees.

While there are almost as many approaches to building a culture-driven diversity program as there are organizations striving to implement them, there is great value in examining some of the elements that are critical to any successful effort.

Steps to Harness Workforce Diversity

1. Diversity needs to be grown

A solid foundation with management is one of the most important elements for real diversity to take root in an organization. An HR department solely is not enough for this, there is a requirement for a separate task force. The head of this division must have officer ranking and report directly to the top management, preferably the CEO. Supporting the office should be an Executive Council comprised of senior executives. Their primary function would include approving the diversity agenda, including recommendations, strategies, goals and vision statements. And finally, to serve on the task force to ensure that the program stays as desired, employees representing various disciplines and employment levels of the company should be selected.

2. Continuous Training

Factors like level of education, length of service, responsibilities and demographics, etc., should be the guiding elements for tailoring the program for various workforce audiences for whom it is designated. Most important, the training must be continual. It needs to be part of every new employee orientation, planning retreat, sales session and corporate restructuring. The presence of top in the line executives is very important in form of their attendance and uncompromising in their collective commitment for diversity and organization growth.

3. Form Empathy Groups and Link Them to Mentoring

'Empathy Groups' and their formation should be encouraged throughout the company. For example, Women, African-American, Hispanic, and Asian communities can support and provide resources to the overall diversity program. Obviously, the efforts of these affinity groups should be linked to business objectives. It is not necessary that the person from the specific group itself is only chosen for mentoring of the makeup of these groups. It's the level and experience of the mentor that should be the most important factor.

4. Interns Can Become Valuable Employees

Intern programs are considered to an effective way to identify and attract talent for entry-level management positions. Interns can be found in colleges, universities and community organizations. Schools and other organizations will be more than happy to help establish and administer such intern programs. These intern programs are potential source of employee pool with diversity.

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5. Make Diversity a Business link Initiative

It is very important to treat diversity not as a separate issue but as an organizational development issue and the results would be astounding. For instance, the diversity programs should work in tandem with organizational improvement efforts like Six Sigma, Good to Great, Appreciative Inquiry, and self-managed work teams. This will ensure the applicability and significantly smoother compliance of the diversity commitment throughout the entire firm.

6. Flexibility and Innovation in Diversity

Employment policies, benefits and programs like work from home, flex-time, and part-time work, longer paid maternity leaves, paid parental leaves for adoption purposes, domestic partner benefits, child care assistance and elder care assistance are progressive examples of the commitment to diversity. will also have a positive impact on your diversity effort. These kinds of initiatives are highly valued by younger and new age workers. Conservative corporate cultures that reject such programs will find real diversity a difficult objective to achieve.

7. Be Passionate but not boundless

Diversity commitment is always going to be about change. So, from the beginning, realize that achieving real diversity will be a never-ending objective. As such, diversity must become an ongoing executive passion. Ironically, an organization will know when it has achieved true commitment to diversity when much of the official diversity supportive structure can be withdrawn, without impacting the progress towards diversity.

6.4.1 Rapid Growth Strategies

Many a times, new entrants like big competitors with huge resource pool, who have waited for the market to establish before investing their resources in it come with rapid growth in the industry. At this stage, brand recognition, product differentiation and financial resources to support marketing expenses and the effect of rice competition on cash flows are the kinds of growth strategies which can be key strengths. It becomes imperative here for a firm to scale up production or service capacity to meet growing demand. There also comes a higher demand on the capital resources of the firm from the increased investment in production capacity, research and development and marketing efforts to target specific customer groups along with developing strong distribution capabilities.

Below strategies can be followed by firms for rapid growth

- Develop potential and create resources to scale up to meet increasing demand, which may involve production facilities, service capabilities and training and logistics related to that capacity
- Establish strong brand recognition through promotional resources and skills that increase selective demand
- Build strong product design skills to adapt products and services in the emerging market
- Adopting Kaizen, lean production and Six Sigma
- Differentiate the firm's product from the competitors

- Build R&D resources and skills to create product and process variations
- Develop strong customer base through existing customer loyalty and attract new customers
- Focusing on innovation and effective supply chain
- Enhance and update the capabilities of Sales and Marketing

Take the example of IBM which entered the personal computer market in which Apple pioneered in growth stage was able to capture rapidly the market by becoming market leader with strategy based on key strengths in brand recognition and possession of financial resources. Then in 2005, as the market for personal computer matured IBM sold its PC division to Chinese company Lenovo.

