Chapter 1

Introduction to Strategic Management

We Provide Drone Chart in Class which contains Bird's Eye View of All Topics in One Page.

1. Strategic Management

Strategy	Management

1.1. Strategy

- *The word 'strategy' is defined as something that has to do with war and ways to win over enemy.*
- *It refers to long term blueprint of Organization's*
  - *desired image i.e., what it wants to be*
  - *desired direction i.e., what it wants to do*
  - *desired destination i.e. where it wants to go.*
- *It is flexibly designed and provides integrated framework for Top Management to*
  - *search, evaluate and exploit opportunities* } *External*
  - *perceive threats and meet it*
  - *make full use of strength/ resources; and* } *Internal*
  - *offset corporate weaknesses.*
- *It also means to identify existing problems and solving them by executing revolutionary ideas.*

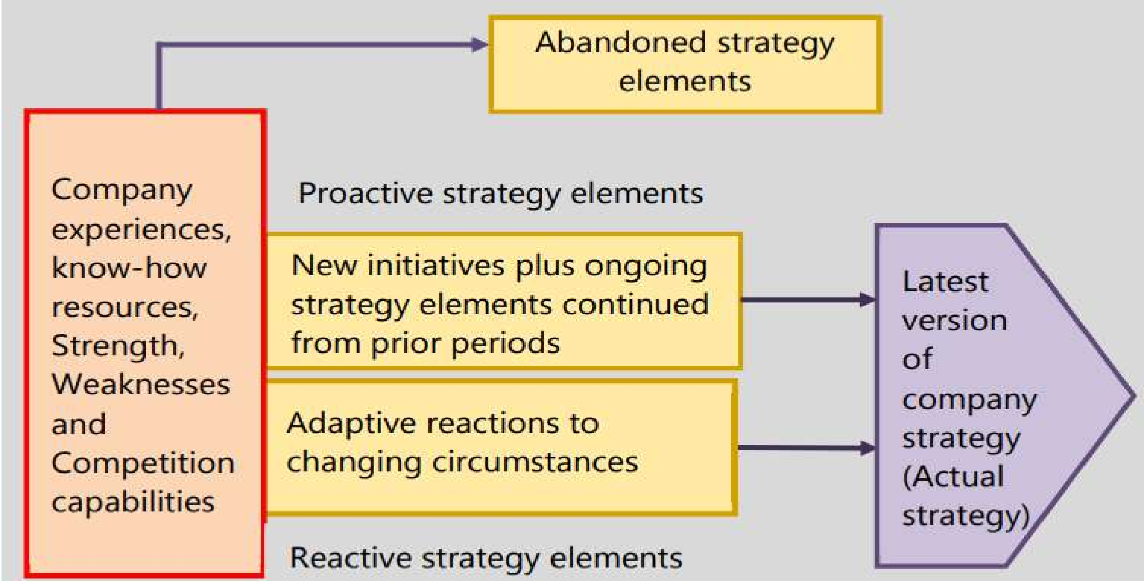
  Example: *UPI (Unified Payments Interface) has changed the entire digital payments landscape in India and has gone global. A true example of Made in India for the world. It was all because of a well-planned identification of existing problem statement, formulating a strategy putting it to perfect execution.*
- *In large organizations, strategies are formulated at corporate, divisional and functional level (all 3).*

Is this a Strategy?

A ketchup brand making a healthier ketchup with less sugar and preservatives to attract more customers by letting parents feel safe about their kid's consuming ketchup. Can this be called a strategy?

Ans:

1.1.1. Is Strategy Proactive or Reactive?



- *A company's strategy is typically a blend of Proactive strategy and Reactive strategy.*
- *Proactive strategy is Planned strategy. It involves*
  - *Previously initiated business approach that are working well enough to continue it; and*
  - *Newly launched business approach to strengthen Co's overall position and performance.*
- *Reactive strategy is adaptive strategy.*

  Strategy is formulated on based on business environment. As business environment is dynamic, it can't be predicted with absolute certainty.

  Hence, when market and competitive conditions take unexpected change or some aspect of Co's strategy hit a stonewall, entity has to take strategic reaction known as reactive strategy.

  Further there is a need to adapt strategy to new learnings and ideas.
- *Thus, strategy is a mix of both proactive strategy and reactive strategy. Ideally, strategy should be more proactive and less reactive.*

1.2. Management

It is an influence process backed by power, knowledge, competence & resources

- *to make things happen;*
- *to gain command over situation/ phenomena; and*
- *to direct person and events in particular manner.*

Management is used in two senses:

a)	b)
With reference to key group in Organization in-charge of its affairs like BOD, CEO, CFO, etc. *It is the chief organ of an organisation.* *Survival & success of an Organization depends on competence and character of its management.*	*With reference to set of inter-related functions and processes carried out by the Management to achieve its objectives.* *Functions include Planning, Organizing, Staffing, Directing & Control.*

Is strategy substitute for management?

No, strategy is not substitute for sound and responsible management.

Due to dynamic and changing environment, strategy can never be perfect, flawless and optimal.

Strategy is always flexible and pragmatic to take care of sudden changes in the environment & emergencies.

In sound strategy, allowances are made for possible miscalculations and unexpected events.

1.3. Strategic Management

It refers to managerial process of

- Developing strategic vision,
- Setting objectives,
- Crafting strategy,
- Implementing and evaluating strategy, and
- Initiating corrective adjustments, where deemed appropriate.

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

- Strategy formulation
- Strategy implementation and
- Strategy evaluation.

Originally called business policy, it monitors and evaluates external threats and opportunities in light of Company's strengths and weaknesses for survival and growth of Company.

Objectives of strategic Management

a) To create competitive advantage so that Company can outperform its competitors & dominate market.
b) To guide the Company successfully through changes in environment.

Example: Unified Payments Interface. UPI has changed the entire digital payments landscape in India and has now even gone global. A true example of Made in India for the world. It was all because of a well-planned identification of existing problem statement, formulating a strategy putting it to perfect execution.

1.4. Importance/ Benefits / Advantages of Strategic Management

Darwin propagated "Survival of the fittest". It is the only principle of survival of organization.

Fittest is not the largest or strongest but one which can change and adapt to changing business conditions.

Many business giants have followed the path of extinction failing to manage drastic changes in the business environment.

For example, Bajaj Scooters, LML Scooters, Murphy Radio, BPL Television, Nokia, kodak and so on. Thus, it becomes imperative to study Business Strategy.

Business follows the war principle of "Win or lose'. Only in rare cases, win-win situation arises. Hence, each organization needs to build its competitive advantage over the competitors using strategic management.

