Strategic Management – The Competitive Edge
Professor R. Srinivasan
Department of Management Studies
Indian Institute of Science, Bengaluru
Leccture 31
Stage I, II, III, IV organizations

So, welcome to this session. We were looking at strategy implementation.

So, strategy implementation, refer to this slide- It can be referred to as the sum total of the activities and choices required for execution of a strategic plan. So, we looked at how this implementation process has to be done in the organization. That is, how this sum total of activities to be executed.

We said, three questions come up. One is 'who will carry out the strategic plan', 'what should be done to align the company's operations in the new direction' and 'when and how everyone concerned should respond'. So, we tried to answer these three questions. Who will carry out the strategic plan?

So, most important thing is the people who formulate the strategy are different and the people who implement it are different. Kindly note that. And a large number of people, as I mentioned, are required to implement this strategy. So, the formulation can be a top down process but the implementation has to be the bottom up process.

So, even the person at the lower level in the organization has to get involved totally in implementing the strategic plan. That brings you to different types of organization structures with respect to strategy. What are the types of structures that you can think of?

You can look at organizations in Stage I, Stage II, Stage III. So, an organization can be considered as a Stage I organization. It can also be considered as a Stage II organization and later on as a Stage III organization also. So, what are these types of changes which are required with respect to Stage I, Stage II, Stage III. This is given in my book at page number 153.

Stage I. How do you differentiate these organizations? This stage typifies an entrepreneur promoted company. Important decisions are taken by the entrepreneur. He is also involved in every crucial detail and different phases in the organization. Kindly note all this, very important.

Managerial functions are performed in such structures to a very little degree. The structure allows flexibility and dynamism depending on the drive of the entrepreneur. If the entrepreneur were to fail, the company also flounders, creating a crisis of leadership. Hotmail in its initial stages could be cited as an example of a Stage I firm. An Indian by name Bhatia was the founder of this Hotmail. Hotmail has since been acquired by Microsoft.

Stage II. When a team of managers with functional specializations replaces the entrepreneur, we have the functional structure of the organization. So, the organization instead of becoming a one-man show, it starts getting functional specializations. So, this calls for a transition.

And change in managerial style of functioning on the part of the entrepreneur of Stage I. The strength of this structure lies in its concentration and specialization in different fields. However, its real weakness is that all eggs are in one basket. When such a firm diversifies into other products in different industries, the advantages of the functional structure are not available.

A crisis of autonomy may be created where managing diversified product lines calls for more freedom of decision-making. Cisco, a well-known networking company in the U.S. could be an example of a firm which moved from Stage I to Stage II.

What about Stage III?Companies in this stage are characterized by decentralized decision-making authority in managing diverse product lines.

These companies grow by diversifying their product lines and widening their geographical base. They have a central headquarter and decentralized operational divisions with each operating as a Stage II company. There are a number of organizations that can be quoted as a examples, I have quoted one state government organization from Bangalore which is a large export house. That is, the Mysore Sales International.

When you are going to Stage IV, the company goes beyond, tries to look beyond the SBUs. When it looks beyond the SBUs, the types of structures that can come can be the matrix or the network structure. These structures emphasize horizontal connections between people and groups and organize work on temporary projects with sophisticated information system support. A good example for this is NTPC.

So, you have so many projects and when you have so many projects you have this matrix organization structure coming into play and also the network structure coming into play. Now, if you come back to this slide, I have given some ideas about the Stage I, Stage II and Stage III organizations.

If you look at the function ‘sizing up’, the major problems, you are moving. First you are an entrepreneur then you move into Stage II, Stage III then Stage IV. What are the types of changes do you expect, it is summarized here. Survival and growth in Stage I with short term operating problems. So, you are not looking long term. Kindly note that.

When you are looking at Stage II, growth, rationalization and expansion of resources, providing for adequate attention to product problems. So, the main important thing in Stage II is you are looking at the product attributes. That is the manager is looking at each of the attributes of the products which are put out into the market. He is willing to change, if required. Kindly note all this.

In other words, the whole implementation exercise becomes more and more dynamic in Stage II. So, they are very closely observing how the product is performing in the marketplace and are willing to take corrective steps as and when required.

Come to Stage III. Trusteeship in management and investment and control of large increasing and diversified resources.

Also important to diagnose and take action on problems at division level. So, I give you a very simple example. Take automotive industry. Let us say you are a consumer. You have bought a car. Let us say you have bought a Honda City and this Honda City prides itself on its engine. That is the main attribute of this car that its engine is world class, they claim that it is number 1. Of course a very good engine, no doubt about it.