Managing Rapid Growth

A consistent plan in tune with the vision for growth (in terms of product and market) along with plans for how they will support expansion by enhancing the know-how, resources and organizational structures at the firm is very important for rapid growth. This is very important as no business can afford to leave their growth to chance. Some of the strategies for managing rapid growth are:

Strategies to manage rapid growth

(I) Employees: The importance of having above-average people in a fast-growth business is a basic requirement. Workforce with people who can think on their feet, adapt well to constant change, and put in the extra hours are crucial for company planning for rapid growth. This is so as the workloads will constantly be expanding and may not be predictable, innovative solutions will have to be implemented quickly. The workforce must be such that can get excited about being a part of growing business. There must not be any hesitation to let go the people who are talented but do not fit into organizational context.

(II) Scaling: This refers to the objective of 'increase size of current operations'. This approach is possible where the company can demonstrate a product with unique value that addresses a large market, and is easy and cheap to distribute. One of the crucial requirement in this strategy is aggressive investment in marketing and continuous product development along with good knowledge of mass marketing and product support. Some of the key accomplishments which can be observed while a company scales up are: the ability to specialize and standardize, to hire the right mix of people, adapt the corporate and implementation structure and learn and share lessons from customers quickly.

(III) Financial Resource: It is a very natural fact that fast-growth businesses consume financial resources in a rapid fashion. Even with good profits, there will almost certainly be times when a growing business will run tight on cash as expenditures occur before related sales are realized. It is crucial that the firms be close to the bank and communicate regularly with them. The identification of cash flow funding options such as invoice discounting are also important. Early planning is imperative in case the managers consider that substantial funding will be required from venture capital sources to finance growth as it can take up to a year from identifying the need getting the cash in the bank.

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(IV) Duplication: This strategy can be dubbed as 'repeat business model in new geographic region'. Businesses where a physical presence is required and/or where distribution needs to be improved are the ideal categories for duplication. Adapting experience in original market to the new regions is the key ingredient here. Some of the important accomplishments would include the ability to package know-how and yet be able to adapt that know-how to new markets: a tension between the benefits of standardization and adaptation.

(V) Granulation: This strategy refers to the 'Select and grow one element of the business'. This strategy comes into play for larger companies, perhaps when the former strategies have already been employed. It is very crucial that the company is large enough to be able to resource research into potential new areas. This strategy requires the company to identify and focus on the aspect of the business that can be the basis of a fast growth strategy. This strategy can be called risky as it may not fully leverage the company's knowledge base. It is because of this that success relies heavily upon evaluation and monitoring and balancing influences from old and new and formal and informal networks. SAP moved from providing an online accounting system (R1) to a multiple product company based on R3 platform which is flexible enough to cater for any client needs. They learnt from their customers what was required.

(VI) Do not ignore profits: It is very easy to become excited about rapidly rising sales and lose track of profit in a fast-growth business. This holds increasingly true when an organization shifts from a very small entrepreneurial organization to a professional organization with many managers. Firms must be mindful of the transitional phases where overhead expenses can increase rapidly. If firm is trying funding from investors, banks, or other lenders, they will want to see good, healthy profit margins. More sophisticated lenders and investors will also pay a lot of attention to the trends in firm's profit margins.

Passion for Growth

When it comes to successful business passion is a key driver. Passion means strong or extravagant fondness, enthusiasm and desire for anything. The business firms grow on several material aspects, however, one thing which keep them pushing towards new height is passion for growth. Passion gives purpose to business and drive firm to learn new strategies and deliver more results. Passion for growth need to be infectious and it should be percolated to the most bottom level of employee to create desired result. Growth is achievable when managers enjoy the task and believe in the business they are working for.

Passion can drive business in following ways

Passion solves a clear problem: Loving something without plan or idea will not result into any output. To grow the business passion need to be real for others to leverage for business. Business needs to be sure what they bring on table and how they will execute the strategy to earn profit

Seek Mastery: It is important that firm masters in its functional areas which drive growth of the business and earn profits for shareholders and investors.

Check Your Progress

9. Mention some of the possible contributors to diversity.
10. How can diversity training be made continuous?
11. Give some progressive examples to diversity in terms of employee benefits.
12. What is the one of the crucial requirement for scaling in rapid growth strategy?

6.5 SUMMARY

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Some of the important concepts discussed in this unit are:

