ICPAK

THE 7TH ANNUAL GOVERNANCE & ETHICS CONFERENCE

MAKING THE RIGHT BUSINESS BETS; BALANCING RISKS AND RETURNS.

Presentation by:
Maina Kimato
Institutional Development Specialist

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DISCUSSION QUESTIONS

1. ***What are Bets?***
2. ***Which are the Right Bets?***
3. ***How do we balance Bets Risks and Returns?***
4. ***How can we make sense of all the different, and sometimes competing, approaches in choosing the right Bets?***

1.HOW CAN WE MAKE SENSE OF ALL THE DIFFERENT, AND SOMETIMES COMPETING, APPROACHES?

- Business environment is changing fast and becoming more uncertain and complex

- It has never been more important to choose the right approach to strategy.

- Unfortunately, each approach to strategy tends to be presented or perceived as a panacea.

- It’s not that we lack powerful ways to approach strategy; it’s that we ***lack a robust way to select the right ones for the right circumstances.***

- ***Solution: Common-sense and systematic approach to strategy development***.

2. BETS-THE BASIS

- Strategic alternatives are strategies that a business develops to **set the direction**, for which **human and material resources** will be applied for **a greater chance** of achieving selected goals.

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- Formulated strategic option ought to :
  - Respond to one or more opportunities and/or threats
  - Relate to output, input, mission, vision and/or relations
  - Be suitable, feasible, and acceptable to the organization
  - Meet the organization’s objectives
  - Fit the organization’s stakeholders.

- Businesses seek successful results in many of the following areas: -
  - Profitability;
  - Return on investment;
  - Competitive position;
  - Technological leadership;
  - Productivity;
  - Employee Relations;
  - Public Responsibility; and
  - Employee Development.

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The Search for a Competitive Advantage

- Strategy creation follows a three-stage process:
  - Analyzing the context in which you're operating.
  - Identifying strategic options.
  - Evaluating and selecting the best options.

- The search for a competitive edge by many businesses create a very unstable environment.

- Managers must therefore select the best approach which will best allow their firms to maximize their strength vis-a- vis its competitors.

- Michael Porter suggests that in doing so managers should take into account a variety of factors, which he called the "***Five Forces***," most significant being: -

1. The bargaining power of suppliers;
2. The bargaining power of customers;
3. The threat of new entrants to the industry;
4. The threat of substitute products or services;
5. The rivalry among current competitors.

- The five-forces model describes strategy as taking actions that create defendable positions in an industry.

- The strategy can be offensive or defensive with respect to these competitive forces.

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- These factors represent the forces governing the nature and intensity of competition and the background against which a choice of a "***Generic Strategy***" should be made.

- Many businesses explicitly and or implicitly adopt one or more Generic Strategies.

- Michael Porter suggests that firms have a choice of three.
- These are: Low Cost, Differentiation, or Focus.

1. Cost Leadership

- Excels in cost reductions and efficiencies
- Maximizes economies of scale
- Implements cost-cutting technologies
- Stresses reduction in overhead and administrative expenses.

2. *Differentiation*

- Designed to customers with a special sensitivity for a particular product attribute
- Approaches: Different designs, Brand image, New technogy, or Number of features.

3. *Focus or Niche Strategy*

- Whether anchored on a low- cost base or differentiation base it attempts to attend to a particular market segment.

- Each of the generic strategies enables the firm to maximize certain competitive advantages, each one also exposes the firm to a number of competitive risks.

- In order to provide the basic direction for strategic activities, firms develop Master or Corporate strategies called the “***Grand Strategies.***”

3. WHAT ARE THE CHOICES, BENEFITS &RISKS.

- Grand strategies are the basis of **coordinated** and **sustained efforts** directed towards achieving long term **business objectives**.

- These offer an opportunity to the firm to select among ***15 Grand Strategies*** the ***Optimal Grand Strategy.***

- These alternatives are:

1. Concentrated Growth

- Directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology.

- Firm constantly addresses price, quality, value and even quality of labor force.

2. *Market Development*

- Marketing products, often with only cosmetic modifications, to related market areas by adding channels of distribution or by changing the content of advertising or promotion.

- Growth is by identifying new uses for existing products and new demographically, psychographically, or geographically defined markets.

3.Product Development

- Penetration of existing markets by incorporating product modifications into existing items

- Developing new products with a clear connection to the existing product line.

4.Innovation

- Rationale is to create a new product life cycle and thereby make similar existing products obsolete.

- Few innovative ideas prove profitable because the research, development, and premarketing costs are extremely high.

5.Horizontal Integration

- The acquisition of one or more similar firms operating at the same stage of the production-marketing chain.

- It eliminates competitors and gives access to new markets

- Risks stem from increased commitment to one type of business.

6.Vertical Integration

- Acquisition of firms that supply it with inputs or customers for its outputs.

- There are two forms:
  - Backward integration
  - Forward integration

7. Concentric Diversification

- Acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products.

- The motivations of the acquiring firms are:
  - Increase the firm’s stock value.
  - Increase the growth rate of the firm.

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- Better use of funds than plowing them into internal growth.
- Balance or fill out the product line.
- Achieve tax savings by purchasing a firm whose tax losses will offset current or future earnings.

8.Conglomerate Diversification

- When an organization expands itself into different areas, whether related or unrelated to its core business.

- The acquisition of a business because it represents the best investment option.

- The purchase or acquisition of one firm by another rarely produce the desired results.

9.Turnaround

- Used when a firm is experiencing profit stagnation, decline or other serious problems.

- Undertaken in one of the two retrenchment and employed singly or in combination.
  - Cost Reduction
  - Asset Reduction

10.Divestiture

- A form of retrenchment that includes the downsizing of the scope of the business.

- The firm sells or liquidates a portion of its business.

- Indicators that mandate the firm to adopt this strategy are:
    - Continuous negative cash flows from a particular division

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- Unable to meet the competition
- Huge divisional losses
- Better alternatives of investment
- Lack of technological upgradations
- Antitrust Action

11. Liquidation

- A firm cannot successfully turn itself around and there are no interested buyers.

- The firm sells off all its assets: physical, intellectual, etc.

12.Bankruptcy

- Occurs when the firm’s financial position shows unabated decline for a long period of time.

- Two notable types of bankruptcy can occur:
    - Liquidation bankruptcy
    - Reorganization bankruptcy

13. Joint Ventures

- Two or more firms form a company which is run jointly for their benefit
- The venture provides opportunities with risks that can be shared
- However, Joint Ventures limit the discretion, control and profit potential of partners.

14. Strategic Alliances

- The firms unite or combine to perform a set of business operations.
- There is no equity position
- Partners live in perpetual fear of theft of their intellectual property.

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15.Consortia, Kairetsus & Chaebols

- Consortia are defined as large interlocking relationships between businesses of an industry
- In Europe, there is an increase of Consortia in research projects

- In Japan such consortia are known as Keiretsus.

- A South Korea Chaebol resembles a Consortium or a Keirestu.

Maina Kimato

Dafina Consultants Limited

5th floor, Krishna Centre

Westlands

Tel:0722-521450

mkimato7@gmail.com