Now, you take this car, let us say, and you run it. After some few months, that music system does not operate. You are still in the warranty period. That is, the vehicle is still in the warranty period. Your music system is not operating. Then what is going to happen? The music system is not just the music system; it also helps the car in different sensing operations.

That is, when it, suppose, there are, where you want to, you can, it can help in mapping. You want to go to a particular place; this mapping in this system can guide you instead of the Google Maps. So, it can tell you that okay, this is the best.

Honda's music systems do not have the Google Maps, they have the India Maps. So, the India Maps is another outfit which gives the locational details with respect to most of the cities in the country. So, when your music system is, let us say not operating, this Maps is also not operating.

Sometimes, the reverse is also not operating. Then you are in a very serious situation. But your car is in warranty. So, you approach the Honda and you tell them this is a problem. They will, with all courtesy, tell you, sir, the car is under warranty period, we will replace the system and you are very happy that the response was so good. But you are surprised. You find even after several months this music system replacement is not taking place. This is what is presently happening in Honda. I am giving you a very live example.

Now, if you contact the Honda people, they will say, sir, this was this music system has to come from this person, we are coordinating with them. But this coordination should not take months. That means there is something wrong at the divisional level, which is happening.

So, the implementation process needs to be thoroughly looked into. It has gone bonkers, if you really want to use the term. So, when you are taking such a good car or the consumer is taking such a good car and he has a grouse, it is incumbent on the part of the company to attend to it in the shortest possible period.

So, if you look at a Honda City, the whole organization structure, it is beyond the Stage III, it is in fact at Stage IV. It is not operating in just one country, it is operating in around the globe. So, customer satisfaction should be the key in the whole scenario. So, this is what the Stage III organizations. Suppose, you have problems, this divisional level.

Now, come to objectives. Stage I. Personal and subjective. Because it is the entrepreneur who is guiding. He takes the decisions and if it succeeds, he takes the credit. Suppose, it flounders then he will be blamed. So, this is a typical Indian scenario. When going is good, everyone will price you sky high, when going is not good, it is floundering, everyone will throw stones in the whole setup.

So, starting from the smallest to the biggest person in the organization, oh, you should not have done that. Come to the Stage II. Profits and meeting functionally oriented budgets and performance targets. To that extent, you are not alone in Stage II. You are having a team and this team is looking at the profits and you are looking at functional strategies having oriented budgets.

When you are looking at Stage III, you are looking at ROI, profits and earnings per share. So, in Stage IV, you are looking much beyond. So, this return on investment, profit and earnings per share is characterized by the objectives in Stage III. When you look at strategy, Stage I is implicit and personal.

So, the entrepreneur takes the strategy call. He only decides this is how I am going. So, similar to the World War II, all the types of strategies were being decided by Hitler. So, when something backfired, when so many allies joined against him and it started backfiring, the result was Germany was almost reduced to nothing in the whole process. So, it had to surrender.

So, this is the implicit and personal exploration of immediate opportunities as seen by owner manager that is in Stage I. Stage II. Functionally oriented moves to one product's scope, exploitation of one basic product or service field. In Stage II, you are not looking at several product lines; you want to confine yourself to a few products or a few product lines.

Many times, one basic product and the others coming from this basic product. Growth and product diversification, exploitation of general business opportunities in Stage III. So, here when you are in Stage III, your lines or product lines are also likely to be more. So, when you look at organization, the major characteristic of structure with respect to Stage I is one unit, one-man show.

With respect to Stage II, it is one unit functionally specialized group. So, functional areas are coming in Stage II. In Stage III, multi-unit general staff office and decentralized operating divisions. So, when you are in Stage III, decentralization has set in. When it sets in, you can take independent decisions. You do not have to look to the top management always to convey the decision. So, you are given the liberty to take operating decisions. So, these operating decisions, you are free to take, in the interest of the company.

So, when you are looking at measurement and control with respect to Stage I, what do you see? It is a personal criteria or the relationships with owner that is dictating. So, if you are having a good relationship with the owner, then your stay in the organization is more or less assured. If you are fighting with him, you may be sacked anytime. So, these things are very common in a Stage I.

Stage II, functional and internal criteria, if you go back to the slide, such as sales performance compared to budget, size of empire, status in-group, personal relationships, et cetera. So, all these things come into play in Stage II. In Stage III, more important interpersonal application of comparisons such as profits ROI, P/E ratio, then sales, market share, productivity, product leadership, personal development, employee attitudes, public responsibility, all these come into play.

