dronacharya

FOR

CA INTERMEDIATE

2024

Marathon Part 1

Strategic Management

Lecture – 01

CA Sunil Keswani

Topics *to be covered*

1. Introduction to Strategic Management
2. Strategic Analysis – External Environment
3. Strategic Analysis – Internal Environment
4. Strategic Choices
5. Strategy Implementation and Evaluation

Chapter - 1

Introduction to Strategic Management

Meaning and Nature of Strategic Management

Management as key group	• In-charge of organisational affairs. Making organisation a purposeful and productive entity. Brings together/integrates the resources.
Management as set of functions	• The functions include Planning, Organising, Directing, Staffing & Control. Determine goals & activities Helps in allocation of tasks and resources
Management	• Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner.

Concept of Strategy

♦It is a long term blueprint of desired image, direction and destination i.e. what it wants to be and where it wants to be.

♦It is used to take market position, conducts its operations, attract and satisfy customer, compete successfully.

♦It is game plan or ways to respond to dynamic and hostile external forces by top level to pursue vision, mission and objectives.

♦It is no substitute for sound, alert and responsible management.

♦It can never be perfect, flawless and optimal.

Strategy is Partly Proactive and Partly Reactive

A company's strategy is typically a blend of:

♦Proactive actions on the part of managers to improve the company's market position and financial performance.

♦Reactions to unanticipated developments and fresh market conditions in the dynamic business environment.

In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances.

Strategic Management

- ▶ It refers to the managerial process of
  - ✓ developing a strategic vision,
  - ✓ setting objectives,
  - ✓ crafting a strategy, ✓
  - ✓ implementing and evaluating the strategy, and
  - ✓ finally initiating corrective adjustments were deemed appropriate.

The process does not end, it keeps going on in a cyclic manner.

▶Strategic management emphasizes the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth of the company.

Importance/Advantages of Strategic Management

▶**Charles Darwin:-** 'Survival of the fittest ', the only principle of survival for all organizations, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.

▶Many business giants have followed the path of extinction failing to manage drastic changes in the business environment.
Thus, it becomes imperative to study Business Strategy.

▶The major benefits of strategic management are:

- Gives direction to define goal, mission and objectives
- Proactive instead of just being reactive
- Framework for major decisions
- To face the future
- Defence mechanism against mistakes and pitfalls
- Develop core competencies
- Enhance the longevity

Limitations Of Strategic Management

(a) Complex and turbulent environment
(b) Time consuming process
(c) Costly process
(d) Difficult to estimate competitor reaction or response

Strategic Intent (Vision, Mission, Goals, Objectives & Values)

▶It refers to purposes of what the organisation strives for

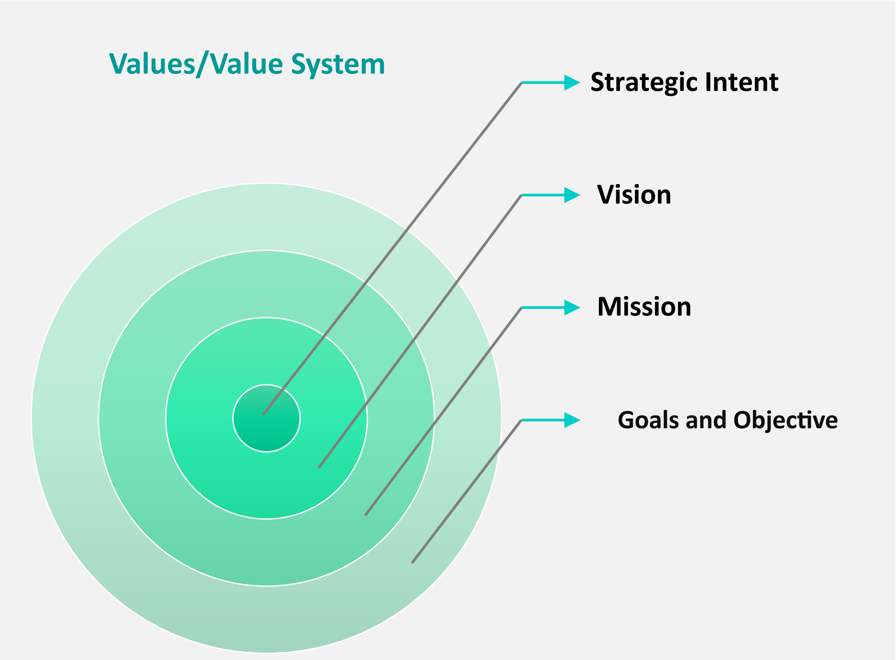
▶Senior managers must define "what they want to do" and "why they want to do".

▶It provides the framework within which the firm would operate to achieve strategic objectives.

▶It could be in the form of vision and mission statements for the organisation at the corporate level.

▶It is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.

▶**Component of Strategic Intent**



Vision:

›››By the top management.

›››It tells us "where we want to be"

›››It is the blueprint of future position.

›››It communicates management aspirations to stakeholders.

›››It define directional path, company should take in product, customer, market, technology.

›››**Essentials of a strategic vision**

- ✓ Think creatively about how to prepare a company for the future.
- ✓ Vision involves exercise in intelligent entrepreneurship.
- ✓ Vision creates enthusiasm among the members of the organisation.
- ✓ Vision statement clearly illuminates the direction.

Mission:

›››It tells us 'what business are we in and what we do'.

›››It states what customer it serves, what need it satisfies and what type of product it offers.

›››It is the way to get to the vision.

›››Many firms fail to articulate mission with clarity.

›››Things to be kept in mind while writing mission

- Gives organisation its own special identity
- Defines needs to satisfy, target customer group, technologies and competencies it uses.
- Unique to the organisation.

››› ***Why should an organisation have a mission?***

- ✓ To ensure unanimity of purpose within the organisation.
- ✓ To develop a basis, or standard, for allocating organisational resources.
- ✓ To provide a basis for motivating the use of the organisation's resources.
- ✓ To establish a general tone or organisational climate, to suggest a business-like operation.
- ✓ To serve as a focal point for those who can identify with the organisation's purpose and direction.
- ✓ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.

- ✓ To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

Vision	Mission
It describes future identity	It is an ongoing and time independent guide
It is success	It is a key to success
It tells us "where we want to be"	It tells us, "what we are and what we do"
It is specific in terms of future and time frame	Mission if crafted well can remain in existence for a very long time
It motivates the people to achieve defined objectives	It provides a path to realise the vision.

Goals and Objectives:

›››Goals are open-ended attributes that denote the future states or outcomes.

›››Objectives are close-ended attributes which are precise and expressed in specific terms.

›››Accordingly, we will also use the term interchangeably.

›››Objectives are organisation's performance targets.

›››Objectives serves as yardsticks for tracking an organisation's performance and progress.

››› Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective.

›››Objectives must possess the following characteristics:

- ✓ They should define the organisation's relationship with its environment.
- ✓ They should be facilitative towards achievement of mission and purpose.
- ✓ They should provide the basis for strategic decision-making.
- ✓ They should provide standards for performance appraisal.
- ✓ They should be concrete and specific.
- ✓ They should be related to a time frame.
- ✓ They should be measurable and controllable.
- ✓ They should be challenging.
- ✓ Different objectives should correlate with each other.

- ✓ Objectives should be set within the constraints of organisational resources and external environment.

»»**Long-term objectives:** To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- ✓ Profitability
- ✓ Productivity
- ✓ Public Responsibility
- ✓ Competitive Position
- ✓ Employee Development
- ✓ Employee Relations
- ✓ Technological Leadership

[P E C T
3 2 1]

Values:

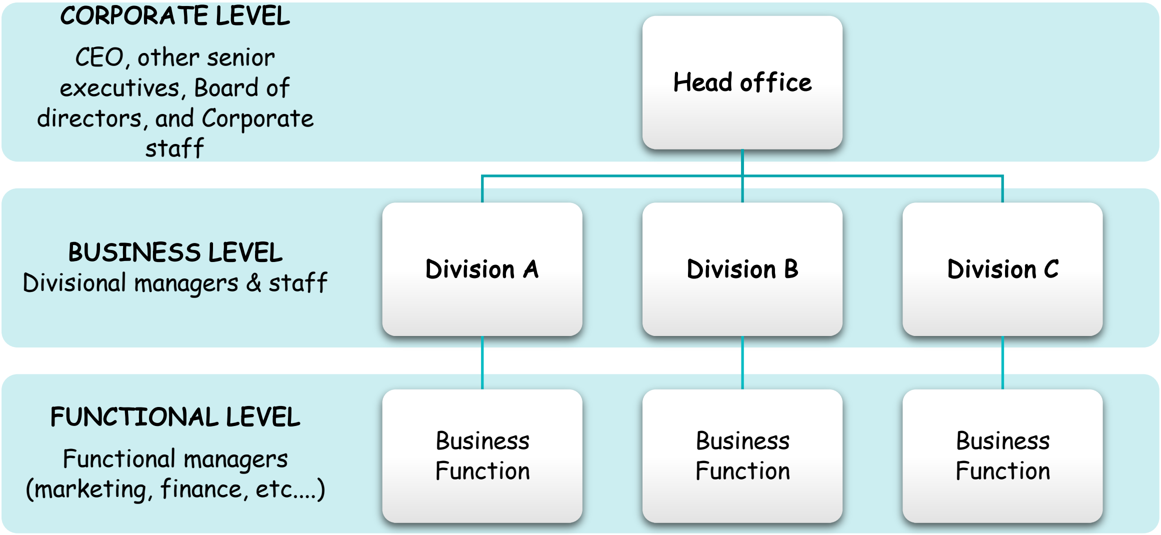
»»E.g. Integrity, trust, accountability, innovation and diversity

»»It sets the tone for how the people of think and behave, especially in situations of dilemma.

»»It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.

»»It have both internal as well as external implications.

Strategic Levels In Organisations



›››Corporate Level

›It consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff.

›They oversee development of strategies for whole organization.

›For this his task includes:

a) Defining vision, mission and objectives of Organization

b) Determining what businesses, it should be in

c) Allocating resources among different divisions

d) formulating and implementing strategies that span individual businesses

e) Providing leadership for Organization

f) Acts as a linkage between Management and Shareholders

›Corporate level managers, especially CEO is viewed as guardian of shareholder welfare and must make strategies to maximize the wealth of shareholders.

›››Business or Divisional Level ✓

›A Principle General Manager or Business level manager is head of a division.

›They are responsible for working of Division and overseeing all functions of the Division or a particular business.

›They are responsible to translate general statements of direction of Corporate Level into concrete business plans.

›They should listen to the functional level managers.

›››Functional Level

›They are responsible for specific business functions in a division or company like marketing, Research & Development, Human Resource, Finance etc.

›Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity or area.

›Functional managers are also responsible for

a) developing functional strategies in their area to fulfil strategic objectives set by corporate and business level managers; and

b) implementing/ executing strategies of corporate level and business level managers.

›They are closer to customers and provide most of information that enable corporate level and business level managers to formulate realistic and attainable strategies.

Network of relationship between the three levels

There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

Functional and Divisional Relationship	- It is an independent relationship, where each function or a division is run independently headed by the function/division head, reporting directly to the business head, who is a corporate level manager. - Functions maybe like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kid's toys, teenager toys, etc. could be divisions.
Horizontal Relationship	- All positions, from top management to staff-level employees, are in the same hierarchical position. - It is a flat structure where everyone is considered at same level. - This leads to openness and transparency - It focus more on idea sharing and innovation. - This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.
Matrix Relationship	- It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects. - This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently. - In Matrix relationship - there are more than one business level managers for each functional level teams. - It is complex for smaller organisations, but extremely useful for large organisations.

Chapter - 2

Strategic Analysis: External Environment

Business Environment

►It consist of all factors which have impact on business operations.
►It can be classified as internal and external environment.
►Internal environment consist of people within the organisation.
►External environment consist micro and macro environment e.g. shareholders, industry competitive forces, political factors, legal factors etc.

Strategic Analysis

►The strategic analysis is a component of business planning that has a methodical approach, makes the right resource investments, and may assist business in achieving its objective.

► **The two important situational considerations are:**
(1) industry and competitive conditions, and
(2) an organisation's own capabilities, resources, internal strengths, weaknesses, and market position.

► The strategic analysis is a continuous process with two limitations:

► First, it gives a lot of innovative options but doesn't tell which one to pick. The options can be overlapping, confusing or difficult to implement.

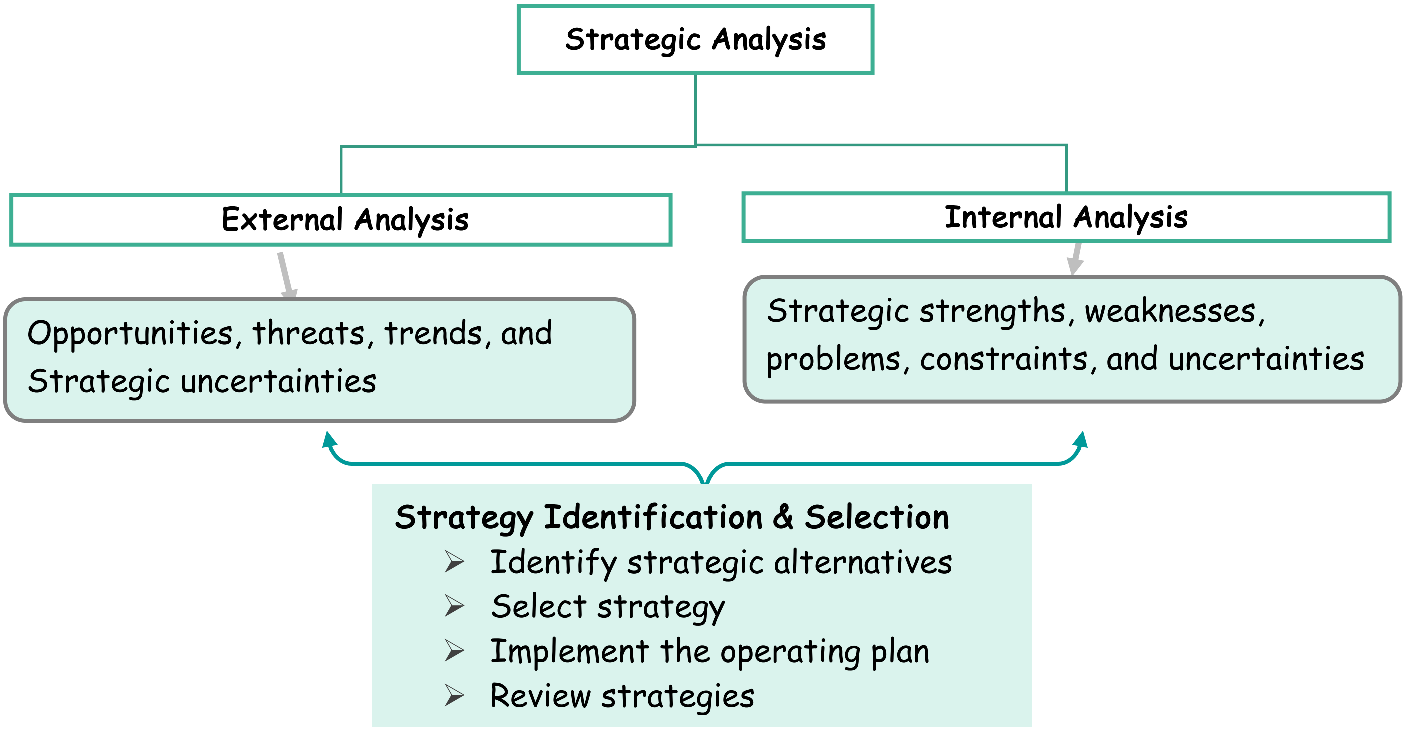
► Second, it can be time consuming at times, hurting overall organisational functioning.