The major benefits of strategic management are:

a) Direction to company	It gives direction to Company to move ahead. It defines realistic objectives & goals which are in line with Company's vision.
b) Proactive instead of reactive	It helps company to adopt proactive strategies instead of reactive strategies. Organizations are able to better analyse and take decisions in advance.
c) Future ready	It prepares organization to face the future, seize business opportunities and deal with threats.

d) Develop core competencies & competitive advantage	It helps Organization to develop certain core competencies and competitive advantages. This facilitates its fight for survival and growth.
e) Corporate Defence mechanism	It acts as corporate defence mechanism against mistakes and pitfalls. It helps organization to avoid costly mistakes.
f) Framework for decision making	It provides framework to management for major decision making related to various aspects of the Enterprise like products and markets.
g) Enhance Longevity of Business	It helps Organisation to face competition and dynamic market. It makes sure that it is not just surviving on luck.

1.5. Limitations of Strategic Management

SM cannot counter all hindrances/ obstacles/ roadblocks/ bottlenecks/ problems and ensure success. Following are its limitations:

a) Environment is highly complex and turbulent	It is difficult to understand the complex environment. Organization's estimate about future may drastically go wrong & jeopardize/ endanger all strategic plans. Relying on a business strategy blindly could go absolutely wrong if the environment is turbulent. **Example:** Two-Wheeler Electric Vehicles brands counted on strategic benefits they would have because of the huge push from the government for electric mobility. However, customers are getting reluctant to purchase EVs due to the safety concerns amid the frequent incidents of battery's catching fire.
b) Time consuming process	Organizations spend a lot of time in preparing and communicating strategies that may affect daily routine operations. Further, due to huge time spent in planning, there may not be enough time left for actual implementation of the strategy.
c) Costly process	It adds lot of expenses to Org as expert strategic planners needs to be engaged. These Strategic Management experts are costly resources.
d) Response to competitors	Competition is unpredictable. Since all Organizations are trying to move strategically, it is difficult to estimate competitive response to Firm's strategy. **Example:** Apple changed the market dynamics of the speaker industry by choosing to remove 3.5mm audio jack from iPhones. Now, to be relevant in the market, all major speaker brands had to put concentrated efforts to develop their own true wireless speakers (TWS) and compete with new entrants.

Why do businesses opt for strategic management even with its limitation?

Because even though it has its limitations, its importance outweighs its shortcomings. A business cannot operate and succeed without proper strategic management.

2. Strategic Intent

- It refers to purpose of what the organization tries to do.
- It is philosophical base of strategic management. Senior manager must define what they want to do and why they want to do.
- **"Why they want to do"** reflects strategic intent.
- It answers the question "what the organization stands for".

- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.
- Strategic intent is generally stated in broad terms viz. Vision & Mission but when stated in precise specific terms, it is referred as goals and objectives.

Elements of Strategic Intent:

a) Vision	b) Mission	c) Goals and Objective	d) Values/ Value System

2.1. Vision

- Vision implies blueprint of company's future. It describes where company wants to land/go.
- It is a road map of company's future providing specifics about
  - Technology & customer focus,
  - geographic and product markets to be pursued,
  - capabilities it plans to develop and
  - kind of company management wants to create.
- Top management's views about company's direction & the product-customer-market-technology focus constitute the strategic vision for the Company.
- A clearly articulated Vision enhances commitment of employees & helps steer energies in common direction.

- For instance, Henry Ford's vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

Essentials of strategic vision	a) Creative thinking - Developing strategic vision involves thinking creatively about how to prepare a company for future. b) Developing strategic vision requires intelligent entrepreneurship. c) It creates enthusiasm among members of Organization. d) It shows/ illuminates direction in which Organization is headed.

Refer class discussion for detailed discussion on Vision of Major Global & Indian conglomerates.

2.2. Mission

- Mission statement defines 'Who we are', 'What business are we in', 'What we do' and 'Where we are now'.
- It justifies/ legitimizes the presence and existence of the Firm.
- It is not a PR document and outlines Firm's present business scope, it's goal and how to reach goals.
- It defines present capabilities, customer focus, activities and role in society.

Why a company should have mission?	a) To ensure unanimity of purpose within Organization. b) To develop basis for allocation of Organization's resources. c) To develop basis for utilization of Organization's resources. d) To translate objectives and goals into work structure. e) To establish general tone of Organization.
Things to consider	A good mission statement should be precise, clear, feasible, distinctive & motivating.

while writing Mission of company	a) Good mission statements are unique to Organization for which it is developed. b) Mission should give organization its own special identity and business emphasis. c) It should be based on current capabilities of business. d) It should give internal direction to employees for future of Organization.
Refer class discussion for detailed discussion on Mission of Major Global & Indian conglomerates.	

- The corporate mission is an expression of the growth ambition of the firm.
- The mission is a grand design of the firm's future.
- According to Peter Drucker, every organisation must ask an important question "What business are we in?" and get the correct and meaningful answer.

Company	Production-oriented answer	Marketing-oriented answer
Indian Oil	We produce oil & gasoline products	We provide various types of safe & cost-effective energy
Indian Railways	We run a railroad.	We offer a transportation & material-handling system.
Revlon	In the factory, we make cosmetics	In the retail outlet, we sell hope.

DIFFERENCE BETWEEN VISION & MISSION

Vision	Mission
a) Definition	Definition
b) It states future direction of Organization	It states ongoing activities of Organization
c) It is wider in scope & emphasises on long term concept	It is more specific
d) It remains unchanged for decades if crafted carefully	It changes more frequently

2.3. GOALS AND OBJECTIVES

- Business organisation translates their vision and mission into goals and objectives.
- It provides base of measurement of Company's performance.
- Goals are open-ended attributes that denote the future states or outcomes. It is end result an Organization wants to achieve.
- Objectives are close-ended attributes which are precise and expressed in specific terms.
- Thus, Objectives are more specific and translate the goals to both long term and short-term perspective.
- Objectives are needed at all levels of organization and should not stop with Top management. Rather, it should be broken down into performance target for each separate business, product line function, etc.
- In practical word, they are used interchangeably.

- **Characteristics**
  a) It should facilitate achievement of vision and mission.
  b) It should be based on SWOT.
  c) It should provide basis for strategic decision.
  d) It should be concrete and specific.

e) It should be measurable and challenging.
f) They should be related to a time frame.
g) It should provide basis for performance appraisal.

- **Benefits of Objectives**

a) provide direction to the company	b) allow synergy and minimize conflicts
c) aid in allocation of resources & evaluation	d) establish priorities and reduce uncertainty

Types (Both are important)

Short term objectives	Long term objectives
Quarterly or annual objectives. It focuses on achieving short term targets and provide immediate performance improvement. It indicates the speed at which long term targets are to be achieved. E.g. If a company has objective of doubling its sales over next 5 years, it should also set specific annual targets. Short-range objectives can be identical to long-range objectives if an organisation is already performing at the targeted long-term level.	Represents results expected from following any strategy. Time frame for objective is set generally 2 to 5 years. To achieve long-term prosperity, Long term objectives are set in 7 areas namely: ➢ Profitability/ Revenue ➢ Productivity ➢ Competitive position ➢ Employee development & ➢ Tech leadership ➢ Public Responsibilities Each objective should be associated with a time frame.