A little further in Stage IV. What about the reward-punishment system? In Stage I, it is informal, personal, subjective, used to maintain control and divide small pool of resources to provide personal incentives for performance. So, in other words, this one man calls the shorts. If he is happy with your performance, then you have a very good time in the organization. Suppose, he is not happy with the performance, your performance, then you may be fired anytime.

Then Stage II, more structured, usually, based to a greater extent on agreed policies as opposed to personal opinion and relationships. So, when you are coming to Stage II, this liberty which this entrepreneur used to have in Stage I, disappears. He cannot take vital decisions without consultation. So, he has to consult with the functional unit people before taking any decision.

When it comes to Stage III, it becomes even more democratic if you see. Allotment by due process of a wide variety of rewards, different rewards and punishments on a formal and systematic basis. Company-wide policies usually apply to many different classes of managers and workers with few major exceptions for individual cases.

When you are looking at, this is at Stage III itself, you are seeing the wide spread that is having with reference to the decision-making, resulting in rewards or punishment or whatever. So, now, if you really look at many multi-national organizations, we discussed Intel, we discussed Cisco, if you look at all these types of organizations basically in Stage IV, you are looking at highly decentralized decision making process.

So, if you really see many of these companies, so, take the case of Benz, the Mercedes-Benz unit. You may be surprised that many of these designs of the Mercedes-Benz cars, I am given to understand most of them are done in consultation with their Bangalore unit. So, there is a Bangalore research unit it appears. They do so much of design work for the models or different models of Mercedes-Benz. And they operate in virtual teams.

So, you have a Bangalore team always in consultation with the headquarters in the German side. So, both of them together, they design; they design the different models, what should be the changes which are coming in. So, in a Stage IV, you find that these processes even become more and more decentralized. So, all this brings you to this network and matrix structures in organizations.

This matrix structure in organizations can be put in a different manner. This slide if you just see, so, if you see this matrix structure, take an example of an MNC and if you look at an MNC, this MNC can be looked at as under different geographical heads. So, if you see, you have a Board of Directors, typical of the IT companies. The Chairman and Managing Directors. What do you mean?

Chairman may be one, managing directors may be quite a few. So, you have the R&D and the corporate staff reporting. Then operating companies can be typical, what you call, I have given a typical example, India, SAARC. Then when you look at SAARC, you may be having product groups A, B and C.

When you look at corporate staff, you may be operating companies in Africa, it can be with respect toA,B and C, or it can be within Europe, it can be with respect to product group D and product group E; all this makes you think that this organization is a highly decentralized one. So, decisions are taken on a decentralized footing.

Now, if you look at this network structures, this one is the matrix structure which you are having. This is given on page number 156 of the book also. And I am only just reproducing it here, in this slide.

So, you have the manufacturing division, you have the marketing division, you have the finance division, you have the human resources division in the matrix structure. Manager of project A, he has interaction with all, kindly note that, whether it is manufacturing, marketing, finance or human resource unit. Similarly, the manager of project B has interaction with all these. So, what is the type of implication that you can draw?

The type of implication is that this project manager has to learn working in a team with different heads, functional heads. So, you should be able to work with the manufacturing head also, the marketing head also, the finance head also and the HR people also. This means to say in the present day this is also the reason why IT companies are looking at project management very closely. So, they are telling their employees, have a good knowledge of project management.

So, project management in the software is a little different compared to project management in the other sectors. So, you become a qualified project manager also by going through certain courses and certain exams given by these different organizations. So, they are looking for that certification also. Are you a certified project manager? That type of scenario. Some of these U.S. companies do look for all this and now some of the Indian companies also looking for this.

Now, if you look at the matrix structure, the network structure, the corporate headquarters acts like a broker. Kindly note that. So, what is the type of different units which has to do the brokership with reference to packers, promotion and advertising agencies, maybe designers, manufacturers, suppliers, distributors, with all these, the company, the corporate headquarters has to do this brokership.

So, I have explained all this in page number 155 where it says, for the matrix structure to come into being in an organization or SBU, following three conditions must exist. Ideas need to be cross-fertilized across projects or products. Then resources are scarce, ability to process information and to make decisions need to be improved.

So, three distinct phases, temporary cross-functional task forces, product brand management, then the mature matrix. So, if you look at temporary cross-functional task forces, used when a product is introduced. The project manager is the key link. Boeing makes use of this approach.

Product brand management, when the cross-functional task force becomes more permanent. The project manager becomes product/ service brand manager and the second phase begins.

The product / service price brand managers act as integrators of semi-permanent products or brands. Procter & Gamble is an example. Third and final phase is a true dual authority structure that is a mature matrix. Here, both functional and product structure are permanent. The reporting is to a vertical functional superior and a horizontal product manager. Both of them have equal authority and must work in unison to resolve differences.