Issues to consider for Strategic Analysis:

(a)Strategy evolves over a period of time	- result of choices taken over a period of time - radically changes to speed up growth - influenced by experience
(b)Balance of external and internal factors	- Meeting internal strengths and weaknesses with external opportunities and threats. - No perfect match exist. - Thus, strategic analysis uses workable balance.

(c)Risk	- Identify potential imbalances or risks and assess them consequences. - External – due to inconsistencies in strategy and environment - Internal – due to forces withing organisation

Framework of Strategic Analysis


Strategic Analysis

External Analysis

Opportunities, threats, trends, and Strategic uncertainties

Internal Analysis

Strategic strengths, weaknesses, problems, constraints, and uncertainties

Strategy Identification & Selection

- Identify strategic alternatives
- Select strategy
- Implement the operating plan
- Review strategies

Strategy And Business Environment

►Business keeps a close and continuous interaction with environment which helps in following ways:

Determine opportunities & threats	Find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.
Give direction for growth	The business is aware and understands the changes happening around, it can plan and strategies to have successful business.
Continuous Learning	The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

Image Building	Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.
Meeting Competition	It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

► Strategic analysis covering internal and external environment is highly relevant to achieve competitive advantage, as well as ensure high performance for survival and growth.

External Environment
~~Strategic Analysis~~

Micro

- Related to small area or immediate periphery of organisation

- Can be controlled by organisation

- Have direct impact on organisation

- narrow in scope

Macro

- Portion of the outside the world

- Can't be controlled by organisation

- Have indirect impact on organisation

- Broad in scope

»Elements of Macro Environment

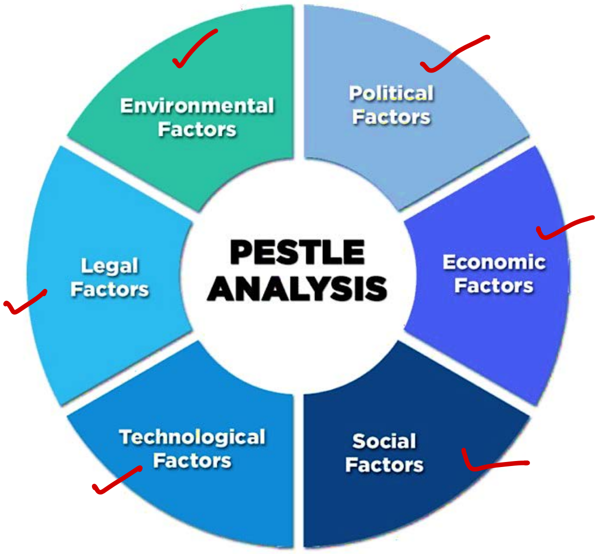
Demographic Environment	»Means characteristics of population. »such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education. »Data about these are of importance to both businesses and economists. **Particularly, they need to address following issues:** o What demographic trends will affect the market size of the industry? o What demographic trends represent opportunities or threats?

Socio-Cultural Environment	»It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth. »It differs from demographics in the sense that it is not the characteristics of the population, but it is the behaviour and the belief system of that population. »Core belief of society tends to be persistent and difficult to change. »Thus, businesses have to adjust to social norms and beliefs to operate successfully.
Economic Environment	»It refers to the overall economic situation including conditions at the regional, national and global levels. »Purchasing power depends on current income, prices, savings, circulation of money, debt availability. »It includes factors like GDP, per capital income, market for goods and services, interest rates, inflation etc. »High interest rate are detrimental for the business with debt.
Political-Legal Environment	»It includes factors like general level of policy development, degree of politicization, economic issues, law and order, political stability etc. »Business is highly guided and controlled by government policies and thus needs to consider changes in regulatory framework. »Businesses prefer to operate in a country where there is a sound legal system.
Technological Environment	»Technology has changed the way people communicate and do things. »Technology has also changed the ways of how businesses operate now. »Technology and business are linked and are interdependent on one another. »Technology act as both opportunity and threat.

	»Business can effectively adopts technological innovations to their strategic advantage.

PESTLE- A tool to Analyse Macro Environment

- It is a way of scanning the macro environment factors that have influenced or are likely to affect the organisation.
- Earlier it was PEST but now legal and environment factors are included.
- It encourages management to be proactive and structured thinking in decision making.
- 'PESTLE analysis is an increasingly used and recognized analytical tool, and it is an acronym for:



- **The Key Factors**

Political factors	Political factors are how and to what extent the government intervenes in the economy and the activities of business firms. Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided.
Economic factors	Economic factors have major impacts on how businesses operate and take decisions. Example: interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.
Social factors	Social factors affect the demand for a company's products and how that company operates.

Technological factors	Technological factors can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.
Legal factors	Legal factors affect how a company operates, its costs, and the demand for its products, ease of business.
Environmental factors	Environmental factors affect industries such as tourism, farming, and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones.

Internationalization of Business

▶Enables a business to enter new markets in search of greater earnings and less expensive resources.

▶Additionally, expanding internationally enable a business to achieve greater economies of scale and extend the lifespan of its products.

▶A business can approach internationalisation systemically with the aid of international strategy planning.

▶**Characteristics of a global business**

To be specific, a global business has three characteristics:

- ✓ It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- ✓ Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- ✓ The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

Developing internationally

▶The steps in international strategic planning are as follows:

- ✓ Evaluate global opportunities and threats and rate them with the internal capabilities.
- ✓ Describe the scope of the firm's global commercial operations.
- ✓ Create the firm's global business objectives.
- ✓ Develop distinct corporate strategies for the global business and whole organisation.

Why do businesses go global?

- ✓ The first and foremost reason is the need to grow.
- ✓ There is rapid shrinking of time and distance across the globe.
- ✓ It is being realised that the domestic markets are no longer adequate. The competition present domestically may not exist in some of the international markets.
- ✓ There can be varied other reasons such as need for reliable or cheaper source of raw-materials, cheap labour, etc.
- ✓ Companies often set up overseas plants to reduce high transportation costs. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.
- ✓ The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- ✓ To form strategic alliances to leverage their respective comparative and competitive advantages.

International Environment

►Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis	- Involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. - Analyse macro environment, Govt. intervention etc. - These characteristics are evaluated based on their present and expected future impact.
Regional environmental analysis	- It is a more in-depth evaluation of the critical factors in a specific geographical area. - The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.
Country environmental analysis	- It has to take a deeper look at the important environmental factors. - The analysis must be customised for each of the countries to develop effective market entrance strategies.

Understanding Product And Industry

Business products have certain characteristics as follows:

1. Products are either tangible or intangible.
    a. A tangible product can be handled, seen, and physically felt.
    b. An intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.

2. Product has a price.
    a. The market price is the price at which quantity provided equals quantity desired.
    b. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.

3. Products have certain features that deliver satisfaction.
    a. Products should provide value satisfaction to the customers.
    b. It is distinguish it in terms of its function, design, quality and experience.

4. Product is pivotal for business.
    a. It is at the centre of business around which all strategic activities revolve.
    b. It is the driving force behind business activities.

5. A product has a useful life.
    a. Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist.

Product Life Cycle

»»An important concept in strategic choice is that of product life cycle (PLC).

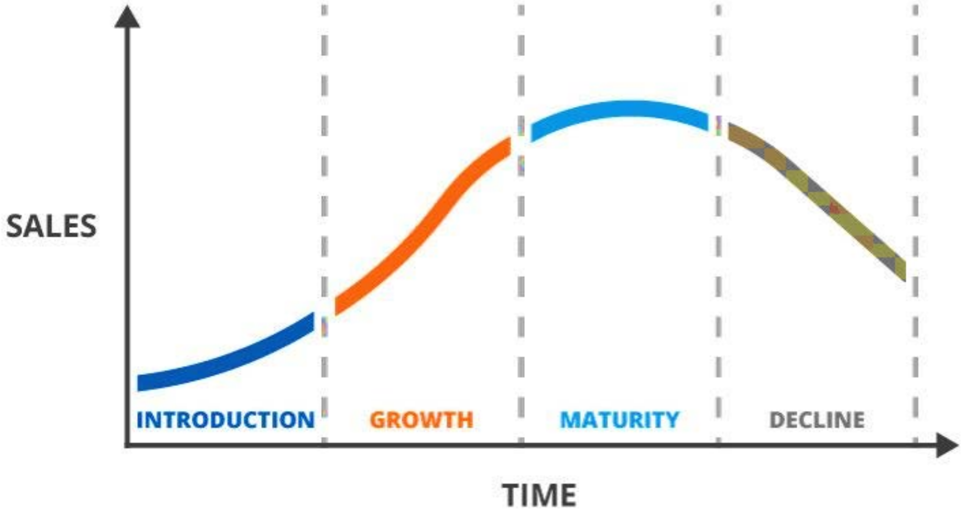
»»PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline.

First stage: - of PLC is the introduction stage with slow sales growth, in which competition is almost negligible, prices are relatively high, and markets are limited. The growth in sales is at a lower rate because of lack of awareness on the part of customers.

Second phase: - of PLC is growth stage with rapid market acceptance. In the growth stage, the demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.

Third phase: - of PLC is maturity stage where there is slowdown in growth rate. In this stage, the competition gets tough, and market gets stabilized. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

Fourth stage: - of PLC is declines with sharp downward drift in sales. The sales and profits fall down sharply due to some new product replaces the existing product.
So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



›››The main advantage of PLC approach is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists.

›››Depending on the diagnosis, appropriate strategic choice can be made.

- For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages.
- Mature businesses may be used as sources of cash for investment in other businesses which need resources.
- A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses.

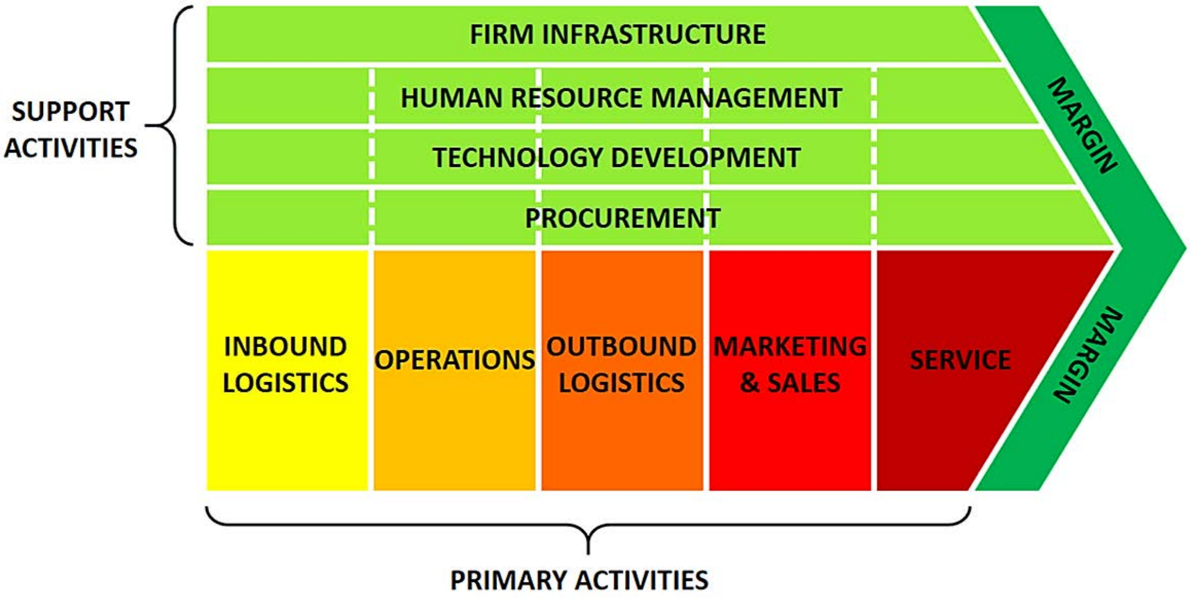
Value Chain Analysis

›››It was introduced by Michael Porter.

›››Value chain analysis is a method of examining each activity in value chain of a business in order to identify areas for improvements.

›››Value chain analysis has been widely used as a means of describing the activities within and around an organization and relating them to an assessment of the competitive strength of an organization.

›››There are two type of activities i.e. Primary and Secondary.



›››The primary activities of the organization are grouped into five main areas:

Inbound logistics	The activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc. Like, transportation and warehousing.
Operations	Operations transform these inputs into the final product or service machining, packaging, assembly, testing, etc. convert raw materials in finished goods.
Outbound logistics	Collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).
Marketing and sales	Provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales

	administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
Service	Service are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

›››Each of these groups of primary activities are linked to support activities.

›››These can be divided into **four areas;**

Procurement	The processes for acquiring the various resource inputs to the primary activities (not to the resources themselves).
Technology development	The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
Human resource management	It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
Infrastructure	The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities.

Industry Environment Analysis

▶It analyse whether industry is a lucrative or not.

▶Estimate the amount of competitive pressures the business is presently facing and is expected to face in the near future.

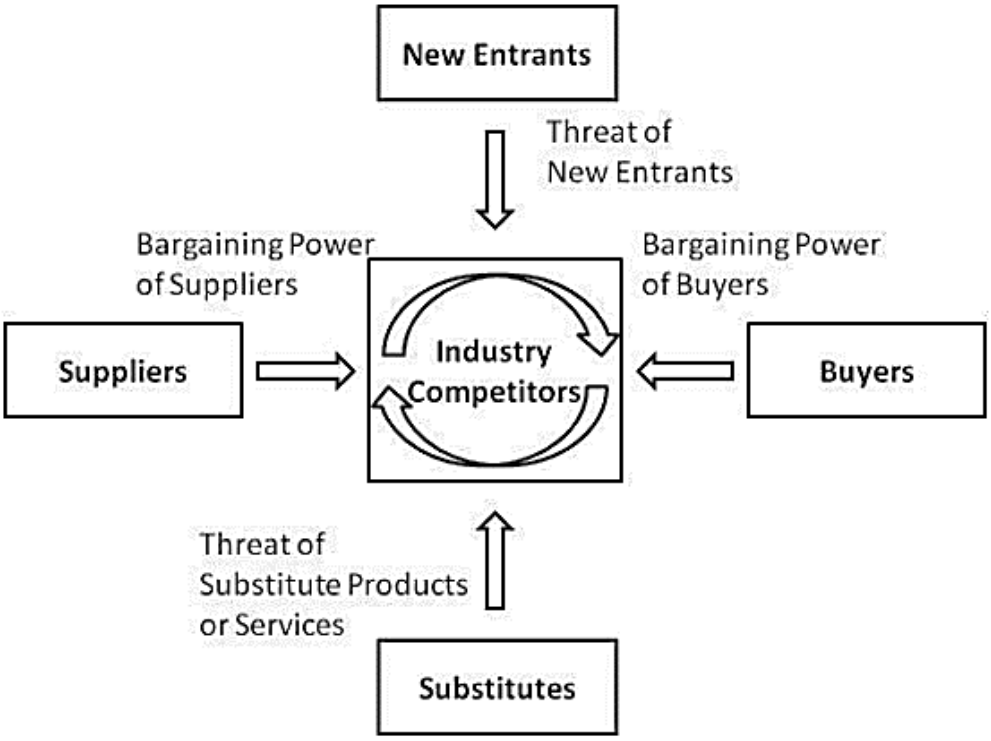
▶Analysing these elements enhances knowledge of surrounding and serves as the foundation for aligning strategy with changing industry circumstances and realities.

