

**Economic Environment and Business Strategy**  
**Prof. Sukumar Vellakkal**  
**Department of Economic Sciences**  
**Indian Institute of Technology Kanpur**  
**Week- 08**  
**Lecture- 39**

**Strategic Management – III**

Hello, everyone. Welcome back. In the earlier session, we discussed environmental scanning and strategy formulation: how firms analyze their environment and design long-term plans. But as you know, a strategy is only as good as its execution. In today's session, we move to the next stages of the strategic management process: strategy implementation, evaluation, and control. First, we will look at strategy implementation, the process of turning carefully designed plans into actions.

This involves programs, budgets, and procedures, but it also raises important questions. Who will carry out the plan? What needs to be aligned within the organization? And how do we overcome common execution challenges? We will explore issues firms face, such as delays, poor coordination, and inadequate training, as well as international entry strategies, including exporting, franchising, BOT projects, and management contracts. Second, we will cover evaluation and control, focusing on how organizations monitor performance and ensure that planned outcomes are achieved. Here, we will discuss different control systems, enterprise risk management, and approaches such as the balanced scorecard and benchmarking.

The key insights for today's session are as follows: strategy succeeds only when it is implemented well and continuously monitored. The real test of strategy is not just formulation but also execution and adaptation. This model shows the full strategic management cycle. We have already discussed Phases 1 and 2 in previous sessions, and today's session will focus on the third and fourth blocks. So let us zoom in on the implementation stage. Once strategies are formulated, they need to be converted into programs, budgets, and procedures.

Implementation is about execution, translating broad goals into concrete tasks. The program specifies what must be done. The budget allocates resources, and procedures define exactly how the task will be performed. Moving on, when implementing strategies globally, firms must decide how to enter new markets. Options range from exporting, which is the least costly and much easier to do, to understanding the foreign market, which can be difficult.

As I mentioned, the options range from low-risk methods like exporting or licensing to more resource-intensive methods such as acquisition or greenfield development. Each mode has trade-offs. For example, exporting requires little investment but offers less control, while greenfield development offers full control but is costly and complex. Outsourcing or production sharing lets firms exploit labor and cost advantages abroad. Moving on to strategy implementation, let me begin by giving a clear definition of what it means.

I have pasted the clear-cut definition of strategy implementation here. It is the sum of the activities and choices required to execute a strategic plan. It is the process by which objectives, strategies, and policies are implemented through the development of programs, tactics, budgets, and procedures. Strategy implementation, as I mentioned, is the bridge between planning and results. It forces managers to consider three big questions.

First, who will be responsible for execution within the firms? Second, what adjustments are needed in operations, processes, or structures? Finally, how will coordination and teamwork be ensured across the organizations? These questions remind us that implementation is not automatic; it requires leadership, alignment, and discipline. Let me now introduce you to one of Alexander's classic studies, conducted in 1991. He surveyed 93 Fortune 500 firms, which revealed that more than half of the corporations experienced the following 10 major issues when attempting to implement a strategic change. I have listed all 10 problems here in order of frequency, starting with the most common. The first thing you can see is that the implementation took longer than originally planned.

That means there was a lag in strategic formulation and implementation, and then unanticipated major problems arose during implementation. So, while the formulation may have looked rosy, later, during implementation, the real challenges and problems of the real world were encountered. Then, activities were coordinated more effectively than originally planned. Then, competing activities and crises took attention away from the implementation. So, the employees involved had insufficient capabilities to perform their jobs.

These are the main issues that arise when implementing a strategy. Here are all 10; each is highly relevant to strategy implementation, from strategy formulation through execution. Overall, the main problems include delays, unexpected issues, poor coordination, employee capability gaps, external shocks, and weak leadership, all of which derail the execution of the formulated strategy. Notice that many of these challenges are organizational rather than technical. This reminds us that successful implementation depends on people, structure, and systems as much as strategy itself.

Now, let us look at the three additional modes of international strategy implementation. One is called turnkey operations, the second is called BOT projects, and the third is called management contracts. So, coming to the first one: turnkey operations. A turnkey operation means building facilities and then transferring them to the host country or firm for a fee. That means a company designs and builds a complete facility, makes it operational, and then hands it over to the host for a fee.

