

Strategic management at zhujiang iron and steel company



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1. 0 Introduction

This material critically analyses the process of strategic management in the areas of nature of competition, the strategy, the strategy process, method of entrepreneurship and resources of Zhujiang Iron & Steel Company (ZISCO).

The analysis has been done by using some major theories such as gap analysis, balance score card, triple loop learning of ZISCO.

Zhujiang Iron and Steel Company (ZISCO) is a Chinese state owned enterprise established in 1997. ZISCO is a steel manufacturer who produces wide range of steel sheets and plates that are used as inputs of various other products. In early 2003, ZISCO faced many problems in the key areas of production, procurement & marketing and this has resulted in poor financial performance. In the past ZISCO implemented niche marketing strategy & from 2003 onwards, ZISCO planned to implement “ value creation strategy” & undertook many functional reforms with active participation from all its employees & improved its financial performance during 2004 – 2006. However, in 2007 also ZISCO encountered various challenges, predominantly in the areas of cultural change, knowledge management, and development of organisational competence and learning capability

Thus, this material initially analyses the current business strategies of ZISCO to understand the nature of their operations. Subsequently, conducts a PESTEL analysis, Porter’s five forces and value chain analysis to understand the environment of ZISCO, drivers of profit in the industry at present and the future. In addition, gap and balance score card analysis also has been done

to understand the gaps that are existing in the context of ZISCO and to evaluate its performance.

Strategic options can be considered to address the gaps that have been identified by the organisation. Therefore, the report will provide an exposure to the strategic options available & used by ZISCO and whether they have effectively implemented the strategies. This has been done by analysis of 7S' framework & triple loop learning along with an action plan. Finally, the report will suggest the recommendations where it's applicable by providing justifications. The analysis of this report was done with the assistance of the case information provided and through industry related information from academic books, journals, websites and other publicly available secondary data sources.

2. 0 Process of strategic management followed at ZISCO

Businesses vary in the processes they use to formulate and direct their strategic management activities. The model enhances the development of strategy formulation skills by guiding the analyst systematic and comprehensive study of each business situation

2. 1 Strategic factors and capabilities

2. 1. 0 External environment

From the PESTEL analysis & Michael Porter's five forces analysis it is clear that ZISCO is functioning in a very complex & volatile environment which will impact all the strategies adapted by the organisation. Hence, a good understanding of ZISCO's external environment will facilitate the organisation to exploit opportunities and avoid threats

From the steel industry analysis we can conclude there are many well established key players in the Chinese market & the industry has high potential to attract new players in future.

Thus, the PESTEL variables in macro environment have major impact on the performance of ZISCo.

2. 1. 1 Internal environment

Analysis of internal environment is a crucial phase to an organisation as it helps to identify the strength and weakness of the organisation. This would mean internal analysis will determine the required skills & resources of ZISCo to cope up with competitors' capabilities thus measures ZISCo's effectiveness to gain competitive advantage

According to the value chain analysis the main competitive advantage of ZISCo is technology leadership and implementation of value creation strategy in the steel and iron industry in china.

However, through this analysis it is clear focus on quality was very low this is mainly due to the fact that quality department people were ignoring their responsibilities & management did not place more care in this department as it does for marketing.

2. 1. 2 Analysis of SWOT

From the SWOT analysis key strength of ZISCo is that they have gained competitive advantage over technology leadership as they are the first company to introduce CSP technology in steel & iron industry. In addition the other most important strength is their value creation strategy; ZISCo is the

first company to implement value creation strategy and one stop shop services to their customers. Thus this will provide a first mover advantage to ZISCO as Chinese market moving toward planned economy to market economy.

However, the primary weaknesses of ZISCO are poor quality products are being produced, has liability to pay bank loan interest of US\$ 40million annually, and lower bargaining power in purchasing raw materials as a result of signing a contract with a supplier. The quality issues identified would erode company's goodwill among major & most important customers; even company may lose its profitable customers for lack of focus in quality issues. Further the non current liability seems to be a huge amount, if proper care is not taken to settle the debt the whole company would go into liquidation. In addition company also faces problems with supplier; ZISCO will directly get affected if supplier does not provide raw materials on time in intended quality.