DIFFERENCES BETWEEN GOALS & OBJECTIVES

Goals	Objectives
1. Open ended attributes	Close ended attributes
2. Wider in scope	More specific
3. Long term	Short term
4. E.g.: Maximize profit, sales growth	E.g.: Earn 15% return on investment, 20% increase in sales

2.4. VALUES

While Strategic Intent is the purpose that an organisation aims to achieve, Values form the omnipresent foundation of each and every decision that the management takes.

An organisation without values is like an organisation with no real intent.

Values are the deep-rooted principles which guide an organisation's decisions and actions.

It is inherent and sacrosanct; they can never be compromised, either for convenience or for short-term economic gain.

They are the source of a company's distinctiveness and must be maintained at all costs.

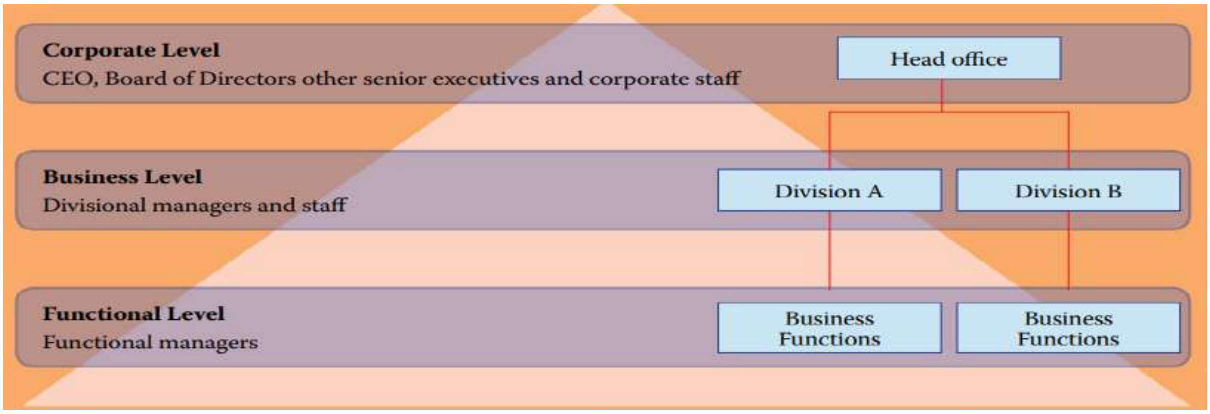
Values often reflect the values of the company's founders like Hewlett-Packard's celebrated "HP Way".

Examples	a) Integrity	b) Trust	c) Accountability	d) Humility	e) Innovation	f) Diversity
Importance	i) It sets the tone for how people think & behave, especially in situations of dilemma.					

	ii) It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success. iii) Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life. iv) Majority of consumers also prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, values have both internal as well as external implications.

Intent vs Values - Which is a broader concept?
Values & Intent are two different concepts. Intent is the purpose of doing business. Values are the principles that guide decision making of business. They both go hand in hand, while the intent is sometimes driven by values. So values is wider than Intent.

3. Strategic Levels in an Organization



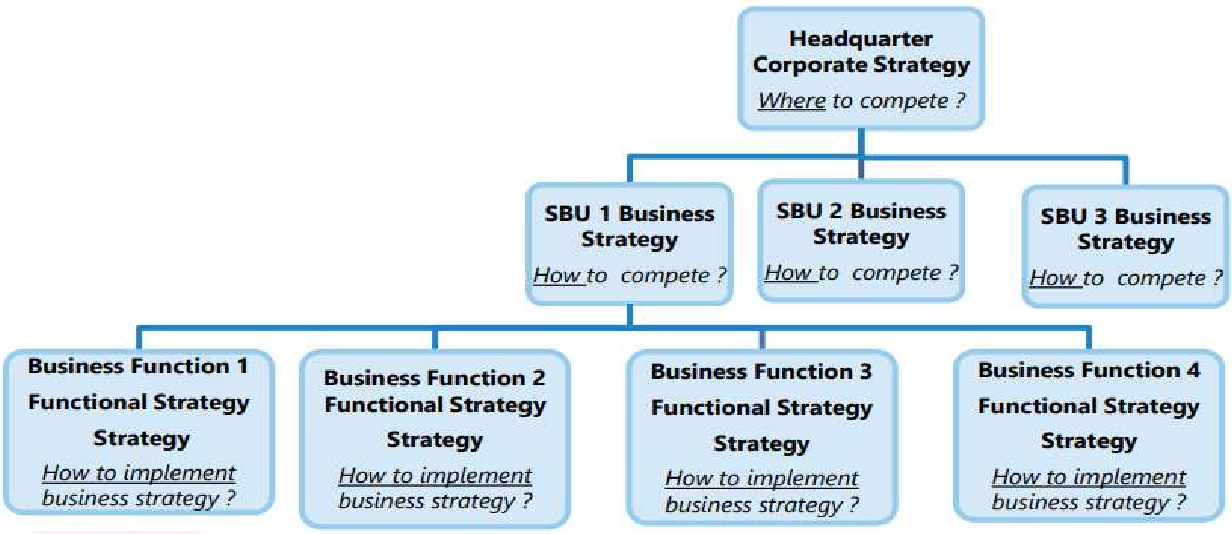
A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. For example, Patanjali has healthcare, FMCG, Organic Foods, Medicinal Oils and Herbs, and various different businesses. In such large organizations, strategies are formulated at three levels - corporate, business, & functional level.	
I) Corporate Level	Corporate Level managers consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. They participate in strategic decision making like Merger/ acquisition, new product launch etc. 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 i.e., owner of business. Corporate level managers, especially CEO is viewed as guardian of shareholder welfare and must make strategies to maximize the wealth of shareholders. If not, then

	ultimately the CEO is likely to be held accountable by the shareholders.
2) Business level	Strategic Business Units (SBUs) is self-contained Division with its own business functions like Finance, Human Resource, Sale & Marketing, Research & Development etc. 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. They are responsible to translate general statements of direction of Corporate Level into concrete business plans. Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business- level managers are concerned with strategies that are specific to a particular business.
3) Functional level	Functional level managers 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. Functional managers are also responsible for a) developing functional strategies in their area to fulfill 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. Thus, it is important for general managers to listen closely to the ideas of their functional managers.

General Managers are found at first two levels but their strategic roles differ.

Which is better - Top Down Approach or Bottom-Up Approach?

A top-down approach to decision making is when decisions are made solely by leadership at the top i.e. corporate level of management, while the bottom-up approach gives all teams across the levels a voice in decision making.