Porter's Five Forces Model

›››Porter's Five Forces analysis is a simple but efficient way for determining the key sources of competition in business or industry.

›››It diagnose the significant competitive pressures in a market and assess the strength and importance of each.

›››It states the competitive pressure operating in five areas of overall market. competitive pressures operating in five areas of the overall market:



Steps for Competitive Analysis

The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

- Identify the specific competitive pressures associated with each of the five forces.
- Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- Determine whether the collective strength of the five competitive forces is conducive to earnings attractive profits.

(I)The Threat of New Entrants

›New entrants can reduce industry profitability because they add new production capacity leading to an increase supply of the product even at a lower price and can substantially erode existing firm's market share position.

›The bigger the new entrant, the more severe the competitive effect.

›A firm's profitability is higher when other firms are blocked from entering.

›To discourage new entrants, existing firms can try to raise barriers to entry which are:

- Capital requirement
- Economies of scale
- Product differentiation

- Switching costs
- Brand identity
- Access to distribution channel
- Possibility of aggressive retaliation

(II) Bargaining Power of Buyers

›This force will become heavier depending on the possibilities of the buyers' forming groups or cartels.

›Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services.

›This leverage is particularly evident when:

- Buyer have full knowledge of product and their substitutes
- They are big buyers
- Product is not critical to the buyer and they can easily switch to the substitutes available.

(III) Bargaining Power of Suppliers

›The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

›It happens when:

- Their products are crucial and substitutes are not available
- They can incur high switching costs
- They are more concentrated than their buyers.

(IV) Threat of Substitutes

›Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden.

›More substitute available leads to less attractive and profit industry.

(V) The Nature of Rivalry in the Industry

›The more intensive the rivalry, the less attractive is the industry.

›Rivalry among competitors tends to be cutthroat and industry profitability low under various conditions explained as follows:

Industry Leader	A strong industry leader can discourage price wars by disciplining initiators of such activity. Because of its greater

	financial resources, a leader can generally outlast smaller rivals in a price war.
Number of Competitors	Even when an industry leader exists, the leader's ability to exert pricing discipline diminishes with the increased number of rivals in the industry as communicating expectations to players becomes more difficult.
Fixed Costs	When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined to cut prices when they have excess capacity.
Exit Barriers	Rivalry among competitors declines if some competitors leave an industry. Exit barriers come in many forms. Assets of a firm considering exit may be highly specialized and therefore of little value to any other firm. Such a firm can thus find no buyer for its assets. This discourages exit. When barriers to exit are powerful, competitors desiring exit may refrain from leaving. Their continued presence in an industry exerts downward pressure on the profitability of all competitors.
Product Differentiation	Firms can sometimes insulate themselves from price wars by differentiating their products from those of rivals. As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation. Profitability tends to be lower in industries involving undifferentiated commodities.
Slow Growth	Industries whose growth is slowing down tend to face more intense rivalry. As industry growth slows, rivals must often fight harder to grow or even to keep their existing market share. The resulting intensive rivalry tends to reduce profitability for all.

Attractiveness of Industry

▶The industry analysis culminates into identification of various issues and draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term.

▶The important factors on which the management may base such conclusions include:

- ✓ The industry's growth potential, is it futuristically viable?
- ✓ Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
- ✓ Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?

- ✓ The competitive position of an organisation in the industry and whether its
- ✓ position is likely to grow stronger or weaker. (Being a well-entrenched leader
- ✓ or strongly positioned contender in an otherwise lackluster industry can still
- ✓ produce good profitability; however, having to fight an uphill battle against
- ✓ much stronger rivals can make an otherwise attractive industry unattractive).
- ✓ The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- ✓ Whether the company is able to defend against or counteract the factors that make the industry unattractive?
- ✓ The degrees of risk and uncertainty in the industry's future.
- ✓ The severity of problems confronting the industry as a whole.
- ✓ Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

Experience Curve

»»Experience curve akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.

»»Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.

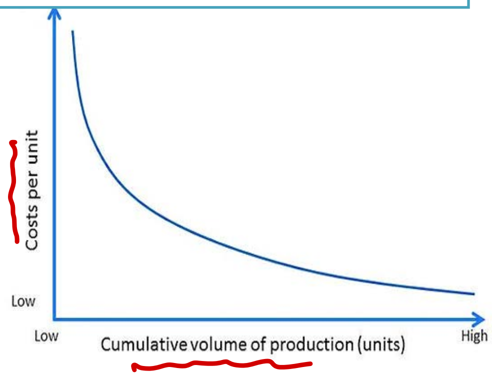
»»It is based on the concept, "we learn as we grow".

»» Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

»»Experience curve has following features:

- As business organisation grow, they gain experience.
- Experience may provide an advantage over the competition. Experience is a key barrier to entry.
- Large and successful organisation possess stronger "experience effect".

»»A typical experience curve may be depicted as follows:



›››It acts as a barrier for new firms entering in industry.

›››The likely strategic choice for competitors can be a market niche approach or segmentation based on demography or geography.

Value Creation

›››The value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system.

›››Value is measures by product features, quality, availability, durability, performance and its service for which customers is willing to pay.

›››Value creation should be for customers as well as stakeholders.

›››This concept gives business a competitive advantage in the industry and helps them earn above average profits/returns.

›››Profitable a company becomes depends on three factors:

- a) the value customers place on the company's products;
- b) the price that a company charges for its products; and
- c) the costs of creating those products.

›››Companies are ultimately aiming to achieve sustainable competitive advantage, which enables them to succeed in the long run.

›››Michael Porter argues that a company can generate competitive advantage in two different ways, either through differentiation or cost advantage.

›››According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service.

›››Value chain analysis provides an excellent tool to examine the source of differentiation and understand organisation cost behaviour.

Market And Customer

▶A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price.

▶The market might be physical, such as a departmental store where people engage in person.

▶They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.

▶Example: it might be used to describe the stock exchange, where securities are traded.

▶The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.

►Often market activities are categorised and explained in terms of four Ps of marketing - product, place, pricing, and promotion.

Customer

›››A customer is a person or business that buys products or services from another organisation.

›››The terms customer and consumer are practically synonymous and are frequently used interchangeably. There is, a thin distinction.

›››Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers.

Customer Analysis

›››Customer analysis is an essential marketing component of any strategic business plan.

›››It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

›››Customer analysis includes the administration of customer surveys, the study of consumer data, the evaluation of market positioning strategies, development of customer profiles, and the selection of the best market segmentation techniques.

Customer Behaviour

›››It enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.

›››Consumer behaviour may be influenced by a number of things which are:

External Influences	- External influences, like advertisement, peer recommendations or social norms which have an impact on customers - These aspects are divided into two groups - the company's marketing - efforts and the numerous environmental elements.
Internal Influences	Internal processes are psychological factors internal to customer and affect consumer decision making.
Decision Making	The stages of decision-making process can be described as: ✓ Problem recognition, i.e., identify an existing need or desire that is unfulfilled ✓ Search for desirable alternative and list them

	✓ Seeking information on available alternatives and weighing their pros and cons. ✓ Make a final choice
Post-decision Processes	After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome. The consumer's reaction may vary depending upon the satisfaction.

Competitive Strategy

›››The competitive strategy of a business is concerned with how to compete in the business areas in which the organization operates.

›››The competitive strategy of a firm within a certain business field is analysed using two criteria:

- the creation of competitive advantage
- the protection of competitive advantage.

Competitive Landscape

›››Competitive landscape is a business analysis which identifies competitors, either direct or indirect.

›››Understanding of competitive landscape requires an application of "competitive intelligence".

›››Steps to understand the Competitive Landscape:

- Identify the competitor ✓
- Understand the competitor ✓
- Determine the strength of competitor
- Determine the weakness of competitor
- Put all the information together

Key Factors For Competitive Success

›››An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace

›››The answers to three questions help identify an industry's key success factors:

On what basis do customers choose between the competing brands of sellers? What product attributes are crucial to sales?

What resources and competitive capabilities does a seller need to have to be competitively successful, better human capital, quality of product or quantity of product, cost of service, etc.?

What does it take for sellers to achieve a sustainable competitive advantage, something that can be sustained for long term?

›››Generally there are 3 to 4 KSFs in an industry.

›››The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important.

Chapter - 3

Strategic Analysis: Internal Environment

Internal Environment

► Internal environment refers to the sum total of people – individuals and groups, stakeholders, processes- input-throughput-output, physical infrastructure- space, equipment and physical conditions of work, administrative apparatus- lines of authority & power, responsibility, accountability and organizational culture intangible aspects of working- relationships, philosophy, values, ethics- that shape an organization's identity.

► Internal environment is specific to each organization.

► It is based on its structure and business model and include all stakeholders.

Understanding Key Stakeholders

► Stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation e.g. shareholders, CEO, BOD, consumers, employees etc.

►They have the power to influence the strategy or performance of that organisation.

Mendelow's Matrix or Stakeholder Analysis Matrix or Power-Interest Matrix

▶It is a simple framework to help manage key stakeholders.

▶Managing a project is extremely complicated as it involves managing the competing interests of various stakeholders.

▶Mendelow suggests that one should analyse stakeholder groups based on Power (the ability to influence organisation strategy or resources) and Interest (how interested they are in the organisation succeeding).

▶**Example,** a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders

Keep Satisfied

Govt. Agencies
Customers
Banks
etc.

- Consult often
- Increase their interest

Can be hindrance to new ideas or strategic choices

Key Player

Shareholders,
CEO, BOD etc.

- Manage Closely
- Involve in decision making
- Engage regularly and build strong relationship

Low Priority

Media

- Monitor only, no engagement
- General occasional communication

Keep Informed

Ees, Vendors
etc.

- Utilise the high interest by engaging in decisions
- Consult in their areas of expertise and interest

Keep Satisfied Stakeholders	- High power, less interested people - Aim to keep them satisfied with their intended information on a regular basis. - **Example,** banks, government, customers, etc.

Key Players Stakeholders	- High power, highly interested people - Aim to make the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. - **Example,** Shareholders, CEO, Board of Directors, etc.
Keep Informed Stakeholders	- Low power, highly interested people - Aim to adequately inform this group of people and communicate with them to ensure that no major issues arise. - They can also help with real time feedbacks and areas of improvement. - **Example,** employees, vendors, suppliers, legal experts, etc.
Low Priority Stakeholders	- Low power, less interested people - Aim to only monitor them with no actions to satisfy their expectations. - Strategically, minimal efforts should be spent while keeping an eye to check if their levels of interest or power change. - **Example,** business magazines, media houses, etc.
An important thing that strategists should be aware of, is the importance to remember that environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.	

Strategic Drivers

▶An important aspect of internal analysis is assessing the current performance of the business. And in assessing current performance, the strategic drivers consider what differentiates an organisation from its competitors.

▶The key strategic drivers of an organisation include:

① ✓ Industry and markets
② ✓ Customers
③ ✓ Products/services
④ ✓ Channels

Industry And Markets

››› Similar companies based on their primary products are grouped together into industries.

›››**Example,** Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into Automotive Industry.

›››Market refers to all the buyers and sellers of a particular product/service.

›››*Is market the same for all businesses?*

›››Market is not same for all businesses.

›››Market may be physical entity or may be virtual like e-commerce websites and applications.

Example, for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. each product line will have a separate market to cater to and therefore build strategies specific to the market of concern.

Analysing Industry And Markets

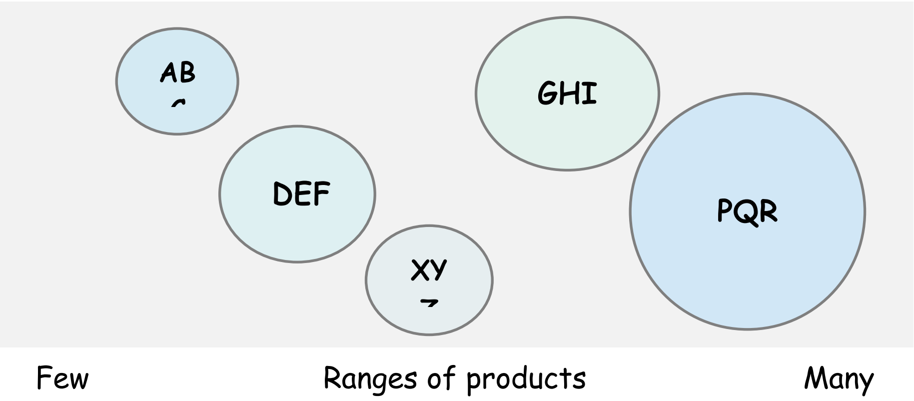
›››A tool used for analysing industry and market is – **Strategic Group Mapping.**

›››A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

›››The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- ✓ Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)
- ✓ Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- ✓ Assign firms that fall in about the same strategy space to the same strategic group.
- ✓ Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

Strategic Group Mapping



Customers

›››Different customers may have different needs and require different sales models or distribution channels.

››› Customer vs Consumer

A customer is the one buys a product/service,

The consumer is the one who finally uses/consumes the bought product or service.

›››**Example:** A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it.

›››Thus, understanding both is important for the marketers.

›››From a pricing perspective - the customer is of more importance and

›››From value creation and design/usability, consumer needs to be the kept at the center of decision making.

Product/Services

›››Product stands for the combination of "goods and services" that the company offers to the target market.

›››Products can be distinguished based on consumer, luxury, durables or perishables etc.

›››Strategies are needed for managing existing product over time, adding new ones and dropping failed products.

›››Strategic decisions must also be made regarding branding, packaging and other product features such as warranties.

›››For a new product of pricing strategies at least three objectives must be kept in mind:

- ✓ Have customer-centric approach while making a product.
- ✓ Produce sufficient returns through a reasonable margin over cost.
- ✓ Increasing market share.

›››Products and services need heavy investment in reaching out to customers.

›››Marketing strategies to handle marketing strategically and fight the competition in the market.

Social Marketing	It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change.
Augmented Marketing	This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered.
Direct Marketing	Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing. electronic marketing, shopping, and TV shopping.
Relationship Marketing	The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders.
Services Marketing	- Services is any activity or benefit that one party can offer to another that is essentially intangible. - This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.
Person Marketing	- People can also be marketed. - Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. - For example, politicians, sports stars, film stars, etc. Le., market themselves to get votes, or to promote their careers.

Organization Marketing	- It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. - Both profit and non-profit organizations practice organization marketing.
Place Marketing	- Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.
Enlightened Marketing	- It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset. - Its five principles include (A) customer-oriented marketing, (B) innovative marketing, (C) value marketing, (D) sense-of-mission marketing, and (E) societal marketing.
Differential Marketing	- It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. - For example, HUL has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.
Synchro-marketing	- When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.
Concentrated Marketing	- It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing. - Luxury cars, toddlers products
Demarketing	It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.

