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Research Article

THE ADOPTION OF THE STRATEGY FUNCTION IN INDIAN COMPANIES

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ABSTRACT

Why do some companies succeed? What distinguishes these companies from their competitors? What do they do differently to ensure they develop and maintain their competitive advantage? This paper puts forward the hypothesis that companies, which adopt a formal strategic management function, within their organisation structure manage to maintain their competitive advantage. The field of strategic management has matured in the last few decades from a corporate planning function, to a wider and to some extent, a less quantitative oriented field. The need for strategy as a distinct management function has generally been accepted in the last few decades. It is the process by which companies identify directions, set goals and plan its execution. How effectively the company manages the strategy development and execution process is the determining factor in maintaining their competitive advantage over their rivals. Last few years has seen the emergence of the role of a Chief Strategy Officer (CSO), among senior managers. Due to increasing market, regulatory and environmental complexities, CEOs (Chief Executive Officer) are burdened with managing day-to-day operations of their companies.Therefore, many companies have been shifting the strategy making process to the CSOs or to a separate department, to ensure strategic opportunities are identified, analysed, shared and executed. This study attempts, to broadly investigate, the adoption of a formal strategy making process in Indian companies and its effectiveness. We have used the CNX 500, whichis the National StockExchange's (NSE) broad based benchmark of Indian capital markets, to define the universe. In this universe, this study has looked at how many companies; have a formally defined strategy making process. This study haslooked at company reports, company websites, newspaper articles and existing literature reviews for identifying companies, which have adopted this management function within their overall structure. To analyse differences among industries, the data has been segmented based on industry classification. Based on the above classification, differences in the average Earning Per Share (EPS) between companies that have implemented a strategy department and companies that do not have one has been analysed.

INTRODUCTION

The function of strategy management incompanies has had many avatars. The last few decades has seen the organisational philosophy regarding strategic management, changing from a centralised corporate and financial forecasting function,to focussing on diversification and optimising product mix. The 1980s saw firms concentrating on long-term financial investments with particular emphasis on longevity of their industry. In the 1990s, the companies shifted their focus on identifying their core competencies to maximise their returns from the things they were good at. Since then, with the advent of the globalised markets, companies have been struggling to find strategic differentiators to maintain their competitiveness.

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Strategy has been defined as a set of related actions that managers take to increase their company's performance (Hill and Jones, 2009). While strategy is often erroneously associated with financial planning and forecasting, strategicmanagement is the process by which the company's senior executives analyse the changes in the markets, and synthesize these findings, into a coherent set of decisions, and identify resources and execute them, which could provide a competitive advantage in the market. Strategic management involves analysis of an organization's external and internal environments, formulation and implementation of its strategic plan, and strategic control (Parnell, 2013). While each organisation has its own distinctive culture and values, organisations, which systematically identify and pursue strategic opportunities, improve their competitive advantage. Hence, it has become imperative for companies to embrace and implement a formal professional role of Chief Strategy officers, especially in an Indian context, where we are slowly expanding our global presence. As Indian companies, expand into newer geographies or compete with global players in local environments, it becomes essential to create organisations, whichactively seeks and attempts new strategies. Maintaining and increasing profitability in rapidly shifting market environment have exponentially increased the complexity of the senior executives. Consumer preferences are increasingly being fragmented with companies being forced to cater to a broader spectrum of consumer tastes. CEOs need to cater to new regulations, whichare increasingly being homogenised, across borders, leading to further complexities. CEOs increasingly are mired in managing the day-to-day running of the company. Today's complex and volatileenvironments are making the CEOsspend more of their time and resources in horizon one i.e. nurturing and defending the core business (Baghai, Coley, & White, 2000).

This study finds that, this lack of focus in actively collecting, analysing, and synthesising of market datais leading to a delay in identification of new opportunities in Indian companies. Innovation or the pursuit of it, is reducing and becoming increasingly ignored due to time constraints. Companies are increasingly,being satisfied with theexisting systems and processes and have stopped seeking improvement opportunities. Industries, which experience frequent market changes, are naturally conducive to strategic thinking. Information technology, consumer electronics and other new age industries have a higher potential for innovation. Their survival depends on being nimbler in responding to market changes.

However, this study shows that all companies should create formal roles specifically to seek, collect, evaluate, plan and implement strategic opportunities to improve their competitive advantages. Indian companies should allocate a part of their R&D budgets to encourage experimentation and innovation.
Primary objective of this study has been to identify the extent of adoption and implementation of a strategic function in Indian companies. The company could have a senior role of a chiefstrategic officer defined explicitly or more frequently have a strategic role combined with other functions. The study used corporate data from various sources, company reports, market sources etc. To understand the influence of the industry, the company belongs to, the data has been analysed by industry classification.