3.1. Network of Relationship between the Three Levels

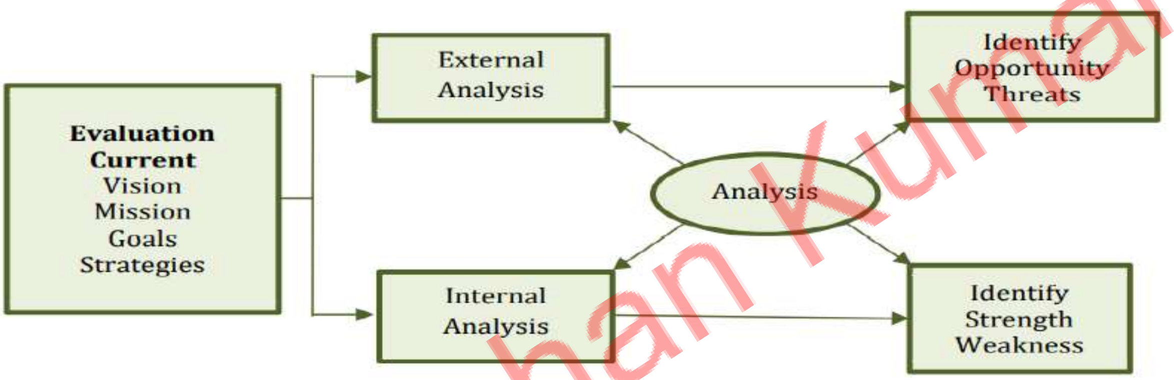
There are multiple ways in which all the 3 levels of management are interlinked, and it depends on the organisation as a whole to decide what kind of network of relationship suits their culture & needs.

There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;	
a) Functional and Divisional Relationship	It is an independent relationship, where each function or a division is run ➢ independently headed by the function/division head, who is a business level manager, ➢ reporting directly to the business head, who is a corporate level manager. Functions may be like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.
b) Horizontal Relationship	All positions, from top management to staff-level employees, are in same hierarchical position. It is a flat structure where everyone is considered at same level. It leads to openness & transparency in work culture and focused more on idea sharing and innovation. More suitable for startups where the need to share ideas with speed is desirable.
c) 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. It helps manage huge conglomerates with ease where it is nearly impossible to track & manage every single team independently. In Matrix relationship, there are more than 1 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

1. STRATEGIC ANALYSIS



- *The process of strategic formulation begins with a strategic analysis.*
- *Strategy formulation is not a task based on intuition, opinions and instincts of managers. Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities.*
- *Strategic analysis refers to analysis of both internal as well as external environment of business based on which strategic plans can be developed.*
- *The process of strategic formulation begins with a strategic analysis. A systematic approach to environmental assessment is essential for managing risk and uncertainty.*
- *The two important situational considerations are:*
  - *a) Industry and competitive conditions, and*
  - *b) Organization's strength and weakness.*

  It helps in evaluation of alternatives to choose sound winning strategy.

- ***Limitations of strategic analysis***
  - *a) 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.*
  - *b) It can be time-consuming hurting overall organisational functioning.*

Issues to consider for Strategic Analysis:

<table>
<tr><td rowspan="1">a) Strategy evolves over a period of time</td><td colspan="3">Strategy of a Firm is a result of series of small decisions taken over an extended period of time.

Strategy evolves from experience and needs constant review and revision as the results start showing up. Thus, it evolves over a period of time.</td></tr>
<tr><td>b) Balance of external and internal factors</td><td colspan="3">Strategy formulation involves matching internal strengths and weaknesses with external opportunities and threats.

E.g. There may be pressures to enter a new market due to high growth potential while there may be constraints like lack of funds.

In reality, perfect match between them is not possible. Hence, strategic analysis uses workable balance.</td></tr>
<tr><td rowspan="4">c) Risk</td><td colspan="3">Competitive market, globalization, Booms and recessions, technology advancement, etc. affect businesses and pose risk.

Various strategic risks are as given below:</td></tr>
<tr><td></td><td>Short Term</td><td>Long Term</td></tr>
<tr><td>External</td><td>Error in interpreting the environment that causes strategic failure</td><td>Changes in environment lead to obsolescence of strategy</td></tr>
<tr><td>Internal</td><td>Organizational capacity is unable to cope up with demand</td><td>Inconsistencies with the strategy is developed on account of change in internal capacities</td></tr>
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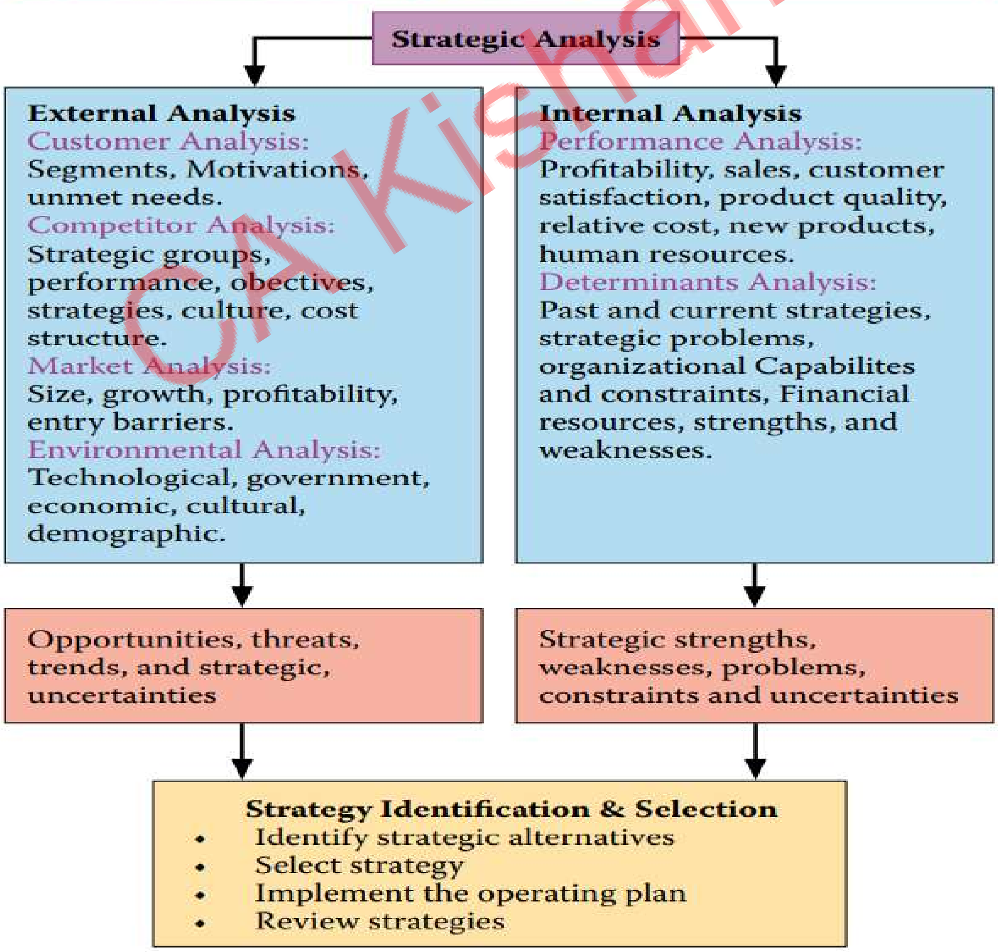
Framework of Strategic Analysis



2. Strategy and Business Environment

"Business environment" refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations.