Channels

›››Channels are the distribution system by which an organisation distributes its product or provides its service.

›››Examples of some companies;

- Lakme - sells its products via retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.
- Boat Headphones - only online via e-commerce platforms like flipkart and amazon

›››There are typically three channels:

The sales channel	- These are the intermediaries involved in selling the product through each channel and ultimately to the end user. - The key question is: Who needs to sell to whom for your product to be sold to your end user?
The product channel	- It focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user.
The service channel	- It refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. - It is an important consideration for products that are complex in terms of installation or customer assistance.

Role Of Resources And Capabilities

Building Core Competency

›››***C.K. Prahalad and Gary Hamel*** have advocated a concept of core competency.

›››Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.

›››A core competency for a firm is whatever it does best.

›››Core competency is defined as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies that can lead to competitive advantage.

›››Core competencies are created by superior integration of technological, physical and human resources.

›››Core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources say a sum of 5 – 15 areas.

›››According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas -

Competitor Differentiation	▶Competence should be unique and difficult for competitors to imitate. ▶It allows the company to provide better products or services ▶Company has to keep on improving these skills in order to sustain its competitive position. ▶Competence does not necessarily have to exist within one company in order to define as core competence. ▶**Example,** it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.
Customer value	▶When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. ▶The essence is that the consumer should value the differentiation offered. Without it, the core competency does not make sense.
Application to other markets	▶Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. ▶Although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence if it is not fundamental from the whole organization's point of view.

›››If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

›››Core competencies are often visible in the form of organizational functions. E.g. HUL

Criteria For Building A Core Competencies (CC)

Valuable	- These are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. - Finance companies build a valuable competence in financial services. - Human capital is important in creating value for customers.

Rare	- Core competencies are very rare capabilities and very few of the competitors possess this. - Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
Costly to imitate	- It means such capabilities that competing firms are unable to easily.
Non-substitutable	- Capabilities that do not have strategic equivalents are called non-substitutable capabilities. - Strategic value of capabilities increases as they become more difficult to substitute. **For example**, Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities.

Combining External And Internal Analysis (SWOT Analysis)

▶SWOT analysis is the analysis of a business's strengths, weaknesses, opportunities and threats.

▶The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors (external as well as internal), involved in making a business decision.

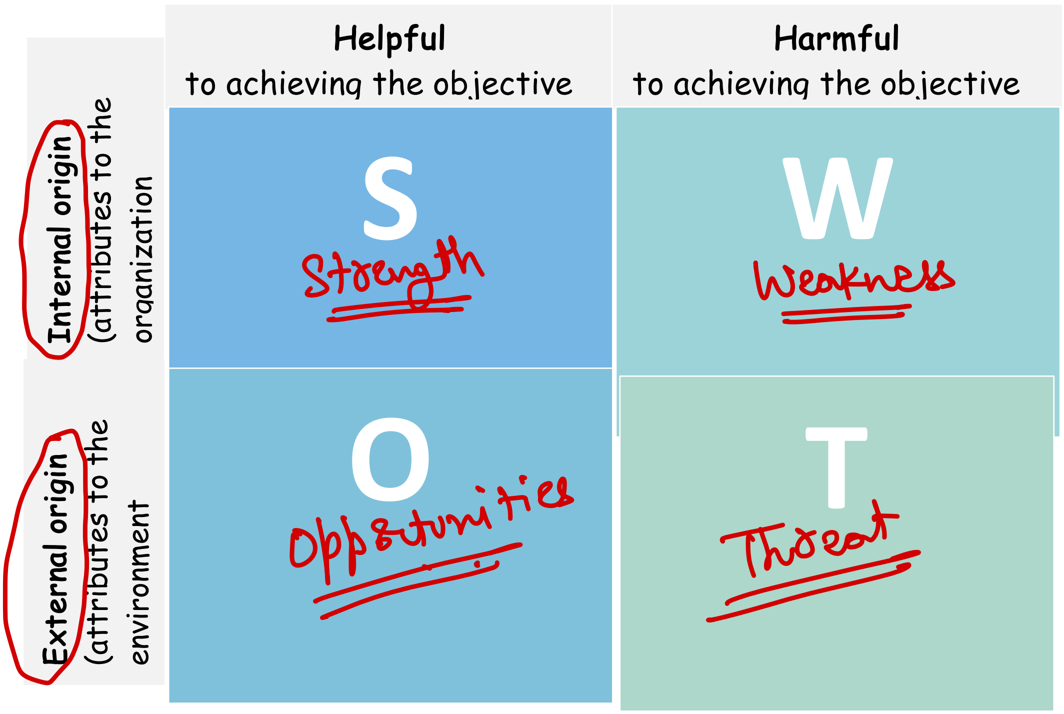
▶SWOT analysis shall be implemented before all company actions.

▶SWOT analysis can show areas where an organization is performing well, as well as areas that need improvement.

▶SWOT analysis can maximize opportunities by using strengths and minimize threats by reducing weakness.

Strength – Inherent capability of organization
Weakness – Inherent weakness of organization
Opportunities – Favourable external environment
Threats – Unfavourable external environment

SWOT Analysis



	Helpful to achieving the objective	**Harmful** to achieving the objective
Internal origin (attributes to the organization)	**S** Strength	**W** Weakness
External origin (attributes to the environment)	**O** Opportunities	**T** Threat

Competitive Michael Porter's Generic Strategies

▶ If a company’s strategies results in superior performance, it is said to have a competitive advantage.

▶ It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.

▶ *"If you don't have a competitive advantage, don't compete"- Jack Welch*

▶ The competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry.

▶ It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate.

Sustainability of Competitive Advantage

It depends upon four major characteristics of resources and capabilities:

1. Durability

- The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate.
- The rate of product innovation is fast, product patents are quite likely to become obsolete.

2. Transferability

- Easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage

3. Imitability

- If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch and would remain competitive advantage.

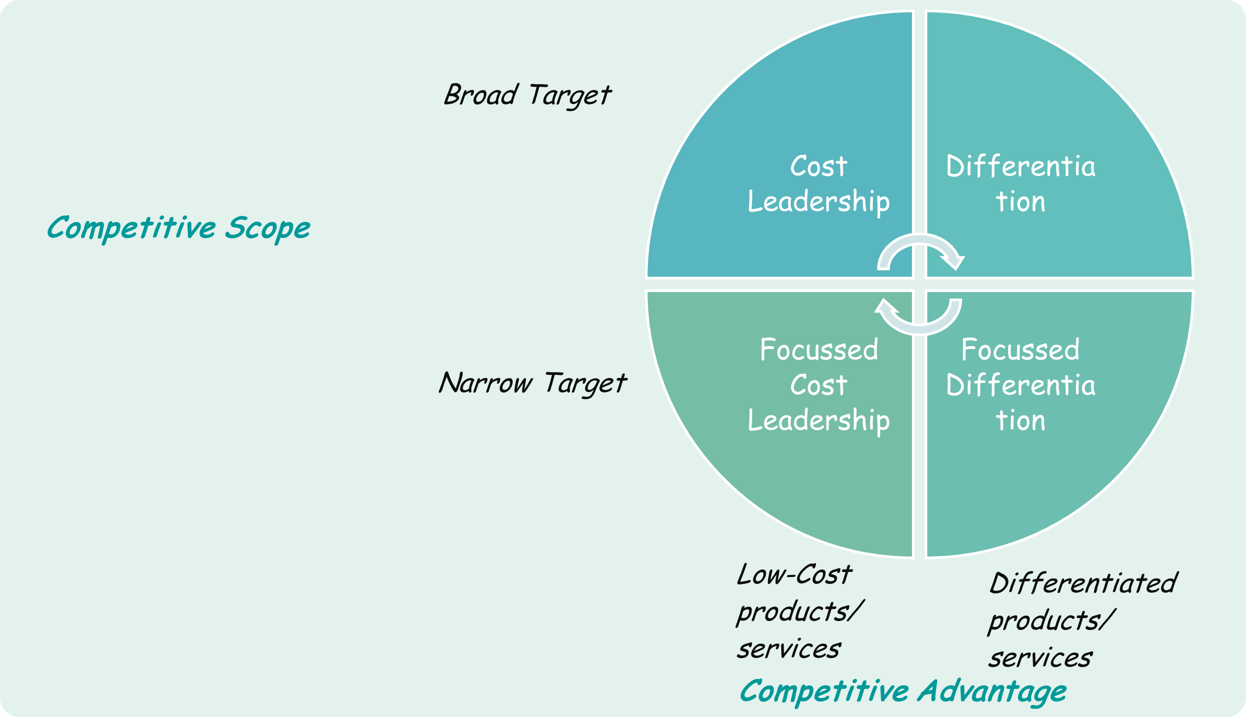
4. Appropriability

- It refers to the ability of the firm's owners to appropriate returns on its resource base.
- No return will be considered as no competitive advantage

Michael Porter's Generic Strategies

▶According to Porter, strategies allow organizations to gain competitive advantage from three different bases cost leadership, differentiation, and focus. Porter called these base generic strategies.

▶These strategies have been termed generic, because they can be pursued by any type or size of business firm and even by not-for-profit organisations.



Cost Leadership

- It emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive. E.g. milk, bread etc.

Differentiation Strategy

- It is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive. E.g. cement can withstand earthquake etc.

Focus Strategy

- Focus means producing products and services that fulfil the needs of small groups of consumers with very specific taste. E.g. Luxury cars

▶Large companies follow broad market and small companies follow narrow market or focus.

▶Porter stresses the need for strategists to perform cost-benefit analysis to evaluate "sharing opportunities" and "transfer" among the firm's existing and potential business units to gain competitive advantage.

Cost Leadership Strategy

»»It is a low-cost competitive strategy that aims at broad mass market.

»»It requires vigorous pursuit of cost reduction in the areas of

- ✓ Procurement,
- ✓ Production,
- ✓ Storage & distribution of product or service and
- ✓ Also, economies in overhead costs.

»»Because of its lower costs, the firm is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits.

»»**Example,** McDonald's, Decathlon,

»»Generally, cost leadership must be pursued in conjunction with differentiation.

»»Internal strategy of sharing resources to build a competitive advantage is called synergy benefit.

»»Striving to be a low-cost producer in an industry can especially be effective,

- when the market is price-sensitive and
- when there are few ways to achieve product differentiation.

»»It is done to reduce competitor and thereby gain market share and driving some competitors out of the market.

»»Some risks of pursuing cost leadership are;

- that competitors may imitate the strategy, therefore driving overall industry profits down;

- that technological breakthroughs in the industry may make the strategy ineffective; or
- that buyer interests may swing to other differentiating features besides price.

Achieving Cost Leadership Strategy

1. Prompt forecasting of demand of a product or service.
2. Optimum utilization of the resources to achieve cost advantages.
3. Achieving economies of scale; thus, lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.
5. Invest in cost saving technologies and using advance technology for smart efficient working.
6. Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

1. Rivalry – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.

2. Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.

3. Suppliers – Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.

4. Entrants – Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.

5. Substitutes – Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

Disadvantages of Cost Leadership Strategy

1. Cost advantage may not last long as competitors may imitate cost reduction techniques.

2. Cost leadership can succeed only if the firm can achieve higher sales volume.

3. Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and research and development, but this approach can prove to be expensive in the long run.

4. Technological advancement areas a great threat to cost leaders.

Differentiation Strategy

››› This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique.

››› Uniqueness can be associated with design, brand image, features, technology, customer service etc.

››› **Example,** Domino's Pizza has been offering home delivery within 30 minutes or the order is free,

››› Differentiation allows a firm to charge higher price for its product.

››› Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features.

››› A risk associated with pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price.

››› Another risk is that it can be copied by competitors quickly.

Basis of Differentiation

Product	• Innovative products that meet customer needs can be an area • However, the pursuit of a new product offering can be costly-research and development, as well as production and marketing costs can all add to the cost of production and distribution. • **Example,** Apple iPhone, Tesla, etc.
Pricing	• Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices. • **Example,** Apple iPhone, Jio phone
Organisation	• It can be in form of location advantage, name recognition, customer loyalty etc. • Example - Apple, Tata

Achieving Differentiation Strategy

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.

6. Fixing product prices based on the unique features of product and buying capacity of the customer.

Advantages of Differentiation Strategy

1. Rivalry- It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

2. Buyers - They do not negotiate for price as they get special features and they have fewer options in the market.

3.Suppliers - Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.

*4.Entrants-*Innovative features are an expensive offer. So, new entrants generally, avoid these features.

5.Substitutes- They can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantage of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain

2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.

3. IT fails to work if its basis is something that is not valued by the customers.

Focus Strategies

›››Focus strategies are most effective when consumers have distinctive preferences or requirements, and when the rival firms are not attempting to specialize in the same target segment.

›››An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market. **Example,** Ferrari sports cars.

›››Risks of pursuing a focus strategy include the possibility of numerous competitors recognizing the successful focus strategy and imitating it or that consumer preferences may drift towards the product attributes desired by the market as a whole.

Focus Cost Leadership

- A focused cost leadership strategy requires competing based on price to target a narrow market.
- A firm that follows this strategy does not necessarily charge the lowest prices in the industry.
- Instead, it charges low prices relative to other firms that compete within the target market.

Focus Differentiation

- A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.
- Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only.
- Others target particular demographic groups.
- **Example,** Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focused Strategy

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2.Creating superior skills for catering such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.

2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.

2. Due to the limited demand of product/services, costs are high, which can cause problems

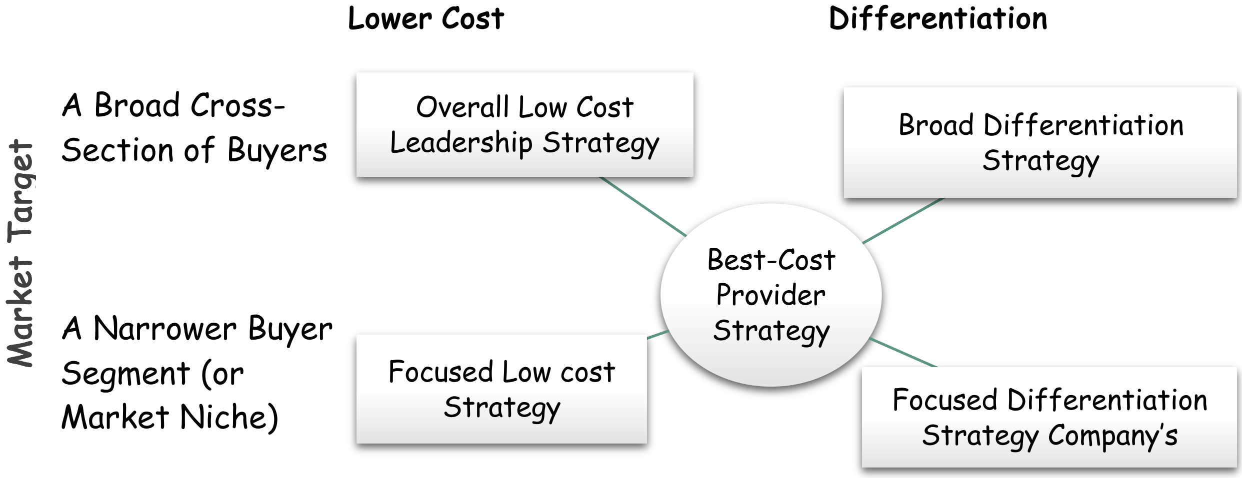
3.In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Best-Cost Provider Strategy

›››It is a further development of above three generic strategies.