It is called turnkey because the host simply must turn the key, meaning start and run; thereafter, the stakeholders or the firms that operate in the host country will begin operations. So, examples exist because, as I already mentioned, this turnkey operation happens mainly at the government level or at a slightly higher level. So, what you can see here is that I am just highlighting one example: the Rafale jet production deal. You know that Dassault Aviation and its partners set up facilities in India. So, advanced equipment could be produced locally. So, India gains technology and infrastructure through this deal, while the foreign firms enter into contracts without long-term ownership of the production facilities in the country.

And moving to the second one, the second mode of entry, which is the BOT mode. The BOT mode is one step ahead of turnkey. It's one of the variations of the turnkey operations. Here is what happened: that company operates the facility for a fixed period before transfer. That means they build and operate for a given period, maybe for example 20 years.

Then, once they have earned back the investment plus profit, they hand it over to the other firms or countries. For example, toll roads and power plants in India are often developed under BOT contracts. Similarly, a foreign firm builds and operates a toll road for 20 years, collects revenue, maximizes profit, and then later transfers ownership to the government of the respective country, for example, in India. And moving to the third one, which is called management contracts. Management contracts mean that instead of building or owning any infrastructure in the host country, the foreign company provides managerial expertise for a fee.

A classic example of this is the five-star hotel you can see around you. For example, Hilton and Marriott are hotel brands owned by local investors, but their brand names are international, like Hilton or Marriott. In this arrangement, the host gains global brand value and systems, along with managerial and technical expertise, while the foreign firms, through the promoters of the Hilton or Marriott groups, earn fees without major capital investment. They have simply transferred their brand value, brand name, and technical expertise to the Indian entity.

Similar examples include Domino's, KFC, Subway, and others. Most of them operate under these management contracts, with local investors running operations. The main

company provides the brand name, inputs, and managerial and technical expertise. Overall, all three modes allow companies to enter foreign markets without heavy ownership. Turnkey offers quick entry with limited involvement, whereas BOT provides long-term control, and revenue and management contracts focus on knowledge and brand transfer. Each of these methods has its own pros and cons.

In a country like India, you can see evidence of all three kinds of foreign market entry by foreign firms. Moving forward, let us now focus on the fourth block of the management process. As I mentioned, this one is evaluation and control. So, here is the performance monitoring, and what this model is. We have already discussed it in the previous three instances. So, what we saw earlier now highlights the final stages: evaluation and control.

Here, managers track performance against objectives, identify gaps, and make necessary corrections. This closes the loop by feeding lessons back into strategy formulation and implementation. The main point is that once we reach the evaluation and control stages, we need to assess performance, how the firm is doing, and whether we are meeting the benchmarks and criteria already laid out. If there are any lapses, we will go back. From there, we will return to strategy implementation; if lapses occur here or if something arises, we will go back to strategy formulation.

And again, we will revisit the environmental scan. It closes the loop, as I mentioned. Without this stage, the firm risks drifting away from its goals. So, let me now talk about how firms engage in the evaluation and control processes. One reason measuring performance is necessary is that it needs to be compared against criteria or benchmarks.

Performance measurement is the backbone of evaluation. Managers must first decide what to measure, such as profitability, market share, or cost. Then they compare actual results against standards. If the results fall short, corrective action is required. This ensures accountability and continuous improvement, keeping the strategy aligned with the objective.

I have provided a figure that shows all these processes, including the evaluation and control processes. That means first determining what to measure, establishing predetermined standards, measuring performance, and then determining whether the performance matches the standards. If yes, that is fine; they have successfully completed the evaluation and control. If it does not meet the standard, they take corrective action, return to the performance measurement, and implement the corrective action to address the lapse. As I mentioned here, the types of control now need to be grouped into different types. So, organizations can achieve strategy execution through three kinds of control.

One is called output controls. They specify what is to be accomplished by focusing on results and behavior through objective performance targets or milestones. Then come the behavior controls; they focus on how tasks are carried out, such as following safety

procedures. Then the final type of control is input control; it emphasizes the resources available, such as employees' skills, knowledge, and motivation. Effective strategy execution often blends all three, ensuring the right resources, processes, and outcomes. Now, let us move on to a very important part of strategy execution: enterprise risk management. In short, it is called ERM and is widely known as ERM. It is a corporate-wide, integrated process for managing uncertainties that could positively or negatively influence the achievement of the corporation's objectives. At its core, ERM is about managing uncertainties that can either derail or accelerate a corporation's achievement of its objectives. Unlike traditional risk management, which often works in silos (financial risk, operational risk, etc.), ERM takes a corporate-wide, integrated approach.