It is highly dynamic and continuously evolving & often determines Organisational success.

There is a close and continuous interaction between a business and its environment. This interaction helps the business in the following ways:

a) Determine opportunities and threats	It helps to 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.
b) Give direction for growth	It enables the business to identify the areas for growth and expansion of their activities.
c) Continuous Learning	It motivates the managers to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm/scope of business.
d) Image Building	Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. **For example**, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. This creates a positive image and helps it to prosper and win over the competitors.
e) Meeting Competition	It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly.

To flourish, a business must be aware of, assess, and respond to the many opportunities and threats present in its environment. The business must continuously evaluate its environment and modify its operations in order to thrive and expand.

2.1. Micro and Macro Environment

The environment in which an organization exists can be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

The external environment can be categorised in two major types as follows:

Micro environment	Macro environment
It is related to small area or immediate periphery of an Org. These are specific to a business & influences/affect its working on a direct and regular basis. Consists of suppliers, consumers, marketing intermediaries, competitors, etc. Within the micro or the immediate environment, we need to address the following issues: a) The employees of the firm, their characteristics and how they are organised. b) The existing customer base. c) The ways in which the firm can raise its finance. d) Who are the firm suppliers?	The macro environment is the portion of the outside world that significantly affects ➢ how an organisation operates but is ➢ typically much beyond its direct control and influence. Macro environment has broader dimensions as it consists of economic, socio- cultural, technological, political and legal factors.

e) The local community within which the firm operates. f) The direct competition and their comparative performance.	

2.2. Elements of Macro Environment

a) Demographic Environment	Demographics refers to the characteristics of a population in terms of criteria, such as age, gender, and income. Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education. Marketers and other social scientists regularly divide up populations based on their demographic makeup. Many multinationals are interested in India considering its population size. Business Organizations need to study different demographic factors to address following issues: i) What demographic trends will affect the market size of the industry? ii) What demographic trends represent opportunities or threats?
b) 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 and cohesiveness. 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. The core beliefs of a particular society tend to be persistent and it is difficult for a business to change these core values. Accordingly, businesses have to adjust to social norms and beliefs to operate successfully.
c) Economic Environment	It refers to the overall economic situation around the business and include conditions at the regional, national and global levels. It encompasses conditions in the markets that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability. Economic environment affects the business as it determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, debt and credit availability. Example: Higher interest rates are detrimental for the businesses with high debt. In the real estate market, they reduce the capability of the prospective buyers to avail loan and pay instalments, thus lower the demand. Income distribution pattern determine the business possibilities. The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations and include i) gross domestic product; ii) per capita income; iii) markets for goods services iv) availability of capital; v) forex reserve; vi) interest rates vii) disposable income; viii) unemployment; ix) inflation
d) Political-Legal Environment	Political-legal environment refers to elements like the ➢ general level of political development,

	➢ the degree to which business and economic issues have been politicised, ➢ the degree of political morality, ➢ the state of law and order and political stability, ➢ the political ideology and practices of the ruling party and ➢ the scope and type of governmental intervention in the economy and industry. Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business. Businesses must understand the relevant laws and consider the changes in the regulatory framework and their impact on the business. Taxes and duties are other critical areas that may be levied and affect the business. Businesses prefer to operate in a country where there is a sound legal system.
e) Technological Environment	Technology and business are linked and are interdependent on one another. Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively. This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company. Changes in technology have an effect on how a business runs its operations. The technological advancements might require a business to drastically alter its operational, production and marketing strategies. Technologies like Artificial intelligence, machine learning, robotic process automation offers many new business opportunities as well as threat and business need to adapt.

2.3. PESTLE– A TOOL TO ANALYSE MACRO ENVIRONMENT

Refers to framework for analysis of macro environmental factors.

PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of analysing the environmental influences that have affected or are likely to affect an organization or its policy.

a) 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. Furthermore, governments have great influence on the health, education and infrastructure of a nation.	
	i) Political stability	ii) Political principles and ideologies
	iii) Current and future taxation policy	iv) Regulatory bodies and processes
	v) Government policies	vi) Government term and change
b) Economic factors	have major impacts on how businesses operate and take decisions. **For 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. The money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.	
	i) Economy situation and trends	ii) Market and trade cycles
	iii) Specific industry factors	iv) Strength of consumer spending

	v) Interest and exchange rates	vi) Inflation and unemployment
c) Social factors	affect the demand for a company's products and how that company operates.	
	i) Lifestyle trends	ii) Demographics
	iii) Consumer attitudes and opinions	iv) Brand, technology image
	v) Consumer buying patterns	vi) Consumer buying patterns
d) 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.	
	i) Replacement technology/solutions	ii) Maturity of technology
	iii) Manufacturing maturity & capacity	iv) Innovation potential
	v) Technology access, licensing, patents, property rights and copyrights	
e) Legal factors	affect how a company operates, its costs, and the demand for its products, ease of business.	
	i) Business and Corporate Laws	ii) Employment Law
	iii) Competition Law	iv) Health & Safety Law
	v) International Treaty and Law	vi) Regional Legislation
f) 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.	
	i) Ecological/environmental issues	ii) Environmental hazards
	iii) Environmental legislation	iv) Energy consumption
	v) Waste disposal	

2.4. INTERNATIONALIZATION OF BUSINESS

Internationalization has emerged as the dominant commercial trend over the last couple of decades. It enables a business to enter new markets in search of greater earnings and less expensive resources.

It enable a business to achieve greater economies of scale and extend the lifespan of its products.

One method for an organization to identify opportunities and threats in global markets is by scanning the external environment.

The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

Characteristics of Global Company	
Common ownership	It is conglomerate of multiple units located in various part of the world but linked by common ownership.
Common pool of resources	Multiple units use common pool of resource such as ➢ Money; Technology/ patents; Brand name etc.
Common strategy	Units of global company follow common strategy.

Why do Companies Go Global?

a) **Need to grow.** Organizations exploit opportunities in other countries to grow own business.
b) Domestic market no longer adequate (**saturated domestic market**).

   For example: Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced.
c) **Shrinking** of time and distance across globe [faster modes of communication and transportation]
d) **Cost effective** [lower cost of labour and raw material in other countries]

   For example: Hyundai got competent engineers at lower cost, industry friendly Maharashtra Govt. which allowed them to setup a unit in India which supplies spare parts for all Hyundai Cars across the world.
e) Companies often set up **overseas plants to reduce high transportation costs.**

   For example: Making a car in Korea and exporting it in Europe and America is expensive and time consuming therefore India as a manufacturing hub for Hyundai proved to be better place.
f) **Reducing international trade barriers**, greater privatization and lesser Government interference.
g) **Export incentives.**

Developing internationally

International development is expensive & challenging. Steps in international strategic planning are:

a) Evaluate global opportunities and threats and compare them with the internal capabilities.
b) Describe the scope of the firm's global commercial operations.
c) Create the firm's global business objectives.
d) Develop distinct corporate strategies for the global business and whole organisation.