›››It is directed towards giving customers more value for the money by emphasizing on both, low cost and upscale differences.

›››The objective is to keep costs and prices lower than those of other sellers of "*comparable products*".



›››It can be done through:

(a) offering products at lower price than what is being offered by rivals for products with comparable quality and features

Or

(b) charging similar price as by the rivals for products with much higher quality and better features.

›››**Example,** android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.

Chapter - 4

Strategic Choices

Strategic Choices

▶Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market.

▶**William F Glueck and Lawrence R. Jauch** discussed four generic strategies including stability, growth, retrenchment and combination.

▶These strategies have also been called Grand Strategies / Directional Strategies by many other authors.

Stability Strategy

›››**A stability strategy is pursued by a firm when:**

✓ It continues to serve in the same or similar markets and deals in same or similar products and services.

✓ This strategy is typical for those firms whose product have reached the maturity stage of PLC or those who have a sufficient market share but need to retain that.

›››It is not "Do Noting" Strategy but 'Do Nothing New' Strategy.

›››It involves minor improvement and not drastic changes.

Example – SAIL, NTPC, ONGC etc.

Characteristics of Stability Strategy

- Company stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- Firm focuses on incremental improvements in functional efficiencies.
- It does not involve a redefinition of the business of the corporation
- It is a safe strategy that maintains status quo.
- It does not warrant much of fresh investments.
- The firms with modest growth objective choose this strategy.

Major Reasons for Stability Strategy

- A product has reached the maturity stage of the PLC.
- The staff feels comfortable with the status quo as it involves less changes and less risks.
- Environment is relatively stable.
- Expansion may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

Growth/Expansion Strategy

›››Its is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business.

›››It is a strategy that can be equated with dynamism, vigour, promise and success.

›››This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.
Example – Google, Tesla, Amazon etc.

Characteristics of Growth/Expansion Strategy

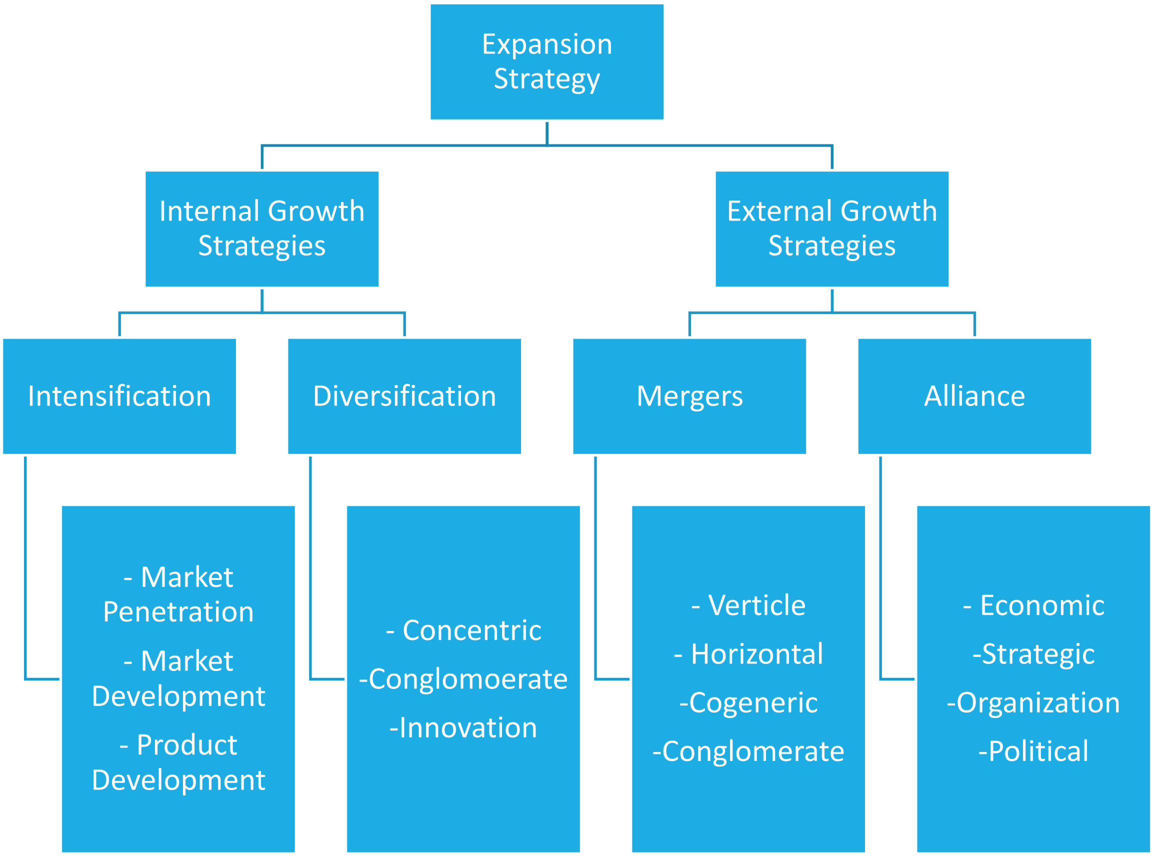
- It involves a redefinition of the business of the corporation.
- IT is the opposite of stability strategy. Rewards are very high along with risks.
- It leads to business growth.
- It facilitate the process of renewal of the firm through fresh investments and new businesses/products/markets.
- It is a highly versatile strategy; it offers several permutations and combinations for growth.
- It holds within it two major strategy routes: Intensification and Diversification.

Major Reasons for Growth/Expansion Strategy

- May become imperative when environment demands increase in pace of activity.
- Strategists may feel more satisfied with the prospects of growth from expansion.
- Expansion may lead to greater control over the market vis-a-vis competitors.
- Advantages from the experience curve and scale of operations may accrue.

Types of Growth/ Expansion Strategy

The growth strategies can be classified into two main types:



Internal Growth Strategies

I. Expansion or growth through Intensification

›It means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development.

›**The firm can intensify by adopting any of the following strategies:**

Market Penetration	•The firm directs its resources to the profitable growth of its existing product in the existing market.
Market Development	•It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.
Product Development	•It involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

›››Igor. H. Ansoff gave a framework as shown in figure below which describes the intensification options available to a firm.

Market Penetration

- ◆ Increase market share.
- ◆ Increase product usage.
- ◆ Increase the frequency used.
- ◆ Increase the quantity used.
- ◆ Find new application for current users.

Product Development

- ◆ Add product features, product refinement.
- ◆ Develop a new-generation product.
- ◆ Develop new product for the same market

Diversification involving new products and new markets

- ◆ Related / Unrelated.

Market Development

- ◆ Expand geographically Target new segments.

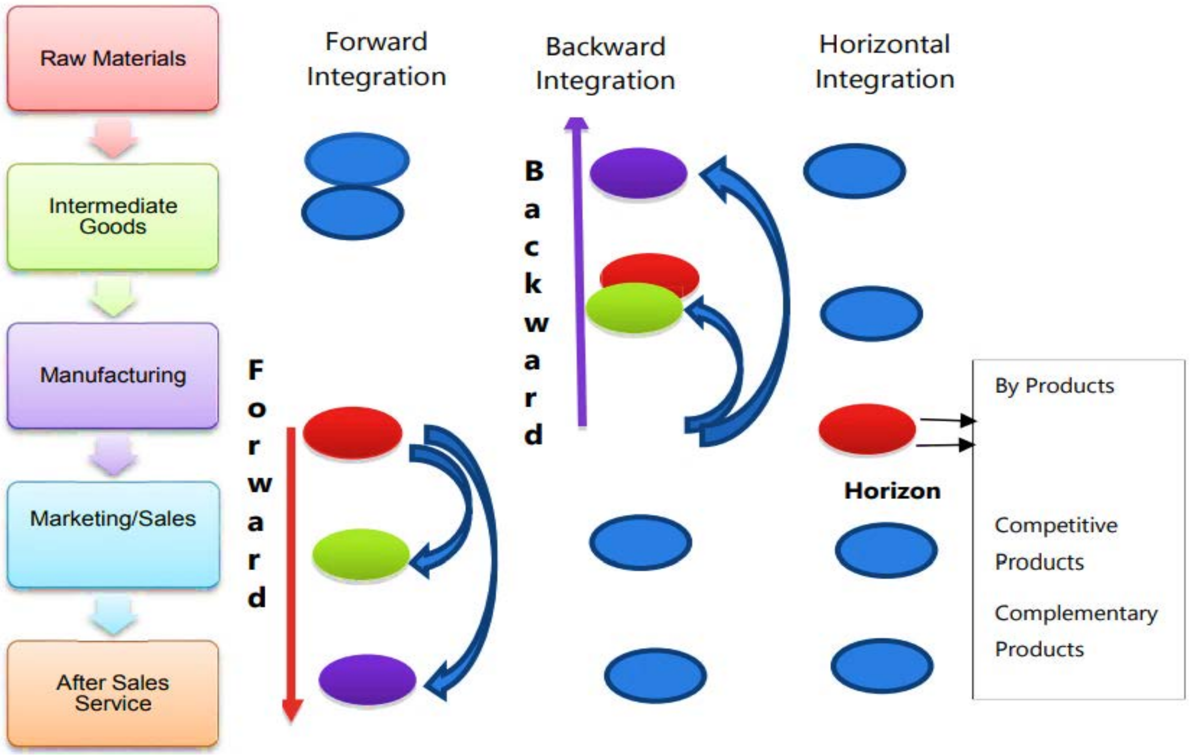
II. Expansion or Growth through Diversification

›Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

›**Based on the nature and extent of their relationship to existing businesses, diversification can be classified into two broad categories:**

<table>
<tr><td rowspan="2"><i>Concentric Diversification</i></td><td colspan="2">›››Concentric diversification takes place when the products are related.
›››In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing.
›››The new product is a spin-off from the existing facilities and products/processes.
›››The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.
›››Example, a company producing clothes ventures into the manufacturing of shoes.
›››Concentric diversification is generally understood in two directions, vertical and horizontal integration;</td></tr>
<tr><td><i>Vertically Integrated Diversif-ication</i></td><td>›››Firms opt to engage in businesses that are related to the existing business of the firm.
›››A firm can either opt for forward or backward integration or horizontal integration.</td></tr>
</table>

<table>
<tr><td rowspan="2"></td><td rowspan="2"></td><td><i>Backward Integration</i></td><td><i>Forward Integration</i></td></tr>
<tr><td>Concerned with creation of effective supply by entering business of input providers.
Strategy employed to expand profits and gain greater control over production/ supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.
Example,A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.</td><td>Moving forward in the value chain and entering business lines that use existing products.
Forward integration will also take place where organizations enter into businesses of distribution channels.
Example, A coffee bean manufacture may choose to merge with a coffee cafe.</td></tr>
<tr><td></td><td><i>Horizontal Integrated Diversif-ication</i></td><td colspan="2">A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain. They can also integrate with the firms producing complementary products or by-products or by taking over competitors' products.</td></tr>
</table>



Conglomerate Diversification	»» No linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. »»Conglomerate diversification has no common thread at all with the firm's present position. »»***Example,*** *A cement manufacturer diversifies into the manufacture of steel and rubber products.*

Innovation	Innovation drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. Innovation offers the following;	
	Help to solve complex problems	»»A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise. »»**Example,** the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc. »»It might be costly in introductory stages but in the long run it will only have economic and environmental sustainability.
	Increases Productivity	»»Innovation leads to simplification and in most cases automation of existing tasks which leads to increase in productivity. »»**Example,** MS Excel, every finance professional uses this software to simplify and automate their manual tasks. »»Improved productivity, creates opportunities to further develop processes and products within and outside the organization.
	Gives Competitive Advantage	»»An interesting concept about innovation is- the faster a business innovates, the farther it goes from its competitor's reach. »»Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. »»Innovation not only helps retain the existing customers but helps acquire new ones with ease.

External Growth Strategies

When the organization instead of growing internally thinks of diversifying by making alliances with external organisations, it is called external growth diversification.

I. Expansion through Mergers and Acquisitions

›Acquisition or merger with an existing concern is an instant means of achieving the expansion.

›Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

› Merger is a process when two or more companies come together to expand their business operations.

›When one organization takes over the other organization and controls all its business operations, it is known as acquisition.

›In acquisition, one financially strong organization overpowers the weaker one.

Types of Mergers

Horizontal Merger

►Horizontal merger is a combination of firms engaged in the same industry.

►It is a merger with a direct competitor.

►The objective is to achieve economies of scale, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.

►*Example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.*

Vertical Merger

►It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system.

►This often leads to increased synergies with the merging firms.

►If an organization takes over its supplier/producers of raw material, then it leads to backward integration.

►On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels.

► *Example, Zee Ltd. and dish tv - forward*

Co-generic Merger

►In this two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies.

►Such merger includes the extension of the product line or acquiring components that are required in the daily operations.

► *Example, an organization in the refrigerators can diversify by merging with another organization having business in kitchen appliances.*

Conglomerate Merger

►It is the combination of organizations that are unrelated to each other.

►There are no linkages with respect to customer groups, customer functions and technologies being used.

►Example – L&T & Voltas

II. Expansion through Strategic Alliance

›A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own.

›The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Example – Kwality (Delhi based ice-cream) with Walls (HUL), Maruti with suzuki

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance.

Organizational	- It helps to learn necessary skills and obtain certain capabilities from strategic partners. - Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain and help enhancing reputation in market.
Economic	- There can be reduction in costs and risks by distributing them across the members of the alliance.

	- Greater economies of scale, advantage of co-specialization, creating additional value can be obtained.
Strategic	- Rivals can join together instead of competing with each other. - It is useful to create a competitive advantage by the pooling of resources and skills, to get access to new technologies or to pursue joint research and development. - This may also help with future business opportunities and the development of new products and technologies.
Political	- It helps to gain entry into a foreign market either because of local prejudices or legal barriers to entry. - It may also help improve your own influence and position.

Disadvantages of Strategic Alliance

It require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share.
Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.
Strategic alliances may also create potential competition when an ally becomes an opponent in future when it decides to separate out.

Strategic Exits

»»»It is followed when an organization substantially reduces the scope of its activity.

»»»If the organisation choose to focus on ways and means to reverse the process of decline, it adopts to turnaround strategy.

»»»If the organisation cuts off the loss-making units, divisions, SBUs, curtails its product line, or reduces functions performed, it adopts a divestment or divestiture strategy.

»»»If both doesn't work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

I. Turnaround Strategy

››› For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

››› Certain conditions or indicators which point out need for a turnaround are:

- ✓ Persistent negative cash flow from business(es)
- ✓ Uncompetitive products or services
- ✓ Declining market share
- ✓ Deterioration in physical facilities
- ✓ Over-staffing, high turnover of employees, and low morale
- ✓ Mismanagement

Major Reasons for Retrenchment/Turnaround Strategy

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

Action Plan for Turnaround

A workable action plan for turnaround would involve the following stages:

Stage One - Assessment of current problems	- The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. - Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
Stage Two - Analyse the situation and develop a strategic plan	- Identify appropriate strategies & develop a preliminary action plan. - For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. - Analyse the strengths and weaknesses - Develop a strategic plan with specific goals and detailed functional actions.