It brings all risks under one umbrella, called enterprise risk management, which is a broad framework. So, leaders can see the big picture and take corrective action if it does not meet this framework. So, how does ERM work? So, one is to identify the risk. So, this is often done using scenario analysis, brainstorming sessions, or structured self-assessment. So, for example, a pharmaceutical firm may identify risks ranging from regulatory changes to patent expirations to supply chain disruptions.

The second step is to rank the risk. Once we identify the risk, we prioritize research based on its impact, meaning how large the potential damage or benefit could be, and on the likelihood, meaning how probable it is. So, think of it as a two-dimensional matrix: high-impact, high-likelihood risks demand the most attention. The third step is to measure the risk. Finally, risks are measured against agreed-upon standards.

This could mean financial metrics, operational benchmarks, or industry norms. So, the goal is to quantify uncertainty so it can be managed. So, firms use advanced ERM tools. Some companies go beyond qualitative assessment and adopt financial methodologies. One widely used methodology is Value at Risk (VAR).

In short, we call it VAR. This is commonly used in finance to estimate the maximum potential loss over a given time horizon with a certain probability. For instance, a bank may calculate that with 95 percent confidence, it won't lose more than 10 million dollars in a week. Similarly, an insurance company won't insure against natural disasters like earthquakes because if one area is completely devastated by an earthquake, the company would have to use all its resources to pay claims, since the amounts involved are huge. That kind of risk firms will be reluctant to take, and they will always calculate the value at risk. That means one catastrophic event will eliminate and degrade the firm's resources.

And the second one is called stress testing. Here, firms simulate abnormal or extreme conditions, such as an oil price shock, a market crash, or a supply chain breakdown, to assess the resilience of their operations. Then moving to the third one, which is called

Earning at Risk, or EAR for short. Used by firms like DuPont, it measures the volatility in earnings that could result from specific risks. It ties risk directly to financial performance, making it more actionable for managers. So, let us now discuss another approach called the balanced scorecard.

This is one of the key performance measures used. The balanced scorecard developed by Kaplan and Norton broadens evaluation beyond financial numbers. It combines the four perspectives you can see here: financial, customer, internal processes, and innovation and learning. Financial results are outcomes of deep drivers: customer satisfaction, efficient internal processes, and the firm's ability to learn and innovate. By combining these four perspectives, firms can align short-term operations with long-term strategy.

Let me now show you some of the evidence from the research. Here are examples of research applying the balanced scorecard. As you can see, the paper published in the Journal of Production Economics shows that strategy maps can help organizations set measurable objectives. It also emphasizes another study that combines scorecards with benchmarking.

It shows how firms can align capabilities with competitive advantage. This illustrates the bridge between academic tools and practical implementation. Moving on, we can also use benchmarking to evaluate performance. In this case, benchmarking is essentially learning from the best. It is the continual process of measuring products, services, and practices against the toughest competitors or companies recognized as industry leaders.

According to Xerox Corporation, it pioneered this concept in the United States. Xerox did so by studying how other firms achieved excellence. The clear idea is that we do not need to reinvent the wheel; instead, we can copycat by learning from the best standards in the world and looking to industry leaders. See how they have been doing, and then draw lessons from their successes and failures.

Here, that means benchmarking. So, this benchmarking process involves several steps. One is identifying the area to benchmark. The second is to measure one's own company's current performance and then select benchmark companies. So, the idea here is to first identify and measure the indicators or the area we want to assess. Then we select the benchmark companies that have been doing well or are industry leaders.

Then, analyze the performance gaps. Compared to the benchmark firm, how much are we lagging or ahead? Then develop programs to close the gap; for example, if there is a negative gap, develop programs to close it, implement them, and reassess. This is a continuous process that involves several steps and is an essential part of benchmarking to evaluate the company's performance. Here are some examples. Further, you can see the international evidence on the consistency between manufacturing strategy and implementation, and I have provided two studies here. To conclude, strategy is not just

about planning. Its implementation translates strategy into programs and budgets, while evaluation and control keep the organization aligned and adaptive.

Global firms rely on multiple entry strategies, but success depends on consistent execution and rigorous monitoring. The overarching lesson is clear: strategy is only as strong as its execution. Thank you for watching this session. See you in the next session.