2.5. International Environment

International environment has become an inherent part of strategic management for businesses of all sizes with global interests.

It essentially involves various global aspects like political risks, cultural differences, exchange rate fluctuations, legal compliances and taxation issues.

The PESTLE factors that an international organisation faces are nearly limitless, and the number and complexity of these factors increase manifold as the number of products produced and geographic areas served increase.

Thus, it becomes more important for the people at the decision-making levels to focus on factors comprising the international environment.

Assessments of the international environment helps company in SWOT & can be done at three levels:

a) **Multinational environmental analysis**	involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. Governments may have free or interventionist tendencies in economies that needs to be carefully considered.
b) **Regional environmental analysis**	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.
c) **Country environmental analysis**	Involves deeper look at the important environmental factors like economic, legal, political, and cultural dimensions. The analysis must be customised for each of the countries to develop effective market entrance strategies.

An assessment of the external environment is the first step toward internationalisation.

3. Understanding Product and Industry

A product can be either a good or a service. It might be physical good or a service, an experience.

Business products have certain characteristics as follows:

a) Products are either tangible or intangible.	A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. An intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.
b) Product has a price	The price is determined by the market, quality, marketing, and the targeted group. It is influenced by supply and demand of an item or service. The market price is the price at which quantity provided equals quantity desired. On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, need to follow the market determined price and work on reducing the costs to earn profitability.
c) Products have certain features that deliver satisfaction	Product feature is a component of a product that satisfies a consumer need. It distinguishes a product in terms of its function, design, quality and experience. It also determines product pricing.
d) Product is pivotal for business	The product is at the centre of business around which all strategic activities revolve. It is the driving force behind business activities.
e) Product has a useful life	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. Example: Fixed line telephone instruments have been replaced by mobile phones.

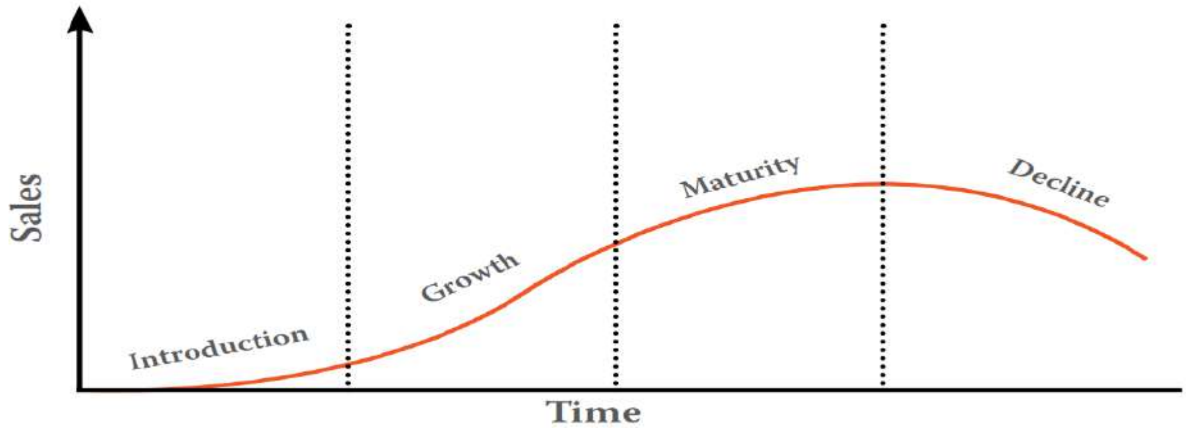
3.1. Product Life Cycle

It is a S-shaped curve which reflects relationship of sales w.r.t time/ life of a product.

If businesses are substituted for product, the concept of PLC could work just as well.

A product typically passes through 4 stages:

a) Introduction stage	First stage of PLC is characterised with slow sales growth, in which competition is almost negligible, prices are relatively high, and markets are limited. Growth in sales is at a lower rate because of lack of awareness among customers.
b) Growth stage	It is characterised with rapid market acceptance. The demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product & shows interest in purchasing it.
c) Maturity stage	In third phase, there is slowdown in growth rate. In this stage, the competition gets tough, and market gets stablised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.
d) declines	In the 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.



Basis	Introduction	Growth	Maturity	Decline
Market				
Competition				
Prices				
Growth in sales				
Profit				
Appropriate Strategy				

3.2. Value Chain Analysis

- Value chain analysis was originally introduced as accounting analysis.
- It is a method of examining each activity in value chain of a business in order to identify areas for improvements.
- Value chain analysis involves two basic steps:
  - Identifying separate activities and
  - Assessing value added by each activity.
- Understanding value chain of an organisation is critical for evaluating how much value it generates.
- This analysis could be used to improve the sequence of operations, enhancing efficiency and creating a competitive advantage.
- Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
- Michael Porter identified 9 value activities and classified them in two groups as follows:

Primary Activities are grouped into five main areas as given below:

Inbound Logistics	Operations	Outward logistics	Marketing & Sales	Service
Concerned with receiving, storing and distributing inputs. Includes material handling, stock, transport etc.	Concerned with transforming inputs into final product or service. Includes manufacturing, packaging, assembly,	Concerned with collecting, storing and distributing final product to customers. Includes material handling, stock,	Process whereby consumers are made aware of product/ services & are able to buy it. Includes promotion, advert.,	Activities which enhance or maintain value of product/ service. Includes installation, training, repairs, after sale support

	testing etc.	transport etc.	selling etc.	etc.

Support Activities – Each of Primary activities are linked to following support activities:

Procurement	Technology Development	HR Management	Infrastructure
Refers to process of acquiring various inputs to primary activities.	It may be in relation to ➢ Product (R&D product design) ➢ Process (process development) or ➢ Particular resource (Raw material improvement)	It transcends all primary activities. Concerned with recruitment, training, developing & rewarding people.	It supports Org. in executing primary functions. Consists of structures & routines which sustain Org's culture.

4. Industry Environment Analysis

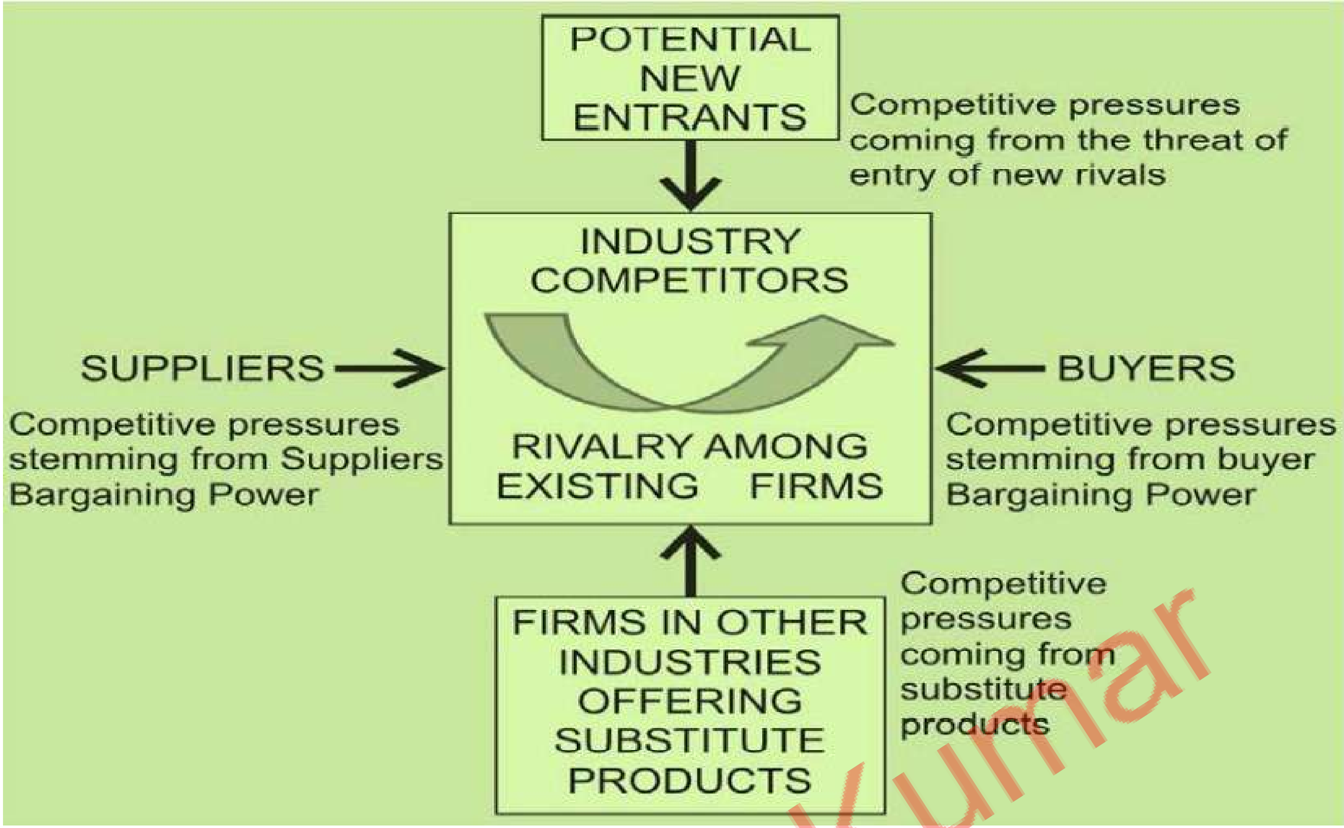
Industry analysis enable strategic understanding about the entire state of any industry and make decisions about whether the industry is a lucrative or not.

The goal of the industry environment analysis to

- estimate the amount of competitive pressures the business is presently facing and is expected to face in the near future and
- to get insight into a wide range of elements within and outside the business so as to make rational strategies.

4.1. Porter's Five Forces Model

- Every business operates in a competitive environment. Various competitive forces in an industry determine
  - attractiveness and profitability of Industry; and
  - how an Organization develops its business level strategies.
- The character, mix, and intricacies of competitive forces are never the same from one industry to another.
- A powerful and widely used tool for systematic analysis of significant competitive pressures and assessing its importance is Porter's 5 forces model.
- This model reflects that state of competition in an Industry is result of competitive pressures in 5 areas:
  a) Competitive pressure associated with Threat of New Entrants
  b) Competitive pressure associated with bargaining power of Buyers
  c) Competitive pressure associated with bargaining power of Suppliers
  d) Competitive pressure associated with Nature of Rivalry
  e) Competitive pressure associated with Substitute products.
- Inter-relation among these five forces gives each Industry its own particular competitive environment.
- By applying Porter's five forces model of industry attractiveness to their own industry, management can gauge their firm's strengths, weaknesses, probable threats and future opportunities.



4.1.1. Threat of New Entrants

New entrants are powerful source of competition. They reduce industry profitability as they

- add new production capacity leading to increase in supply at lower price.

This erodes market share of existing players/ incumbents.

Bigger the new entrant, greater is the threat.

For example, Reliance Jio offered cheap services when it entered the telecom industry in 2016, thus limiting the prices for existing players like Airtel, Vodafone, Idea, etc.

A firm's profitability tends to be higher when new firms are blocked from entering the industry.

To discourage new entrants, existing players try to raise entry barriers.

"Barriers to entry" represent economic forces that slow down entry of new firms. Common barriers include:

d) Capital Requirement	If entry in an Industry requires huge capital, Organizations having less funds are effectively barred from entry. **E.g.** Huge investments are required to build production facilities & establish brand awareness amongst people for entry into pharmaceutical industry.
e) Economies of scale	It refers to reduction of cost per unit. As volume increases, large Firms enjoy economies of scale which discourages new entrants. **E.g.** In the semiconductor industry, large companies, such as IBM & Intel enjoy substantial economies of scale in the production of advanced processors, chips & integrated circuits that power most consumer electronics like computer.
f) Product differentiation	It refers to uniqueness of a product in eyes of customer. Since cost of creating unique product is high, it also acts as an entry barrier.
g) Brand identity	Brand building is long process involving substantial resources. It is important in case of products which have high prices and are infrequently purchased.

	E.g. It is a huge challenge for car makers to break into the customer base of Maruti Suzuki in the affordable family car segment, because people identified Maruti Suzuki as India's own family car company.
h) Possibility of aggressive retaliation by incumbent	Sometimes, mere threat of aggressive retaliation by incumbent may also act as an entry barrier for new entrants. **E.g.** Introduction of products by a new firm may lead incumbents' firms to reduce their product prices and increase their advertising budgets. The same way Hindustan Unilever and Palmolive spent huge sums of money in advertisement to fight Patanjali's Dant Kanti Toothpaste.
i) Switching cost	New entrant needs to convince existing customers of other company to switch to its product. Buyer often incurs financial & psychological cost in switching existing player. When switching cost is high, buyer is reluctant to switch. **For example**, high switching costs in moving away from Microsoft's Windows operating systems used in personal computers and corporate servers powered the company's stunning growth over the past decade in the software industry.
j) Access to distribution channel	Unavailability of distribution channel is another barrier for new entrants. **E.g.** Because of control over distribution channels in India by Hindustan Uni lever) and Procter & Gamble, small entrepreneurs find it very difficult to sell their products through the existing channels. Similarly, with advent of Patanjali and its strong nation-wide distribution channel, new Ayurvedic FMCG companies are facing a challenge.