Stage Three- Implementing an emergency action plan	- An appropriate action plan must be developed to stop the bleeding and enable the organization to survive. - The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, and so on. - A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
Stage Four- Restructuring the business	- During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. - Core products neglected over time may require immediate attention to remain competitive. - Morale building of employees, reward and compensation should be given that encourage dedication and creativity amongst employees to think about profits and return on investments.
Stage Five - Returning to normal	- The organization should begin to show signs of profitability, return on investments and enhancing economic value-added. - Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

»»**The important elements of turnaround strategy are as follows:**

- *Changes in the top management*
- *Initial credibility-building actions*
- Neutralising external pressures
- Identifying quick payoff activities
- Quick cost reductions
- Revenue generation
- Asset liquidation for generating cash
- Better internal coordination

II. Divestment Strategy

»»It involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.

»»Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

›››**A divestment strategy may be adopted due to various reasons:**

- ✓ A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- ✓ Persistent negative cash flows from a particular business creating the need for divestment of that business.
- ✓ Severity of competition and the inability of a firm to cope with it may cause it to divest.
- ✓ It is not possible for the business to do Technological upgradation that is required for the business to survive, a preferable option would be to divest.
- ✓ A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.

Strategic Options

›Strategic options need to be carved out from existing products and innovations that are happening in the industry.

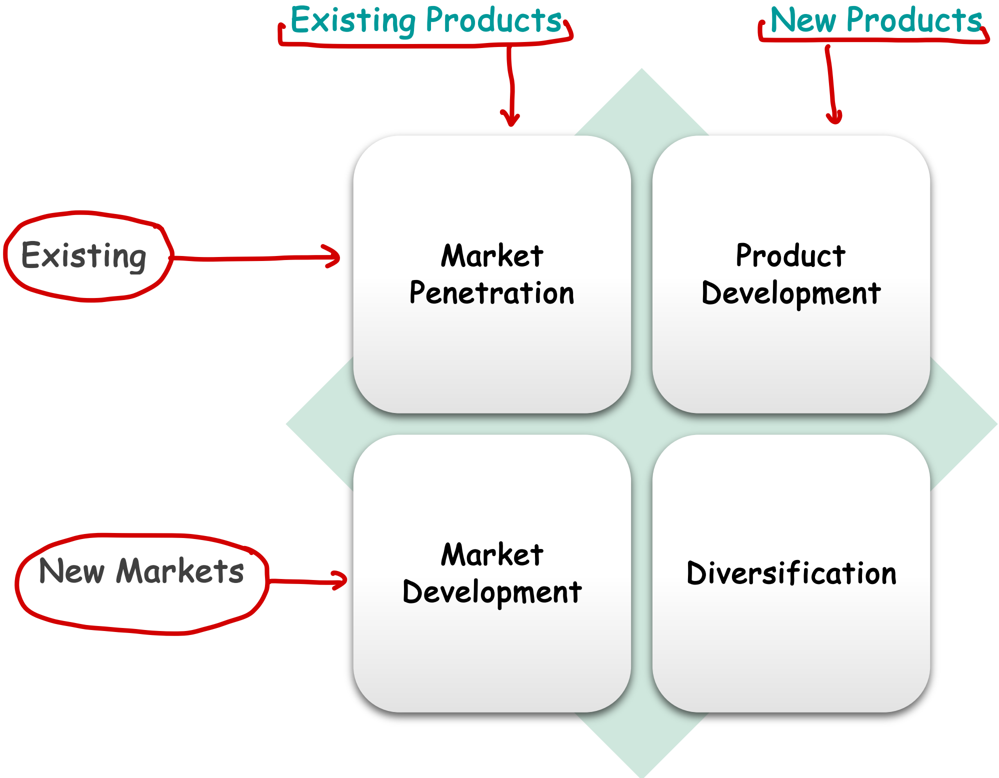
›Primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms.

›They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests.

›A diversified company may decide to divert resources from its cash rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.



Market Penetration	Market penetration refers to a growth strategy was the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Penetration is also done by effort on increasing usage by existing customers. *Example, Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.*
Market Development	Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products.

	Example, *Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.*
Product Development	Product development refers to a growth strategy was business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. **Example**, *Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.*
Diversification	Diversification refers to a growth strategy where a business market new product in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically, the business is moving into markets in which it has little or no experience. ***Example***, *Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.* As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

ADL Matrix

▶The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.

▶The approach forms a two- dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment.

▶It helps in categorization of products or SBU's into one of five competitive positions:

- ✓ dominant,
- ✓ strong.
- ✓ favourable,
- ✓ tenable and
- ✓ weak

It is four by five matrix as follows:

Stage of industry maturity - Arthur D. Little (ADL) Matrix				
Competitive position	**Embryonic** (or) Introduction	**Growth**	**Mature**	**Ageing** (or) Decline
Dominant	- Fast grow - Build barriers - Act offensively	- Fast grow - Attend cost leadership - Renew - Defend position - Act offensively	- Defend position - Attend cost leadership - Renew - Fast grow - Act offensively	- Defend position - Renew - Focus - Consider withdrawal
Strong	- Differentiate - Fast grow	- Differentiate - Lower cost - Attack small firms	- Lower cost - Focus Differentiate - Grow with industry	- Find niche - Hold niche - Harvest
Favourable	- Differentiate - Focus - Fast grow	- Focus - Differentiate - Defend	- Focus Differentiate - Harvest - Find niche - Hold niche - Turnaround - Grow with industry - Hit smaller firms	- Harvest Turnaround
Tenable	- Grow with industry - Focus	- Hold niche - Turnaround - Focus - Grow with industry - Withdraw	- Turnaround - Hold niche - Retrench	- Divest - Retrench
Weak	- Find niche - Catch-up - Grow with industry	- Turnaround - Retrench - Niche or withdraw	- Withdraw - Divest	- Withdraw

The competitive position of a firm is based on an assessment of the following criteria:

Dominant	This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
Strong	The firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
Favourable	It generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
Tenable	Firms are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
Weak	The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

Boston Consulting Group (BCG) Growth-Share Matrix

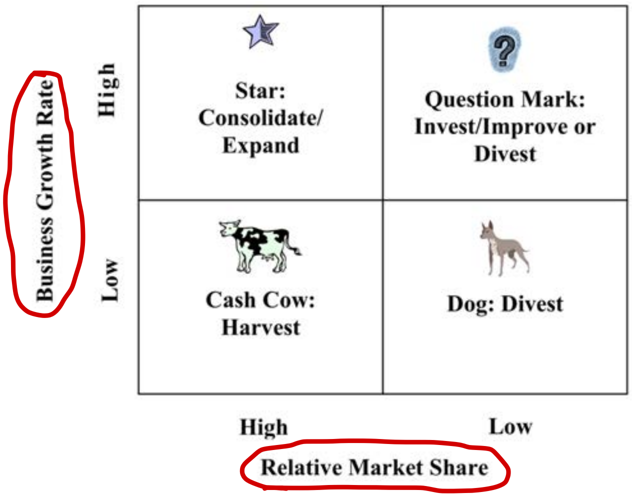
▶The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments.

▶Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company.

▶Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.

In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.



Using the matrix, organisations can identify four different types of products or SBU as follows:

Stars	Are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
Cash Cows	Are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.
Question Marks	Sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
Dogs	Are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

BCG Matrix: Post Identification Strategies

►After a firm, has classified its products or SBUS, it must determine what role each will play in the future. The four strategies that can be pursued are:

1. Build	Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2.Hold	Here the objective is to preserve market share.
3. Harvest	Here the objective is to increase short-term cash flow regardless of long-term effect.
4. Divest	Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Problems and limitations of BCG Matrix

- It can be difficult, time-consuming, and costly to implement.
- Management may find it difficult to define SBUS and measure market share and growth.
- It also focuses on classifying current businesses but provide little advice for future planning.

- It only focusses on market-share growth or growth through entry into attractive new markets.

General Electric Matrix ["Stop-Light" Strategy Model]

▶This model has been used by General Electric Company with the assistance of the consulting firm McKinsey and Company.

▶This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model.

▶The strategic planning approach in this model has been inspired from traffic control lights.

▶The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.

▶This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness.

Understanding the GE Matrix

The vertical axis indicates market attractiveness, and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- ✓ Size of the market. ✓
- ✓ Market growth rate. ✓
- ✓ Industry profitability. ✓
- ✓ Competitive intensity. ✓
- ✓ Availability of Technology. ✓
- ✓ Pricing trends. ✓
- ✓ Overall risk of returns in the industry. ✓
- ✓ Opportunity for differentiation of products and services. ✓
- ✓ Demand variability ✓
- ✓ Segmentation. ✓
- ✓ Distribution structure (e.g., direct marketing, retail, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- ✓ Market share. ✓
- ✓ Market share growth rate. ✓
- ✓ Profit margin. ✓
- ✓ Distribution efficiency.
- ✓ Brand image.
- ✓ Ability to compete on price and quality.
- ✓ Customer loyalty.
- ✓ Production capacity.

✓ Technological capability.
✓ Relative cost position.
✓ Management calibre, etc.

Business strength

Market attractiveness

	Strong	Average	Weak
High	Invest/Expand	Invest/Expand	Select/Earn
Medium	Invest/Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

▶ If a product falls in the green section, the business is at advantageous position.

▶ To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.

▶ If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations.

▶ In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

Difference between BCG and GE Matrix

▶ Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness and includes a broader range of factors other than just the market growth rate.

▶ Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

▶ Thirdly, GE is a nine cell matrix as compared to 4 cell of BCG Matrix.

▶ Fourthly, GE thinks both about present & future potential whereas BCG thinks only of present & take decision.

▶ Fifth, GE is developed by GE together with Mckinsey and BCG developed by Boston consulting Group.

Chapter - 5

Strategy Implementation And Evaluation

Strategic Management Process

- The process of developing an organisation's strategy is quite methodical.
- The strategic management process is dynamic and continuous and it never really ends.

Stages in Strategic Management

Strategic management involves the following stages:

- Developing a strategic vision and formulation of statement of mission, goals and objectives.
- Environmental and organisational analysis.
- Formulation of strategy.
- Implementation of strategy.
- Strategic evaluation and control.

Stage 1: Strategic Vision, Mission and Objectives

- First, Co. should develop a Vision i.e., future blueprint.
- It answers the question 'where it wants to land'.
- Top management's views and conclusions about company's direction and product, customer, market, technology focus constitute strategic vision of company.
- Mission statements define what we are and what we do. Hence, the focus is on the role played by organizational in society and overall direction and not any SBU specific direction.
- Objectives & goals of an Org flows from V → vision & M. → Mission
- They provide a means of performance measurement at each level of management.

Stage 2: Environmental and Organisational Analysis

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:

1. Environmental scanning

2.Organisational analysis

1.Environmental Analysis – It consists of economic, social, technical & market analysis. It is dynamic and uncertain & helps in determining opportunities and threats.

2.Organizational Analysis – It consists of analysis of Co. resources, tech resources, Productive capacity, distribution channel, R&D, HR, etc. It reveals strength and weakness of Organisation.
This stage helps in SWOT analysis.

Stage 3: Formulating Strategy

- First stage in strategy formulation is developing strategic alternatives in line with SWOT of organization.
- Second stage involves choosing appropriate alternative which will serve as strategy of Firm.

Examples of strategic alternatives:

a) Should company continue in same business on same level of operation?
b) If it should continue in same business, should it grow by expanding same unit; establishing new units; or acquiring other units in same Industry?
c) If it should diversify, should it diversify into related or unrelated areas?
d) Should it get out of existing business fully or partially?
e) Combination of any of the above strategies

Stage 4: Implementation of Strategy

►It is operation- oriented activity.
►Most demanding & time-consuming stage.

Strategy execution process includes following aspects:

a) Developing budget to allocate ample resource for strategy implementation
b) Staffing Org. with needed skills & expertise
c) Motivating people to pursue target energetically
d) Creating a Co. culture & work climate that support successful strategy execution
e) Ensuring policies, procedures and internal operations facilitate effective execution
f) Exerting Leadership needed for strategic execution & continuous improvement.

Good strategy execution creates strong fits between

a) Strategy & Org's capability
b) Strategy & reward structure
c) Strategy & Org work culture
d) Strategy & internal system

Stage 5: Strategic Evaluation and Control

Final stage of SM process involves

- evaluating Co.'s strategy implementation &
- assessing impact of new external Developments and make corrective adjustments to V, M, Objectives & strategy.

Successful strategy execution requires searching for:

a) Ways to continuously improve and

b) Corrective adjustments whenever external & and internal environment demands.

It may be in form of –

- Simple fine-tuning strategy if strategy is working well; or
- Modifying strategy when strategy is not yielding desired result or there is changes in environment.

Strategy Formulation Corporate Strategy

›Planning entails choosing what has to be done in the future and creating action plans. Planning may be operational or strategic.

›The game plan that really directs the company towards success is called "corporate strategy".

Strategic Planning	Operational Planning
- Shapes the organisation and its resources. - Assesses the impact of environmental variables. - Takes a complete view of the organisation. - Concerned with the long-term success of the organisation. - Is a senior management responsibility.	- Deals with current deployment of resources. - Develops tactics rather than strategy. - Projects current operations into the future. - Makes modifications to the business functions - Is the responsibility of functional managers.

Strategic uncertainty and how to deal with it?

- Strategic uncertainty refers to the unpredictability of future events and circumstances that can impact an organization's strategy and goals.
- It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors.
- To minimize impact of strategic uncertainty requires organizations to have following factors:

Flexibility	Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
Diversification	Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.

Monitoring and Scenario Planning	Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
Building Resilience	Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.
Collaboration and Partnerships	Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

Strategy Implementation

»Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability.