While, it is not possible to directly measure the extent of a company's success to its innovativeness and strategic thinking, the studyhasused the Earnings Per Share(EPS) as an indicator of the company's success in maintaining their competitive advantage. While there are many other dimensions, whichaffect a company's EPS, through this study it is believed a company's ability to innovate and remain competitive, reflects in its profitability. EPS is generally accepted as one of the most important indicators of a company worth.

Review of Literature

While there is consensus in academiaand in business environments about the need for companies to look at strategy identification and execution as a core separate function, there has not been much research done on the efficacy of this approach. One of the main problems is measurement. When the time horizons involved for results extend to more than 5 to 10 years, measurement of the strategy becomes difficult. Current globalised business environments with frequent cataclysmic upheavals in technology, consumer tastes, regulationsetc. lead to difficulties in maintaining a consistent evaluation matrix.
Research on Indian companies in terms of strategic management and its adoption is limited. Globally, business oriented research has been undertaken by consulting companies. They have reviewed the broad framework of strategy management and identified the future areas of development in the field. A study published in Harvard review has looked at the role of the Chief Strategy Officer and the skills required in the role. Their study has identified some of the managerial and leadership skills essential for a successful strategist (Breene, Nunes, & Shill, 2007).

MATERIALS AND METHODS

The study has used NSE CNX 500 for selection of the company list. The CNX 500 Index represents about 96.42% of the free float market capitalization of the stocks listed on NSE as on June 30, 2014(NSE Corporate Website, 2014). In addition the industry weights, mirrors, the composition of the industries in the market. This ensures significant coverage of all the industries in our analysis. Government entities have been removed from the analysis due to the nature of their organisations, which typically depend on centralised directions.Social considerations also play a factor in their strategic focus. The study has considered only actual role definition (HR Structure) in the individual company's organisational structure and has ignored group level driven functions of large conglomerates. Stratified random sampling method has been used to extractthe sample from the universe. Higher weights have been given to industries contributing more to the total market capitalization. Industries contributing less than 3% to the total market capitalisation have been removed from the universe. Government and quasi-governmental companies have been removed from the list due to limited influence of market forces in their strategic focus and management.

The composition of the final sample used for the analysis is as below

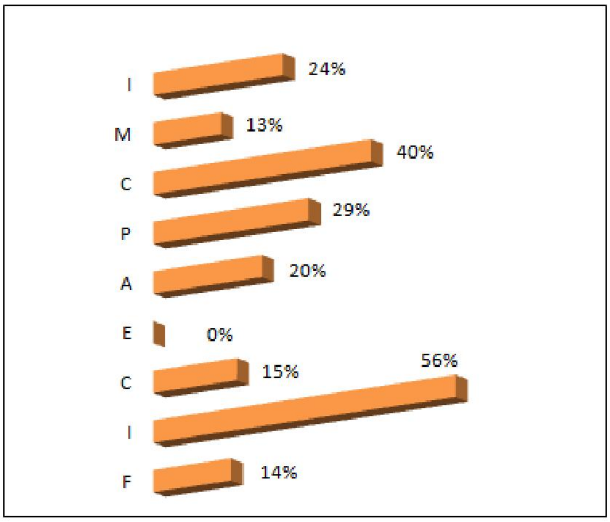
Sector Representation	Weight % as per CNX 500	No of Companies
Financial Services	25.65%	74
Information Technology	12.94%	32
Consumer Goods	11.66%	60
Energy	11.45%	37
Automobile	9.06%	30
Pharma	6.97%	30
Construction	4.70%	51
Metals	4.19%	27
Industrial Manufacturing	3.03%	45
Total	89.65%	386

Source: NSE India, Author Research

The final universe covers 89.65% of the market capitalization of the CNX 500 companies and approximately 86.44% of the total market capitalisation of all the stocks listed in NSE.

RESULTS

The study has analysed the number of companies that have implementeda formal organisational role of a strategic officer or a department.Overall 23% of Indian companies have implemented a strategic organisational role in their executive structure. However, there is significant variation in implementation between industries. The standard deviation of the data is 14% with the highest being 56% implementation in Information Technology related companies. None of the companies in the energy and related industries have adopted a strategic role in their organisation structure. This might be due to their high dependence on governmental and country specific policies leaving limited room for strategic choices. New age industries have higher propensity to implement a strategic role within the company.



Percentage of Companies Implementing a Strategic Management Function

The product life cycles in the industry are of shorter duration and hence the companies need to constantly seek new opportunities to ensure they are in the forefront of innovation. However, only companies in the information technology industry have shown this trend. The automobile industry has significant potential for innovation,especially in an Indian context. However, only 20% of the automobile companies havea strategy officer within their senior management. Basic industries like metals and mining do not show frequent innovations. The cost of implementing a strategic departmentor framework istherefore relatively high in such industries.This is reflected in only 13% of these companies having this function within their organisational structures.