Rapidly changing environment has influenced the performance of the organisation by creating opportunities and threats. The key Opportunities of ZISCO are Chinese economy is transforming towards market economy by creating an advantage for all the organisations in Chinese market and unsatisfied higher demand for container used steel sheets is a big opportunity for ZISCO.

The unfavourable key factors that affect ZISCO performance and barrier to growth are slow moving organisational culture (slow change from production orientation to value orientation) , competitors imitating CSP technology and

marketing practice very quickly. Further high raw material and electrical cost, the government restriction in steel industry such as limiting the number of employees been recruited and fixed price ranges are also threats for ZISCo

2. 2 Strategies adapted by ZISCo

Organisation can formulate strategies in three different levels known as corporate level, business level and functional level (Viljoen, J. and Dann, 2003, pg 235). As GISCo is the parent of ZISCo, they have adapted several comprehensive business strategies for their organisation.

The business strategy of ZISCo is “ value creation for both customers and company”.

In order to follow this business strategy Zhujiang has adapted following strategies. Such as:

- Changing their niche marketing strategy to mass marketing strategy
- Pre-emptive strategy
- Differentiation strategy
- Cost reduction strategy
- New product development strategy
- Informal communication strategy
- Outsourcing strategy
- Adapting a new business model strategy

2. 3 The performance of ZISCO

The rapidly changing external environment has created some significant challenges for management of ZISCO. In order to analyse the overall performance balance score card approach has been used

A general conclusion that the overall performance of ZISCO is at satisfactory level can be drawn from the balance score card analysis . However if we take each perspective in to consideration ZISCO has achieved maximum performance in financial and innovation & learning perspectives whereas customer perspective and internal business perspectives are at moderate level.

Therefore, ZISCO should concern on accelerating order cycling process to make improvements in internal business perspective performance. In addition they should also create possible steps to retain & attract more customers by means of customer satisfaction.

2. 4 Analysis of External, Internal and Stakeholders inconsistency

To be successful, an organisation's strategy must be consistent with the requirement of its current and expected future environment (external consistency), its capabilities must be consistent with the business strategy being pursued (internal consistency), and its performance from the existing business strategy must be acceptable to its key stake holders (Hubbard R. B, 2008, pg. 167). Hence, an analysis has been done to identify the internal, external and stakeholder consistency of ZISCO

According to the analysis of internal consistency of ZISCO it is evident that they have failed to adapt systems those match with their business

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strategies. This has ultimately created an internal inconsistency within the ZISCo.

In addition, ZISCo also has external inconsistency as a result of government regulation on steel industry and changing market in china.

2. 5 Gaps in Strategy formulation

Gap analysis of ZISCo has been done on the basis of current business strategies of the organisation. Therefore environmental business strategy, organizational performance and business strategy gaps have been identified for ZISCo (Refer appendix diagram8). By analyzing these gaps it can be identified that ZISCo is trying to position its self uniquely in the market.

2. 6 Strategic options available to overcome gaps

ZISCo was not able to achieve their novelty among competitors due to gaps recognized in formulation of strategy. Thus, there are several strategic options available for ZISCo such as market strategy, generic strategy & direction strategy. In order to sustain and gain competitive advantage all 3 options are equally important for ZISCo

2. 7 The effect of competitors and stakeholders

Stake holders & competitors have major role in the performance of ZISCo. The key stakeholders who are exerting more power on ZISCo are government: Government has restricted the number of employees recruited by ZISCo; thus have created a barrier for further business expansions & also government is controlling the prices of the steel products thus ZISCo wont be able to use the cost based pricing strategies & add their target profit margins.

Secondly, the bargaining power of suppliers is also high in the context of ZISCo because ZISCo has entered in to contract with limited number of suppliers. Thus this enables ZISCo to solely depend on them & gives high power to the supplier.