Difference between Strategy Formulation and Implementation

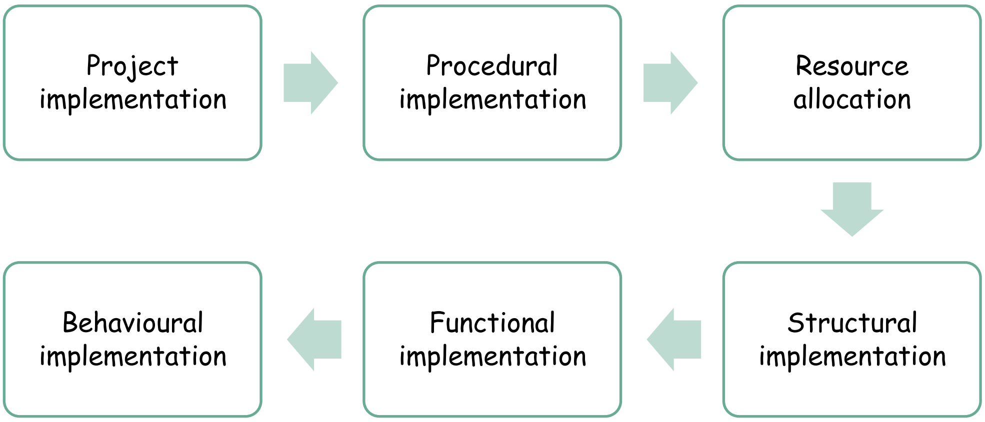
Strategy Formulation	Strategy Implementation
It includes planning and decision-making involved in developing organization's strategic goals and plans	It involves all those means related to executing the strategic plans.
It is placing the Forces before the action.	It is managing forces during the action.
An Entrepreneurial Activity based on strategic decision-making.	An Administrative Task based on strategic and operational decisions
Emphasizes on effectiveness.	Emphasizes on efficiency.
Primarily an intellectual and rational process.	Primarily an operational process.
Requires co-ordination among few individuals at the top level.	Requires co-ordination among many individuals at the middle and lower levels.
Requires a great deal of initiative, logical skills, conceptual intuitive and analytical skills.	Requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

Linkages and Issues in Strategy Implementation Linkages

Forward Linkages	▶The different elements in strategy formulation determine the course that an organization adopts for itself. ▶With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization. ▶Example - The organizational structure has to undergo a change, style of leadership has to be adapted to the needs of the modified or new strategies.
Backward Linkages	▶While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. ▶Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. ▶Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

Issues in Strategy Implementation

Given below in sequential manner the issues in strategy implementation which are to be considered:



Strategic Change

Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

For initiating strategic change, three steps can be identified as under:

Recognize the need for change	▶It means going for environmental scanning involving appraisal of both internal and external capabilities may be through SWOT analysis and then determining where the lacuna lies and scope for change exists.
Create a shared vision to manage change	▶Objective of both organization and individual should coincide and there should not be any conflict. ▶This needs creation of shared vision between organization and management which needs to be communicated.
Institutionalise the change	▶It is action stage that requires implementation of change strategy. ▶Change process should be monitored and in case of any deviation, corrective action should be taken.

Kurt Lewin's Model of Change: To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

Unfreezing the situation	▶Process of unfreezing makes individual aware of necessity for change & help prepare for such change. ▶It involves breaking down old attitude & behaviour, custom & tradition so that they start clean slate and are willing to change. ▶This can be achieved by making announcements and holding meetings throughout the organization.
Changing to the new situation	- Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. - H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalization. ▶**Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better. ▶**Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them. ▶**Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to the changes

	introduced. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.
Refreezing	▶It occurs when new behavior pattern becomes way of life. ▶New behavior must replace former behavior completely & permanently. ▶Change process is not one time process but a continuous one due to dynamism and ever- changing environment.

Strategic change through Digital Transformation

The use of digital technologies to develop fresh, improved, or entirely new company procedures, goods, or services is known as "digital transformation." It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.

Change management in the digital transition consists of four essential elements:

1. Defining the goals and objectives of the transformation

2 Assessing the current state of the organization and identifying gaps

3. Creating a roadmap for change that outlines the steps needed to reach the desired state

4. Implementing and managing the change at every level of the organization

Change Management Strategies for Digital Transformation

The five best practices for managing change in small and medium-sized businesses are:

Begin at the top	▶A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top. ▶The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way.
Ensure that the change is both necessary and desired	▶The fact that decision-makers are unaware of how to properly handle a digital transformation and the effects it will have on their firm is one of the main causes of this. ▶If a corporation doesn't have a sound strategy in place introducing too much too fast can frequently become a major issue down the road.
Reduce disruption	▶Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. ▶It's crucial to lessen how changes affect staff. ▶The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change.

	It is possible to reduce workplace disruption by: **a.** Getting the word out early and preparing for some interruption. **b.** Giving staff members the knowledge and tools, they need to adjust to change. **c.** Creating an environment that encourages transformation or change **d.** Empowering change agents to provide context and clarity for changes, such as project managers or team leaders. **e.** Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.
Encourage communication	▶Create channels so that workers may contact you with queries or complaints. ▶Encourage departmental collaboration to propagate ideas and innovations as new procedures take root. ▶Communication promotes efficiency and has the power to influence culture, just like your vision. ▶The people who will be affected the most by these changes are reassured that they are not in danger through effective communication, which keeps everyone on the same page.
Recognize that change is the norm, not the exception	▶To stay updated in markets with customers, we need to remember change is nota. Project, but rather ongoing process. ▶They must prepare for change in advance and expect them.

How to manage change during transformation?

Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:

- Specify the digital transformation's aims and objectives
- Always, always, always communicate
- Be ready for resistance
- Implement changes gradually
- Offer assistance and training

Organizational Framework

The McKinsey 7S Model refers to a tool that analyses a company's "organizational design."

»The goal of these tools is to depict how effectiveness can be achieved in an organization through interaction of hard and soft elements.

The Hard elements are directly controlled by the management.

Strategy	The direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry
Structure	Depending on the availability of resources and the degree of centralisation or decentralization that the management desires, its choses from the available alternatives of organizational structures.
Systems	The development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.

The Soft elements are difficult to define as they are more governed by the culture.

Shared Values	The core values which get reflected within the organizational culture or influence the code of ethics of the management.
Style	This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and organizational delivery of goals.
Staff	The talent pool of the organisation.
Skills	The core competencies or the key skills of the employees play a vital role in defining the organizational success.

Limitations of McKinsey Model

- ✓ It ignores the importance of the external environment and depicts only the most crucial elements within the organization.
- ✓ The model does not clearly explain the concept of organizational effectiveness or performance.
- ✓ The model is considered to be more static and less flexible for decision making.
- ✓ It is generally criticized for missing out the real's gaps in conceptualization and execution of strategy.

Organization Structure

>It is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.

>In order to implement and manage strategies, all companies need some form of organisation structure.

>And as companies make new strategies, increase in size or diversification, new organisational structures are required.

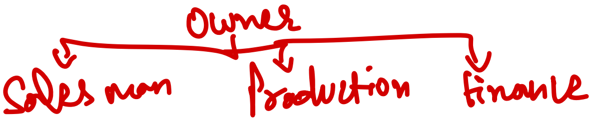
›It shows what companies do, how tasks are done given chosen strategy.

›Company's structure should match with company's strategy.

›Structure can also influence strategy.

Types of Organization Structure

- Simple structure
- Functional Structure
- Divisional Structure
- Multi Divisional Structure
- Strategic Business Unit (SBU) Structure
- Matrix Structure
- Network Structure
- Hourglass structure



A. Simple structure

- It is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market.

- Appropriate for companies implementing focused cost leadership or focused differentiation strategies.

- In this owner takes all the decisions and monitors all the activities of staff.

- In this, communication is fast and new products tend to be introduced very quickly, which can result in competitive advantage.

- When the company grows and it wishes to do specialisation, there will be pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time).

- Thus, it is incumbent on the company's managers to recognise the inadequacies or inefficiencies of the simple structure and change it to one that is more consistent with company's strategy.

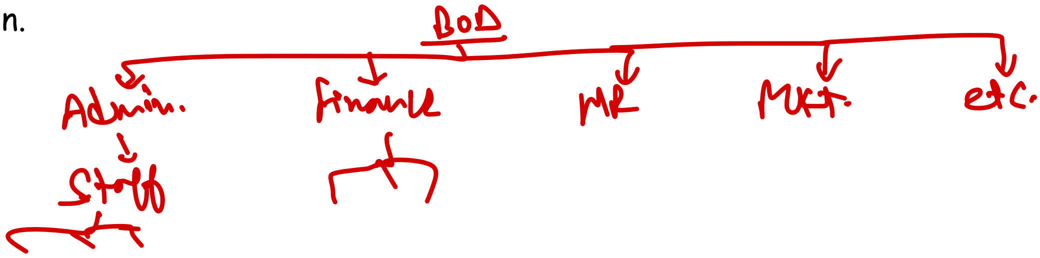
B. Functional Structure

- A widely used structure in business organisations is functional type because of its simplicity and low cost.

- A functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making

- It consists of a chief executive officer (CEO) or a managing director (MD) and supported by corporate staff with functional line managers such as production, financial accounting, marketing, R&D, engineering, and human resources.

- The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.



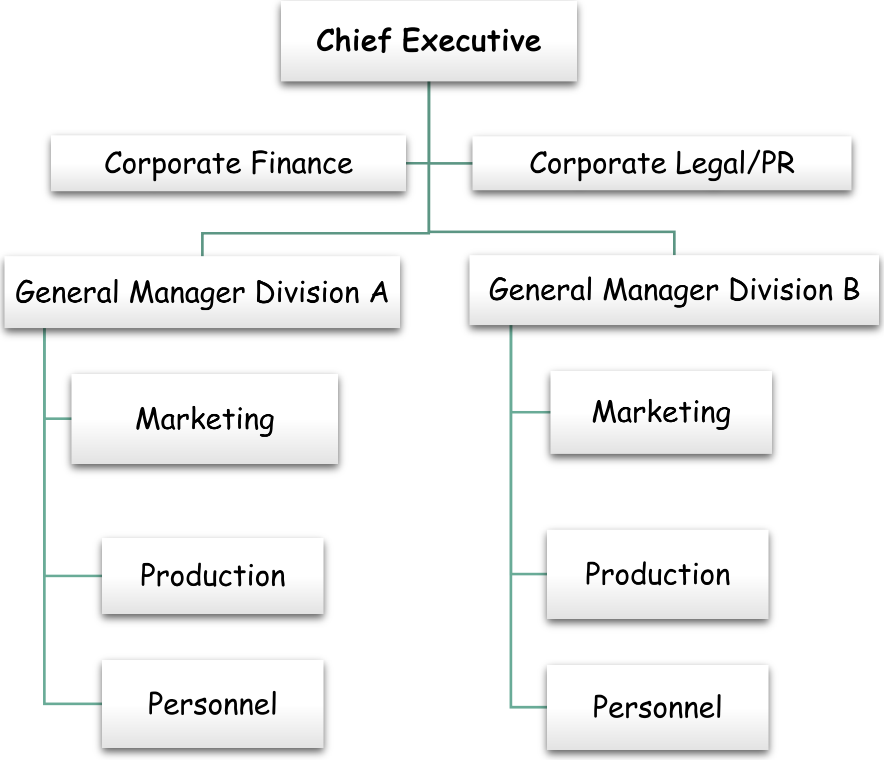
- However, compared to the simple structure, there also are some potential problems.

- Differences in functional specialization and orientation may impede communications and coordination.

- Functional specialists often may develop a narrow perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

C. Divisional Structure

The divisional structure can be organized in one of the four ways: ***by geographic area, by product or service, by customer, or by process.***



A divisional structure has some clear advantages.

- **First** - Accountability is clear i.e. divisional managers can be held responsible for sales and profit levels.
- **Second** - It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products in be added easily.

The divisional design is not without some limitations.

- It is costly due to following factors:
  - Each division requires functional specialists who must be paid.
  - There exists duplication of staff services, facilities, and personnel

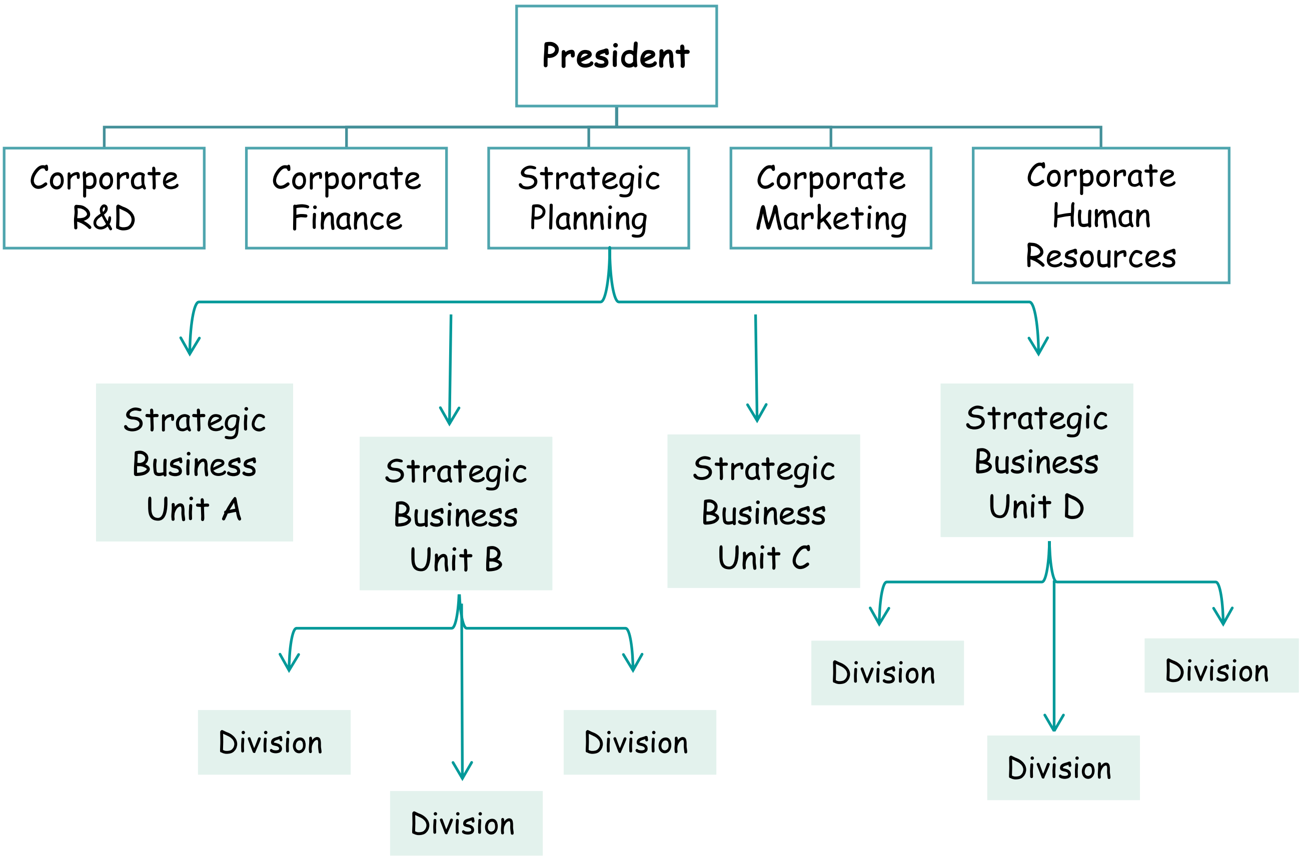
- Managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries.
- It requires an elaborate, headquarters-driven control system.
- Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, companywide practices.

a key difference between divisional and functional structure is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria.

D. Multi Divisional Structure

- It was developed in the 1920s.
- It is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers.
- The corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.
- It enables the firms to more accurately monitor the performance of individual business, simplifying control problems, improving allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve them.
- An increase in diversification strains corporate officers' abilities to understand the operations of all of its business units and divisions are then managed by financial controls, which enable corporate officers to manage the cash flow of the divisions through budgets and an emphasis on profits from distinct businesses.

E. Strategic Business Unit (SBU) Structure



- When number of products become huge, it is not practical to provide separate strategic treatment to each product.
- SBU concept is relevant for multiproduct, multi –business enterprise.
- It is a scientific grouping of related businesses/ divisions which can be planned independently.
- A strategic business unit (SBU) structure consists of at least three levels, with
    a) corporate headquarters at the top,
    b) SBU groups at the second level, and
    c) divisions grouped by relatedness within each SBU at the third level.