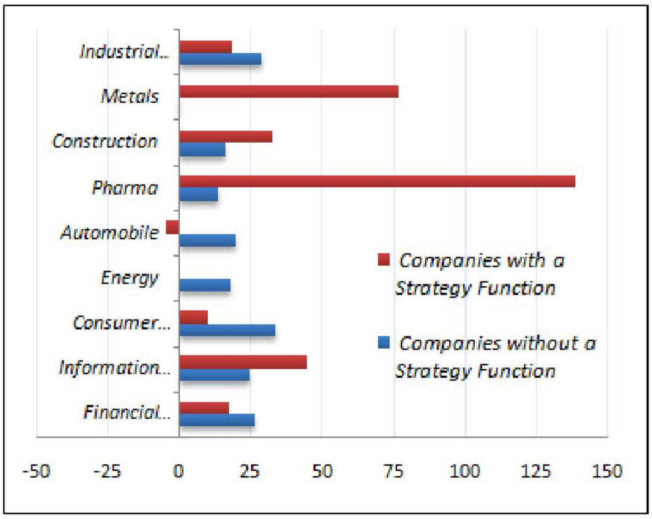
Only 29% of the pharmaceutical companies, which the study analysed, have a dedicated strategic function role. This is on the lower side and that the industry can increase their returns by establishing a specialised team of managers seeking newer strategic opportunities. Only 14% of the financial services companies in the sample have a strategic role defined. Financial services companies are constrained by their regulatory environment and hence strategic opportunities are relatively low (exceptions are mergers and acquisitions).

To check if the longevity of the company has a role in adoption or implementation of the strategy making process i.e. do older companies have higher adoption rate, further analysis was done by segmented the companies based on their incorporation data. We find that 32% of the older companies, that have been incorporated before 1950s have strategic roles in their senior management team.

Incorporation	Function Adoption
Before 1951	32%
Between 1951 and 1970	18%
Between 1971 and 1990	17%
After 1990	26%
Total	23%

Source: NSE India, Author Research

Many of the bigger Indian conglomerates have been incorporatedbefore 1950s and hence could be a factor in higher adoption rates. Companies incorporated during the period between 1951 and 1990 have a relatively lower adoption of a strategy role in their management structure. Post liberalisation (i.e. post 1990s), saw the advent of globalisation and subsequent rise of new age industries. This is reflected in a higher percentage (26%) of the companies incorporated during this period having strategy functions at senior levels.



Average EPS by Industry

Finally, to test the hypothesis that companies adopting formal strategic making processes have a competitive advantage over their rivals, and hence are more profitable; the study has analysed the EPS (earning per share) of these companies and compared them with companies that have not adopted a formal strategy making process. The average EPS of all industries that does not have a strategic management function is Rs. 20 as against the average EPS of all industries with a strategic management function of Rs. 37. Clearly, companies having a well de (Collis, 2014) (Cooper, Alvarez, Carrera , Mesquita, &Vassolo, 2006) fined strategy making role, in their organisation structure is almost twice as profitable. The graph shows industry wise difference in EPS between these companies. However, this does not extend to all industries. Industries like manufacturing, consumer goods and financial services do not reflect any significant benefits from having a strategy role.

The biggest difference is seen in the Pharmaceutical sector, with companies clearly benefiting from seeking innovation and new strategies. In the Pharmaceutical sector, companies without CSOs or similar functions have an EPS of Rs. 14 whereas companies, which have such a function, show almost a tenfold increase in EPS to Rs.138.

Conclusions

As per the latest global competitiveness index (Competitiveness Rankings, 2014), India is at 71 out of 144 countries. India does not feature in the top 10 countries in Asia-Pacific region. Company performance is directly related to their long-termability to remain competitive. Therefore, strategic thinking assumes significant importance in today's market place. Recent decades have seen newer economies like Korea, Malaysia etc.accelerating their manufacturing competencies. It is matter of time that Indian companies start competing against them in the global markets. In the Information Technology sector, the competitive advantage that India possessed is fast eroding. Indian companies will need to look at newer technologies, newer product lines or newer partnerships to continue being competitive in the future. The study shows how it is imperative that all companies need to focus or at the least, provide sufficient resources, in identifying and trying out newer strategies.

The analysis shows that, it pays forcompaniesto activelypursue and developtheir strategy making competencies. Companies should, as a first step allocate resources and identify key people responsible for strategy development and execution. CEOs should ensure such roles are recognised and supported across the company. Indian companies that deploy strategy roles within their executive leadership, and provideresources and mandate to proactively seek strategic directions and innovation will benefit in the coming decades. As competencies and skills are getting homogenised and easily replicable, strategic thinking and planning will become necessary for companies to maintain their competitive advantage.

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