- The sustainable growth rate (SGR) is the maximum rate of growth that a firm can sustain without having to increase financial debt or look for outside financing.
- The success in business operations for a firm is not the final step of the ladder. The firm could be running smoothly but there are always chances of improvement.
- In the new age business environment, the following strategies can be used by a firm to increase efficiency: automation, using updated technology, going digital, identifying key performance and productivity factors, assessment of management of resource and capabilities, encourage employees to interact physically, and outsourcing.
- Effectiveness closely relates to the efficiency of a business. The firm should focus on revenue model effectiveness and value chain effectiveness. *The value chain effectiveness is the ratio of buyer value added to the firm's cost to serve. The firm's revenue model effectiveness is measured by the ratio of price the buyer is willing to pay to the buyer value added.*
- Measures to enhance firm's effectiveness are: Effective use of human resource, Focus on growth, Quality of product and service, Effectiveness by becoming customer centric, etc.
- As operational excellence becomes the standard rather than the exception in business, firms need a new foundation of competitive differentiation. Continuously, market leaders are crafting strategic advantage through their ability to manage the performance network, rather than just transactional processes. This new phenomenon is called Excellence Management.
- The Strategy-to-Success (S2S) framework enlarges the scope of traditional performance management to offer a framework by which companies can accomplish excellence management. Enterprise Performance Management Systems (EPMS) then enable firms to realize their management process goals by connecting incongruent management activities and bringing together strategy creation, implementation and feedback.
- Firms ensure growth by focusing and relying operationally on three pillars cost, quality and speed. However, those firms which focus on excellence management have three additional qualities and these are: Smart, agile and aligned.
- Peter Drucker defines innovation as 'the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual in the family kitchen. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth'.
- Innovation can be of 3 types, on the basis of extent of change they cause in market: **Discontinuous innovations, Continuous innovations** and **Dynamic innovations.**

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- Six Management Principles explaining continuous innovation are: dynamic capabilities, continuously changing organization, people-centric approach, ambidextrous organization, open organization networking with its surroundings and systems approach.
- Radical innovation is also known as disruptive innovation. It affects the economic activity of the firms and the market massively. The novelty of the innovation in such type of innovation is given a backseat with the focus on the impact of innovations. Internet of things and virtual reality are new age radical innovations disrupting various business models.
- The practice of Kaizen focuses upon continuous improvement in manufacturing processes, purchasing, logistics, other supporting business processes and management.
- Diversity is the presence of people from a wide range of backgrounds and possessing different traits. Some possible contributors to diversity include differences in age, race, ethnic origin, culture, physical abilities, religion and sexual orientation.
- Many a times, new entrants like big competitors with huge resource pool, who have waited for the market to establish before investing their resources in it come with rapid growth in the industry. At this stage, brand recognition, product differentiation and financial resources to support marketing expenses and the effect of rice competition on cash flows are the kinds of growth strategies which can be key strengths. It becomes imperative here for a firm to scale up production or service capacity to meet growing demand. These refer to growth strategies.

6.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The function of an online order management system is to integrate inventory information with the firm's accounting, purchasing and procurement systems which allows the firm to easily track order status and movement of inventory within the firm.
2. Outsourcing is a cost effective way to put emphasis on the tasks the firm does best as a business and enhances the productivity gains.
3. Firms ensure growth by focusing and relying operationally on three pillars cost, quality and speed. However, those firms which focus on excellence management have three additional qualities and these are: Smart, agile and aligned.
4. The Strategy-to-Success (S2S) framework enlarges the scope of traditional performance management to offer a framework by which companies can accomplish excellence management.
5. Mobile phone technology and the Internet are the examples of discontinuous innovation.
6. Ambidextrous organization principle of management advocates balanced functioning of two varied forms of organizational logic harmoniously in the same organization: daily production with conventional planning and innovation with experimental and open attitude.

7. SEIRI stands for the principle: 'sort out'. This principle states that employees should sort out and organize things well. Labels like 'Necessary', 'Critical', 'Most Important', 'Not needed now', 'Useless' etc., must be used for different items. Other activities include eliminating the unnecessary, keeping aside the unneeded items and safely placing critical items at secure location.
8. Value Stream Mapping is the Kaizen tool is used for understanding the core structure of the product flow.
9. Some possible contributors to diversity include differences in age, race, ethnic origin, culture, physical abilities, religion and sexual orientation.
10. Diversity training can be made continuous by making it a part of every new employee orientation, planning retreat, sales session and corporate restructuring.
11. Employment policies, benefits and programs like work from home, flex-time, and part-time work, longer paid maternity leaves, paid parental leaves for adoption purposes, domestic partner benefits, child care assistance and elder care assistance are progressive examples of the commitment to diversity.
12. One of the crucial requirement in this strategy is aggressive investment in marketing and continuous product development along with good knowledge of mass marketing and product support.

6.7 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is efficiency and effectiveness matrix for a firm?
2. Explain the following pillars of excellence management: Smart, agile and aligned.
3. Describe the three types of innovation.
4. Briefly explain the levels of radical innovation.
5. Write a short note on the 6s of Kaizen.
6. What is the concept of passion for growth?

Long-Answer Questions

1. Discuss the strategies that can be used by a firm to increase efficiency.
2. Describe the measures to enhance firm's effectiveness.
3. Explain the six management principles explaining continuous innovation.
4. What are the characteristics and tools of Kaizen?
5. Discuss the steps to harness workforce diversity.
6. Assess the strategies to manage rapid growth.