The other most important stakeholders are employees. They also create an impact on the business strategy adapted by ZISCo by resisting for the required cultural change. As employees have product orientation values it would be very hard to change them towards customer orientations. This would have greater impact in developing overall strategy of ZISCo. ZISCo would have to invest more funds for a long time period in training & development since cultural change cannot happen soon as company requires.

Finally, like all other stake holder mentioned above Customers also exerts high power in ZISCo because there is an unsatisfied demand for steel products in Chinese industry & many market players are there. If a customer is not satisfied with ZISCo, the chances of switching brand are high. Therefore to survive & grow in the competitive environment as ZISCo planned it should provide value to its customers.

Competitors

ZISCo is operating in a very competitive environment in which competitors are adapting to their opponents strategies very quickly. In the case of ZISCo also they have tried to adapt to CSP technology and tried harder to copy ZISCo's business model and marketing practices. Thus, there is a possibility competitors can attack ZISCo anytime by imitating their unique innovations

soon after the patent rights expire. Thus, this compels ZISCo to continually invest huge amount of funds in research & development and in marketing.

In addition to the local players ZISCo also faces high international competition in Chinese steel industry due to unfulfilled steel demand in China & low costs of labour. These foreign players might have advanced technologies than ZISCo & attack ZISCo simply in terms of quality.

Thus, it is necessary for ZISCo to carefully understand nature of pressures exerted by both domestic & international players and develop the most suitable strategy.

2. 8 Implementation of gap

Strategic implementation is complex and time consuming but success of an organisation lies on this stage. However good the business or corporate strategy is, it is off little value unless implemented (Hubbard R. C, 2008, pg 349). Therefore, during this phase, strategy makers should consider the question of who implements that strategy, what must be done and how the strategy is implemented (Fletcher, 2001, p. 2). Hence, 7'S framework has been applied to ZISCo to identify gaps & the issues that should be addressed during implementation phase

2. 9 Paradigm of operation

ZISCo has shifted their paradigm from the conventional wisdom about how things have always been done and must be done to that of emergent strategies

From previous paradigm ZISCO achieved efficiency & productivity but did not produce products in intended quality that will fit the purpose of customers.

Therefore ZISCO has shifted the paradigm from production orientation to marketing orientation by providing more value to their customers. In order to operate in new paradigm ZISCO has changed their market from niche to mass market, changed their organisational structure from functional structure to matrix structure and improved their financial performance through cost reduction

2. 10 Recipe issues

Recipe can be defined as a set of beliefs & assumptions held commonly throughout the organisation, taken for granted in that organisation, but discernible to the outside observer in the stories of organisation history and explanations of events (Strategic management guide 3, 2004, pg 3). There are several issues have been identified for ZISCO in current paradigm

In formulating strategy ZISCO did not define its goals & objectives clearly which is critical for any organisation as it guides the employees towards mission & vision of the organisation. Therefore, unstated purpose or goal of ZISCO makes the organisation unable to analyse the long term strategic purpose.

Even though, ZISCO increased their financial performance by increasing profits through new business strategy still they unable to over come their long term debt. Therefore, this imposes a huge hidden financial risk on ZISCO.

Another issue in relation to ZISCo is that cultivating a market oriented culture within the organisation while adding value to the organisation as well. In the past economy of china vganisation strategies focused mainly on the production orientation, the value for production orientation already rooted strongly in employees' minds is hard to change.

Finally, ZISCo is loosing competitive advantage of CSP technologies as a result of competitors are adapting to CSP technology over past 2-4 years. Therefore, loss of competitive advantage (technology leadership) is a critical recipe issue for ZISCo.

2. 11 Recommendation & justification for ZISCo

From the above analysis, I would recommend the following recommendations;

- ZISCo should implement vision & mission in more transparent manner to their employees as it will help the employees to understand the long term strategic direction of the organisation. Thus, ZISCo should develop objectives that are Specific, Measurable, Achievable, Realistic and within the Time limit.
- ZISCo can transform their organisation as a learning organisation by allowing more innovations, continuous improvement in new product development by investing more in new technology, empowering employees and providing freedom to experiment.
- ZISCo should adapt to a TQM (total quality management) approach to attend real-time quality issues and invest more in compliance costs (Refer appendix diagram 14)

- In order to add value for both organisation & customers, ZISCo should focus on new management accounting concepts such as extended value chain analysis & target costing. These concepts will add value to organisation by reducing costs & will add value to customers by providing them the intended benefits or quality(Refer appendix diagram 15)
- The president should also consider changing his leadership style; He should act both as charismatic & a transactional leader because the president had performed well in strategy formation but he didn't concentrate much on communicating & monitoring the developed strategy.
- ZISCo can also diversify their product to such as refining metals such as steel & alloys. This can be done by merging with a recycling company or starting them self. This might reduce the cost of raw materials and reduce supplier's bargaining power in purchasing raw materials. Further, ZISCo can sell the raw materials to outsiders & gain competitive edge.
- ZISCo can implement Just in time (JIT) system rather than having buffer stocks for raw materials, work in progress& finished goods. JIT system would help ZISCo to deliver goods on time & will reduce inventory holding costs
- Further ZISCo should also focus more in managing its supply chain. It should reconsider the contract with suppliers because the present supplier seems to be not reliable enough & poor in quality. Thus, management should consider signing contracts with few reliable suppliers (Refer appendix diagram 16)

- ZISCO's communication system also should be developed because it seems there is communication gap between top people & bottom people ZISCO. Even though, Middle managers are acting as effective communicators between two parties it is insufficient for an organisation that intends to create value.
- Organisation should extend their one stop shop services in many geographical areas. By doing this they can gain competitive advantage and increase customer satisfaction as it reduce the transportation cost and time of customers.
- Organisation also should concern on their employees by creating carrier opportunity and carrier development to provide a value to their employees by providing them future sustainability.

2. 12 Action plan of ZISCO

ACTION	Measure	Person Responsible	TARGET (Period)			
			2007	2008	2009	2010

Focus on growth strategies	Market share, competitiveness	President and Middle Management	6%	7.5%	8.5%	10%
Improve the CRM strategies	Contribution to total revenue and net profit	President and middle Management	10%	18%	28%	40%
Improve the quality of the final output	Quality control measures	Department of product quality	15%	25%	40%	60%
Create Learning Culture, Continuous Improvement and a flexible organization	Innovation efforts, ability to correct mistakes and progress, quick response	President and the middle Management	2%	4.5%	7%	10%
New Product Development	New products developed	R &D	1%	2.5%	5%	9%

4.0 Conclusion

This case analysis has focused on the strategic management process of Zhujiang in the areas of nature of competition, the strategy, the strategy process, method of entrepreneurship & resources of Zhujiang Iron & Steel Company (ZISCO). The analysis has investigated apparent effects of the issues of ZISCO & determined the causes of these consequences by use of appropriate theories. Based on this analysis, justifiable recommendations have been developed, which would redirect the organisation to its required respective strategic objectives.

The recommendations for the organisations have been logically presented within a 5 year timeline which enables to generate the favourable outcomes while keeping the environmental changes in focus.

At present ZISCo is operating in a very competitive market & the competitive advantage of technology leadership is more short time oriented. Thus, in order to sustain in the market a key core competitive advantage is required for ZISCo & as company planned the value creating strategy would be the most suitable. Further, the quality levels of ZISCo are inadequate. This is furthering them from their objective of value creation.

ZISCo is putting efforts to move from a paradigm of production efficiency to value orientations. However, it is a great challenge to ZISCo as there are many gaps at ZISCo. The analysis indicates though the strategic objectives are appropriate for the environment, implementation of strategy is ineffective.

Thus in conclusion it is clear that only by formulating effective strategies an organisation could not achieve its strategic objectives, unless it has the systems, procedures and most importantly willingness to efficiently implement the formulated strategies.

5. 0 References

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