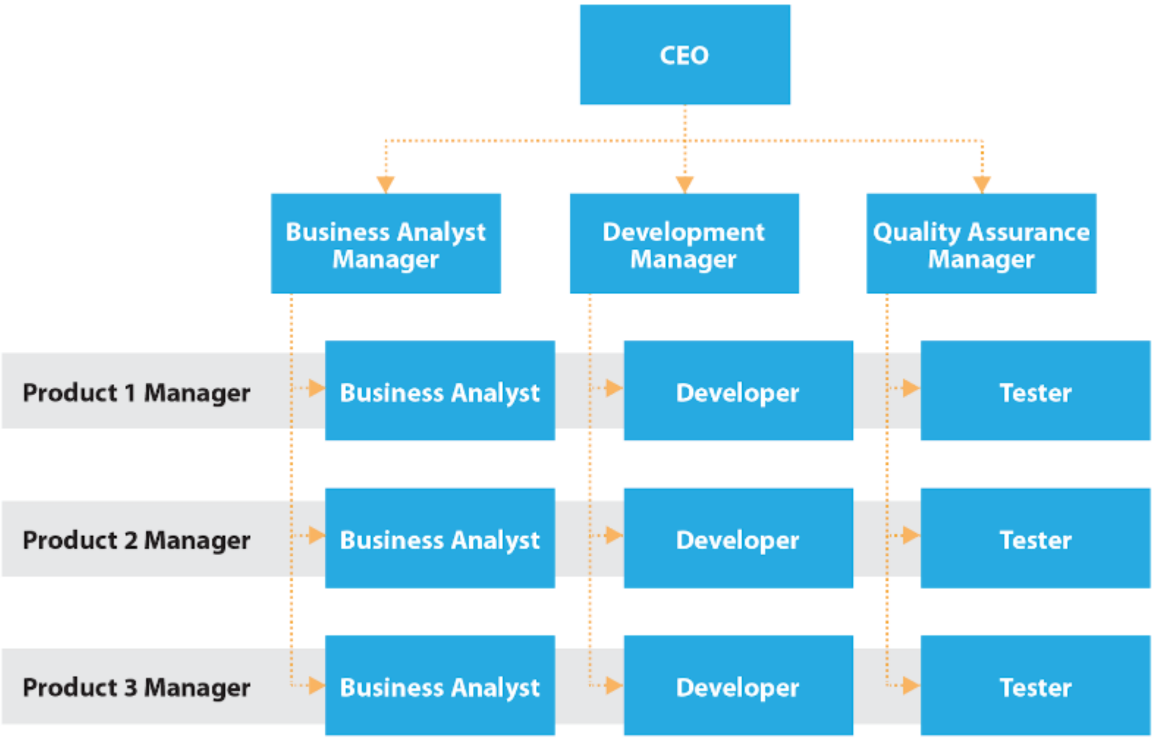
The three most important characteristics of a SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning from other SBUs.
- It has its own set of competitors.
- It has a manager who has responsibility for strategic planning and profit performance.

Attributes of SBUS and the benefits a firm may derive by using SBU Structure

(a) It is grouping of multi-business corporation which helps in strategic planning.
(b) Each SBU is separate business from planning point of view.
(c) It is improvement over territorial grouping of business based on territorial units.
(d) Each SBU has CEO, who is responsible for planning and profit
(e) Each SBU as it's distinct set of competitors and strategy
(f) Unrelated products in any group are separate and assigned into separate SBU
(g) Grouping based on SBU helps to remove vagueness and confusion.

F. Matrix Structure



- It is used when neither functional nor divisional forms are appropriate for org.
- It is a combination of functional and divisional structure.
- employees have two superiors i.e., a product/ project manager and functional manager.
- It is the most complex structure since there is both vertical & horizontal flow of authority.
- It has dual sources of reward and punishment, shared authority, dual reporting channel and need for extensive communication, visible results of work etc.
- It results in higher overhead because it has more management positions.
- It is very useful when the external environment is very complex and changeable.

- However there can be produce conflicts revolving around duties, authority, and resource allocation.
- It is widely used in many industries, including construction, healthcare, research and defence.

It is often found in an organization or within an SBU when the following three conditions exist:

i) ideas need to be cross fertilized across projects or products,
ii) resources are scarce, and
iii) abilities to process information and to make decision needs to be improved.

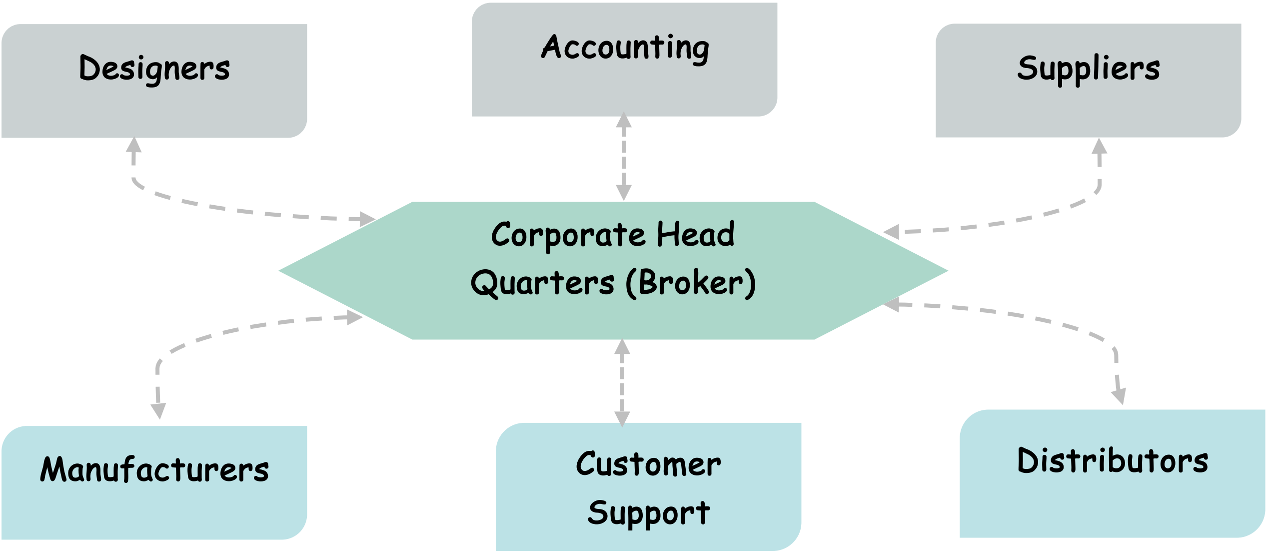
For development of matrix structure Davis and Lawrence, have proposed three distinct phases:

1. Cross-functional task forces: Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.

2. Product/brand management: If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi-permanent products or brands.

3. Mature matrix: The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.

G. Network Structure



►A corporation organized in this manner is often called a virtual organization as many activities are outsourced.

► It is virtual elimination of inhouse business functions (non-structure).

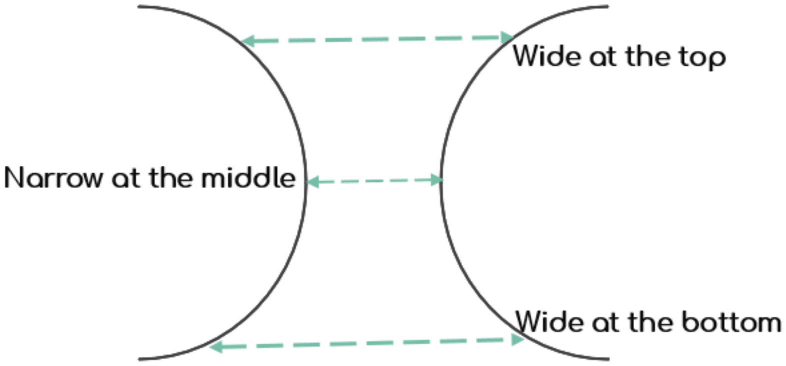
►The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so.

► In this there are less salaried employees, and majority are contract workers for specific project or time.

- The organization is, in effect, only a shell, with a small headquarters acting as a "broker", electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent organisation.

Advantages	**Disadvantages**
►Allows a company to concentrate on its own competencies & outsourcing of other functions to experts in their field. ►It provides more flexibility and adaptability to meet/face rapid change in technology, taste and preferences. ►Most useful when environment of a Firm is unstable.	►Availability of numerous partners can be a source of trouble. ►Outsourcing of functions may keep the Firm away from discovering any synergies. ►If a Firm overspecializes in only few functions, there is a risk of choosing the wrong function and thus becoming non- competitive. ►Low employee morale.

H. Hourglass Structure



►The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools.

►It consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level.

►In this manager are handling cross functional issues like production, finance, marketing etc.

Advantages	Disadvantages
►Reduced cost due to reduction of middle level management posts. ►Enhanced responsiveness by simplifying decision making. ►Decision making authority is close to source of information, so it's faster.	a) Since size of middle management is reduced, promotion opportunity for lower-level managers is also reduced. b) Lower employee morale at lower level due to monotony.

Organization Culture

Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.

Where Does Corporate Culture Come From?

It is reflected or manifested comes from:

- Official policies and practices
- Ethical standards
- Management practices
- Dealing with stakeholders i.e, relationship with employees, shareholders, vendors, trade union, Government etc.
- Employee's attitude and behaviour
- Legends people repeat about in organization
- Peer pressure that exists in organization.

Culture: ally or obstacle to strategy execution?

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may or may not be compatible with its culture.

If compatible than it becomes valuable support and it in conflict than it becomes a blockage.

Role of culture in strategy execution

►Culture dictates not only the way managers behave within the organization but also decisions they take.

►A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy.

►Employees are motivated to take challenging work to realize company's vision & do their work competently.

Changing a problem culture:

- Changing a problem culture is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar.

- It takes combined management efforts over a point of time to replace unhealthy culture with healthy culture or remove unwanted aspects of problem culture and in still those which are more supportive.

- ***first step*** - Diagnose which facets of the present culture are strategy supportive and which are not.

- ***Second step*** - Managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.

- ***Third step*** - The talk has to be followed swiftly by visible aggressive action to identify and modify the culture to create right strategy-culture fit.

Strategic Leadership

▶Strategic leadership sets the firms direction by

- ✓ developing and communicating vision of future,
- ✓ formulate strategies in the light of internal and external environment,
- ✓ brings about changes required to implement strategies and
- ✓ inspire the staff to contribute to strategy execution.

▶A leader has to play various roles like entrepreneur, strategist, culture builder, visionary, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, listener and decision maker.

Five leadership roles to play in pushing for good strategy execution:

- Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
- Promoting a culture of esprit de corps (feeling of pride) that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- Keeping the Organization responsive to changing situation.
- Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and performance.

Leadership role in implementation:

▶The strategic leaders must be able to use the strategic management process effectively by guiding the company in ways that result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans and providing guidance to the employees for achieving strategic goals.

►Effective strategic leaders must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- ►Making strategic decisions.
- ► Ensuring effective communication in the organisation.
- ► Managing change in the organisation.
- ► Sustaining high performance over time.
- ► Formulating policies and action plans to implement strategic decision.
- ► Managing human capital (perhaps the most critical of the strategic leader's skills).
- ► Creating and sustaining strong corporate culture

Two basic approaches to leadership

Transformational leadership style	Transactional leadership style
It uses charisma and enthusiasm to inspire people to work for good of Organization. **It is appropriate** ►in turbulent/ unsafe environment or ►in industries at start or end of PLC or ►In poorly performing organization. These leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. They involve followers in mission and give them vision of higher purpose so as to get more dramatic changes in organization.	It uses the authority of its office to exchange rewards such as pay, status symbols etc. **It is more appropriate** ►in static environment, or ►in mature industry; or ►in organizations that are performing well. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. These leaders try to build on existing culture and enhance current practices.

Strategic Control

▶ It involves monitoring the activity, measuring results against predefined standards, analysing & correcting deviation as necessary & adapting the system.

▶ It is a function intended to regulate & check and ensure that performance of planned activities achieve pre-determined goals.

▶ Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control	- It is concerned with individual task or transaction as against total management functions. - One of the ways to identify operational control area is there should be clear cut & measurable relationship between input & output. - It ensures that processes are regulated within certain 'tolerances' limit. - **Examples:** Stock control (maintaining stocks between set limits), Production control (manufacturing to set programmes), Quality control (keeping product quality between agreed limits), Cost control (maintaining expenditure as per standards), Budgetary control (keeping performance to budget)
Management Control	- It is concerned with integrated activities of a complete department, division or even organization. It is more aggregative & inclusive than operational control. - It is a process by which management ensure that resources obtained are used effectively and efficiently to achieve objectives. - **Example:** Inventory management
Strategic Control	- According to **Schendel and Hofer** "Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended." - It is directed towards identifying problems and changes in premises and making necessary adjustments. Assumptions

Types of Strategic Control:

Premise control	- Strategies are based on certain assumptions & premises with related to environment in which they operate. Such premises may not remain valid over a period of time. - It is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. - It primarily involves monitoring two types of factors: (i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory. (ii) Industry factors such as competitors, suppliers, substitutes. verify the validity & accuracy of the premise based on which strategy was formed. - It is neither feasible nor desirable to control all types of premises in same manner.
Strategic surveillance	- It is unfocussed and involves general monitoring of environment & various sources of information like financial newspaper business magazines etc. to uncover unanticipated information which may affect the strategy. Known as loose form of strategic control. - Strategic surveillance may be loose form of strategic control but is capable of uncovering information relevant to the strategy.
Special alert control	- Unexpected events like natural calamity, terrorist attack, change in government & other such events may force an organization to review & reconsider their strategy. - To cope up with such crisis, organizations form a crisis team to handle the situation.
Implementation control	- It assesses need for change in overall strategy as per unfolding events & results of strategy It is not replacement of operational controls. - Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy.

	- The two basic forms of implementation control are: **(i) Monitoring strategic thrusts:** Monitoring strategic thrusts helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments. **(ii) Milestone Reviews:** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Strategic Performance Measures

►SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements.

►SPM helps to eliminate silos by establishing a common language among all divisions of the organisation so they may communicate openly and productively.

►SPM are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation.

►Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes.

Firstly

- There needs to be a clear cause and effect relationship between the indicators and strategic outcomes.

Secondly

- KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation.

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

Financial Measures	Financial measures, such as revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.
Customer Satisfaction Measures	Customer measures, such as customer satisfaction, customer retention, and customer loyalty, provide insight into the organization's ability to meet customer needs and provide high-quality products and services.
Market Measures	Market measures, such as market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.
Employee Measures	Employee measures, such as employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.
Innovation Measures	Innovation measures, such as research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.
Environmental Measures	Environmental measures, such as energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

The Importance of Strategic Performance Measures Strategic performance measures are essential for organizations for several reasons:

Goal Alignment	Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.
Resource Allocation	Strategic performance measures provide organizations with the information they need to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.
Continuous Improvement	Strategic performance measures provide organizations with a framework for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.
External Accountability	Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

Choosing the Right Strategic Performance Measures

Relevance	The measure should be relevant to the organization's goals and objectives and provide information that is actionable and meaningful.
Data Availability	The measure should be based on data that is readily available and can be collected and analysed in a timely manner.
Data Quality	The measure should be based on high-quality data that is accurate and reliable.
Data Timeliness	The measure should be based on data that is current and up-to-date, enabling organizations to make informed decisions in a timely manner. These measures provide a way for organizations to assess the success of their strategies, identify areas for improvement, and make informed

	decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes.