

Strategic Management - The Competitive Edge
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Lecture 13
Global Uncertainty Internal Corporate Analysis

So in the last session we were looking at how to construct EFAS matrix for an organization. We took the example of Maytag and how a strategic consulting company created this matrix for Maytag. Kindly note that it is a real matrix, the values are real for a company operating in the United States. The important point that is being brought out is how to construct this type of a matrix.

Now the question that comes is why are we interested in this type of matrix? I am not sure whether the Indian companies operating in the competitive market, especially our public sectors, are doing it; if not, it is high time they started doing it. If they do not do, you may find that most of them will become a thing of the past very soon in this type of scenario. It has happened to HMT. The state of affairs of ITI is also not very good; it is in fact, distressing how the first Indian public sector unit is in such a bad state, though they are saying over the last few years it has improved; many public sectors which have already closed shop in this hyper competitive environment.

Now with this background if you look at what is happening in the global scenario, likely to happen also in the 21st century, you are seeing increasing environmental uncertainty; kindly note this. Environment is not going to be certain.

So I was giving you the example of the Visakhapatnam dockyard, in the earlier classes. Suppose order was given for manufacturing a ship to Visakhapatnam dockyard. The time period for manufacturing the ship would be about 3 to 5 years and this dockyard will not bother about what is happening outside. Its job was to manufacture the ship and deliver it to the customer.

So it was a made-to-order type of situation. So this is what I said characterized long range planning; so you assumed a static environment and when you assumed a static environment, no need to do any external factors analysis. You have got an order, fulfill that order, but not now. The question of not looking at the external environment is highly risky in the present day setup.

An organization like the Kudremukh Iron Ore Company suffered due to this, because the person, the country, which was to shift the ore, itself went through terrific structural changes; so this is what is called the environmental uncertainty. Environmental scanning will become important, to

remain competitive. Companies will have to develop better methods of gathering, evaluating and disseminating intelligence to those who need it.

So market intelligence becomes extremely important. So this is what is giving rise to in the present day set up, market intelligence system. Called it by different terminologies, in the present day context, marketing analytics, marketing systems and analytics, etc.

To manage strategically organizations have to become more attuned to the many stakeholders who are affected by the company's actions. Shareholders will form only one part of the equation, kindly note that.

All the shareholders put together, become very important. So they will be making a impact on the strategic decision making; it is happening now with respect to many of the banks. Name the bank whether it is a public sector or private sector, you have aggressive marketing in the Indian scenario also. You get so many calls to your mobile phone almost on a daily basis asking you whether you require a home loan, car loan, etc

So most of the developed countries never used to touch China, now China opened its doors for other also. The result is on a reciprocal basis- that is Chinese companies will also operate from the western countries and western companies can also operate from China.

Now what is happening in this Covid? The western companies trust in China has come down, another environmental uncertainty. So these western companies are not willing to trust China. In the first place you may just wonder why did they come to China. They came to China for reaping cost advantage, now they think that it is not just cost advantage, their product advantage is also getting snatched by China.

So many spyings which are being done in the name of trying to get information. So even a company like Huawei is under the radar in the Indian context as well, because it was trying to steal customer information or trying to pass on this customer information to China; which were reported in the press. Then as more industries become hyper competitive, strategy will become increasingly short term in orientation, thus creating a paradox.

So that is what I was trying to say. Earlier we were looking at the corporate planning horizon 5 to 10 years, 10 years got struck off. They started looking at 5 years; even the 5 year period got struck off, they started looking at 3 years, corporate planning became strategic planning. IT revolution in the country shortened this period further. You started looking at strategic planning for the next year and you started looking at guidance value for the next quarter.

Now having looked at EFAS, we will look at the IFAS, the internal Factors Analysis Summary. What is this internal factors analysis? So you are looking at basically the company's internal strengths and weaknesses. So in other words you are looking at a corporate audit; it is also called organizational audit.

So this type of audit, what does it characterize? It characterizes competitive and rather distinct competencies in market place. Suppose you are an electronic product manufacturer, there will be so many; then why should a consumer prefer your company's product?

So your product should give them some specific competitive advantage over the competitors products, whether it is the price advantage, quality advantage or the attribute advantage; we will discuss further when we go along.

You might have heard of this item called Kaimurku, especially from Tamil Nadu, a sort of rice flour preparation, done very well, very tasty, most of them done on a household basis in Tamil Nadu, but less in Karnataka.

But there are many companies selling this, actually in Bangalore, not to mention of the large number of companies selling in Chennai, the Grand stores in Chennai, Adyar, Adyar Anand Bhavan, in Bangalore.

So what is this actually? Making this type of dish is not that easy- cannot be done by each and every one. It is a distinct competence shown by these players in a marketplace, added to that the taste which they give that is the proper ratios of ingredients, which make this product very tasty, the result is many of these players enjoy this competitive and distinct competence in the marketplace with respect to this simple eatable item.

Similarly, if you really look at some of these eatable stores, there are many of them in almost well-known cities, small but made a great mark. So you have some of them in Bangalore, some of their items are going to United States also, because, whenever the families are visiting their children in US, they take these items from a very small store in Gandhi Bazaar in Bangalore.

So in order to do a internal corporate analysis, what should be the criteria, what is the criteria that one should adopt for these types of analysis? So we looked at EFAS. The reason for doing, giving all this criteria is to come up with an IFAS matrix that is Internal Factors Analysis Summary.

So if you looked at what are the criteria, the first criteria is historic, look at the past performance of organizations, sales, profit after tax, then capacity utilization, before coming to

conclusions should check replicability of past and future. This is a very big question mark. Because, the future is not certain in the present day context due to hyper competition..

But anyhow it could be a good yardstick to start with, so start your criteria from the historic, take the past performance. Then second one is, what is called normative. What is this normative? It is judgment. What ought to be level of performance? That is expert opinion, consult the experts; sometimes referred to as Delphi method.

Take for example, earlier welding, now you have fine welding; earlier the weldings used to be thick, used to be ugly; what is the type of change with respect to welding? Earlier welding machines were very big, had to be brought by an auto or a tempo, you had to have a different power connection, right from the electricity board. What is the present day scenario? He brings the welding machine on his two wheeler and your house electric connection is good enough to see that this welding machine operates without tripping. This is the type of scenario changes which are coming. Fine welding many times cannot be made out also.

Now the third criterion is what is called competitive parity, that is firm must at minimum, meet the actions of competitors, should identify dimensions of uniqueness.

It may be so many attributes for the product; eg: pillows, beds which they claim will never give neck or body pain; if you look at electronic items, each electronic item manufacturer says his product is unique. Now all this gives you the next criteria that is the critical factors for success, it is also called the key factors for success in the marketplace. So it is CFS or KFS.

Now each manufacturer of TV is advertising whether it is the well-known manufacturers like Sony or LG, etc; kindly note that, advertising is a must. Suppose a new entrant comes in, he cannot afford to advertise on these lines let us say, then it will be considered as a weakness in the marketplace. You must be able to give competition in advertising to the existing products.

So this is what marketing people always tell. So these are four criteria for determination of internal factors, one is historic, second is normative, third is competitive parity, fourth is critical factors for success; kindly note that you may not be able to use only one criteria always, you may have to use these criteria in combinations.

So one criterion seldom sufficient to evaluate a firm. That brings you to measures of evaluation. So the measurements; one of the measures that you can think of is the attribute measure. So what could be an example for an attribute measure? So in the present day automotive field you are having multiple point fuel injection MPFI, what is the advantage of this attribute with respect to the product? The fuel supply to the engine is going to come undisturbed.

Suppose you are at only single point, suppose that point got choked, the fuel supply would be affected to the engine and in the layman's language your vehicle will stop. So if it is a four wheeler, and if you had engaged a driver through a taxi, he would say , “Sir, engine has ceased. Engine seizure has taken place.” What is this engine seizure? That is fuel supply to the engine has got cut off.

So this is now very unlikely with the new type of automotive, so most of them are coming with these MPFIs, even your two wheelers are coming with this more than one point fuel injections, so take the TVS scooter itself, it is coming with more than one point fuel injection; so this is the type of scenario. The third one, is effectiveness measures; eg: many times you ask: Was the training program effective? So you sent a person to a training program, a behavioral training program. When he comes back you are likely to ponder over whether that program was effective or not. What do you mean by that? So let us say this person in the production shop was keeping on shouting at his subordinates and at every possible occasion.

So effectiveness measure for the manager, would be for this supervisor, let us say this after he has attended the training program if he is able to change his behavior in such a manner that he is able to call his worker and tell him, “Look, why don't you produce in this manner?” which he never used to; you may conclude that training program is effective.

All this leads you to construct what we call in the present terminology an impact matrix. This impact matrix tells you with respect to an organization the type of trends that you can expect; that is you are looking at a trend analysis. The trend analysis you are looking at to find out what will be the impact on strategies. So the impact matrix looks something like the one which I have presented here.

I have given four trends, the probability of the occurrences of these trends you have to give. So what is the probability? 0.1, 0.2, 0.3, whatever. Then what is the type of impact it is likely to have on strategies? Suppose strategy 1, how will it impact, strategy 2, how will it impact, like that. So this scale is given from 0 to minus 2 to plus 2. Suppose you are looking at plus 2 it is an extremely favorable trend.

Suppose you are looking at minus 2 it is an extremely unfavorable trend. So this is the type of scenario, which you normally do with respect to internal factor analysis. Come out with this impact matrix. So some of these things are given in more detail in this Internal Corporate Analysis chapter in my book that is chapter number 7.

It gives you attribute measures, effectiveness measures, efficiency measures and on page number 97, it gives you the formats to analyze strengths and weaknesses with respect to each of the

functional areas, whether it is marketing, finance, production or personnel or organization. It also gives you the different types of approaches that can be adopted. Some of these things we will consider in the next session.

We will stop here and continue in the next class. Thank you.