However, it must be stated that this form has not been very successful. So, come to network structure. This structure is considered as a non-structure by many. So, in this structure, several in-house business functions are eliminated and the number of activities are outsourced.

Such an organization can be considered as a virtual organization since there are several projects groups that are changing constantly. Dell Computers is a good example. So, this is where we look at how network and matrix structures can be employed by organizations. Depending on the type of organization you are in, whether you are in Stage I or Stage II or Stage III or Stage IV, you can take a call, which type of structure you would like to operate.

And in all this, kindly note that, your project manager's role becomes quite crucial. He has to execute the projects to more or less perfection in all these structures. Many times, this calls for taking decision with respect to diversification of products. So, this diversification can be related diversification or it can be unrelated diversification.

Related diversification is, you may be coming out with products which are having some synergy with the existing product line. Unrelated, you do not have this advantage. You may be coming; you may be stepping into uncharted territories, that is, you may be going into uncharted courses.

So, for uncharted, you do not know what is going, what is in for you in that course, which you are taking. So, many times, if your charted course becomes very successful, you will be talking about it throughout your life. Similarly, the marketing planner. Only few of his plans will be successful. He will be talking about those plans only throughout his life. He will not be talking about the plans which became unsuccessful.

So, this is typical of this gas stove introduction in India back in the 60s which was introduced by well known company in the public sector, that is the HP. Introduced it in the city of Ahmedabad. At that point of time, the gas stoves, the gas cylinder unknown there, when earlier they were having chulas/ kerosene stoves.

So, all of a sudden, they said we introduced the gas stoves. So, the person at the center, this project manager, he was getting tossed up and down by so many consumers in Ahmedabad. He had a harrowing time. But now, right down the lane, so many decades later, you do not find perhaps many houses without a gas stove.

So, gas stove has become a ubiquitous product. This man, I think so, he may be still living. So, this man still talks of the travails of introducing the new product in this city of Ahmadabad, the travails he had to undergo. And now, most of them may be non-existent.

Some complained about the rubber tube, some complained about the burner, some complaint about the reserves in the cylinder. That is, suppose the cylinder is going to get exhausted, how do you know, should we not have an indication for that. So, some of the problems these burners, which are coming in the stove, is not fit for Indian utensils.

How do we put our utensils, this is more suited for the western utensils, all those types of questions. So, he was in the thick of all these types of problems, tried to sort out many of these problems. So, most of these problems are more or less sorted out now. So, if you see the present day gas stove, the flame comes evenly. That is, it is not a central flame, it comes out evenly.

Earlier it was coming out as a central flame. Now now. With all this, it will have an even distribution of heat whether it is, you are making something using the tawa or some other cooking utensil. So, the heat is evenly coming off. All these types of questions, he had to go through. In other words, it is a trial. Sometimes, when you are introducing a new product, it is a trial by fire.

And this product manager and the project manager will have a very difficult initial time. And if it succeeds, nothing like that. And they are entitled to talk on that, perhaps throughout their life, which this person was doing for a very long time, saying that this is a product which was introduced and when this product was introduced these were the types of problems. And we came out of this scenario using these types of solutions. So, in other words, when you are looking at diversification, you are looking at related diversification, you are looking at unrelated diversification.

So, in related diversification, you are looking at constrained or controlled diversification. I have taken an example of J K Synthetics. So, moved from textiles to synthetic fibers unrelated. Related diversification constrained or controlled. If it is constrained, it can be linked. When it is linked you find out whether it is a weak link or it is business relation. For example, India shaving products.

So, these came with so many other products. Not really some, so, you had a blade coming out, then they came out with a shaving cream, all those types of things, linked with reference to the shaving. Then, closely related to main product line as well as to each other. Example, Nirlon. From nylon filaments yarn, for nylon tire card, for industrial applications to conveyor belts, V-belts, all based on industrial grade nylon yarn.

So, blades to toiletries and writing products, sometimes, constrained controlled application. But when you are doing all this, that is, whether you are going in from blades to toiletries, this India shaving products went into writing products also, gum, all those types of things. So, the questions that you should ask are - whether the common skills and resources really exist?

Will the economy's benefits resulting from sharing of skills and resources be substantial? Will the related differentiation improve overall results? Will the related diversification lead to any difficulties or problems? And does the company have capacity to overcome this? These are all very important when you are looking at diversification.

So, this related diversification is also discussed on, both controlled and linked diversification, discussed on page number 157 in the book. You can look at that. So, base unit, moving to a new core. Then, when it is in linked, your base business stands firm.

We will take up the unrelated diversification in the next class. Thank you.