4.1.2. Bargaining Power of Buyer

It means buyers exert some pressure on Organization to reduce its cost and improve its product/services.

This force is significant when buyers form group or cartel. Mostly seen in industrial goods.

Buyer's bargaining power is evident when

a) Buyer has full knowledge of sources of raw material and their substitutes.
b) They are big buyers and spend a lot of money on Industry's products.
c) Buyers are more concentrated than suppliers.
d) Product is not considered critical for buyer's needs who can easily switch to substitutes.

4.1.3. Bargaining Power of Supplier

It means suppliers exert pressure on Organization by increasing price of its supplies (Raw material).

Bargaining power of supplier determines cost of raw material & inputs, thus affecting profitability of industry.

Supplier can have bargaining power when

a) Their product is critical to buyer and substitutes are not available.
b) No. of suppliers is less and they are more concentrated than their buyers.
c) There is high switching cost.

4.1.4. Nature of Rivalry in the Industry

Intensity of rivalry is significant determinant of profitability and attractiveness of Industry.

It influences strategies being adopted by Organisation & also cost, price being charged, advertisement etc.

More intensive the rivalry, less is the profitability, hence, less attractive is the industry.

Rivalry among competitors tends to be cutthroat and an industry's profitability is low when:

a) Industry has no clear leader	Strong leaders discourage price wars by disciplining initiator of price war. **E.g.** India's domestic air travel industry has no definite leader, and hence, we often see cut throat price wars.
b) Competitors are numerous	If no. of competitors is high, ability of industry leader to control them decreases. **E.g.** Majorly in unorganised sectors like handicrafts, due to huge number of producers, the internal rivalry is immense.
c) Competitors have higher fixed cost/ production capacity	Hence, they try to utilize the capacity. This increases supply and profitability decreases. **E.g.** Airline, telecommunications Industry
d) Competitors face high exit barriers	If exit barrier is low, competitors can exit market if they are not profitable. But, if assets of an Organization is specialized and of little value to others, Organization can't sell the asset & therefore, continue to fight for market share.
e) Competitors have little opportunity to differentiate	If there is opportunity for differentiation, increased price may be charged thus increasing profitability. **E.g.** ONGC and Indian Oil, cannot offer major product differentiation in their products. Hence, the level of competition would always be high.
f) Industry faces slow or diminished growth	If industry's growth is slow, rivals try hard to hold or grow by reducing price further, thus reducing profitability.

4.1.5. Threat of Substitutes

Substitutes are the latent/hidden source of competition.

If they offer price advantage or performance advantage, it may constitute major source of competition.

E.g. Coir suffered at the hands of synthetic fibre.

Threat of substitute product increases

- when there is significant investment in research & development
- in highly technological industry.

As per Michael Porter, a final force that can influence an industry's profitability, is the availability of substitutes for that industry's products.

To predict profit pressure from this source of competition, firms must search for products that can perform the same, or nearly the same, functionalities as their own products.

Examples:

a) Real estate, insurance, bonds and bank deposits are clear substitutes for common stocks, because they represent alternate ways to invest funds.

b) Introduction of digital film-less cameras virtually replaces the film cameras & threatened the existence of Eastman Kodak and Fujifilm.

c) Introduction of smart phones has replaced cameras to a great extent.

d) Rapidly changing education landscape, with the advent of online courses and degrees, is a perfect example of a substitute to the existing educational system, with better approachability and access.

Process of Analyzing Competition in an Industry (3 steps)

a) Identify the specific competitive pressure associated with each of 5 forces.

b) Evaluate strength of each competitive force [fierce, strong, moderate, normal, weak]

c) Determine whether collective strength of 5 competitive forces is conducive for earning attractive profits.

4.2. Attractiveness of Industry

Companies invest capital and should be careful in choosing an industry.

Whether an Industry is attractive or unattractive is relative & depends on various factors like

a) Industry's growth potential, is it futuristically viable?

b) Impact of competition on Industry's profitability and whether competitive forces will become stronger or weaker?

c) Impact of driving forces of Industry i.e. triggers of change on Industry's profitability.

d) Competitive position of Firm in the Industry and whether it is likely to become stronger or weaker?

e) The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).

f) Whether the company is able to defend against or counteract the factors that make the industry unattractive?

g) Severity of problems faced by Industry as a whole.

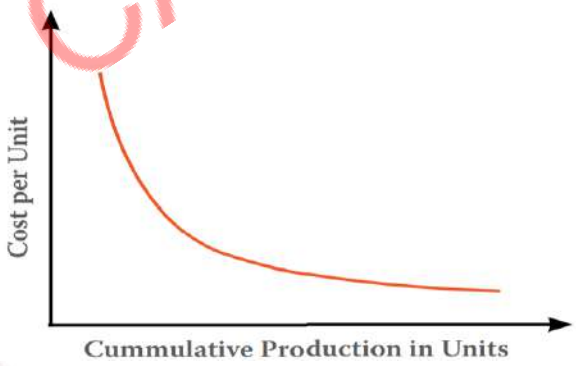
h) Whether continued participation in this industry is important to the Firm's ability to be successful in other industries in which it may have interests?

Generally, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive.

However, attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

Further, Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

4.3. Experience Curve



It is similar to learning curve which means efficiency of workers increases due to repetitive work.

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

It means cost per unit declines as cumulative production increases. Thus, larger firms would tend to have lower unit costs as compared to smaller companies, thereby gaining a competitive cost advantage.

Reduction in cost per unit may be due to learning effect, economies of scale, technology improvement, process improvement etc.

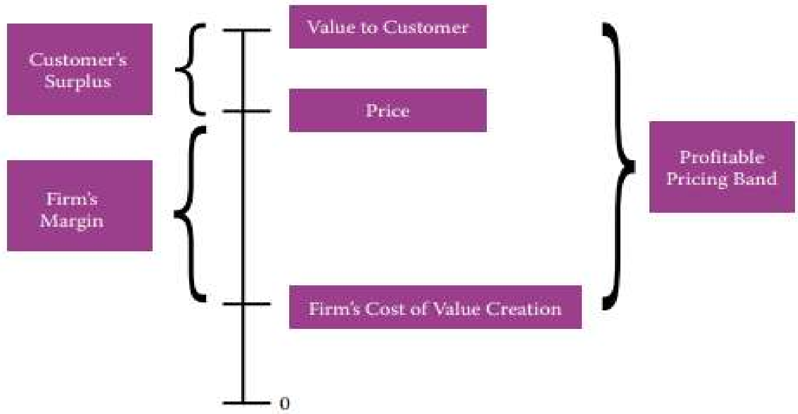
Characteristics of Experience curve

a) As business organisation grows, it gains experience.

b) Experience provides an advantage over competition. Experience is key entry barrier.

c) Large businesses possess strategic experience effect.

4.4. Value Creation



- Value is measured by product's feature, quality, availability, durability and performance for which customer is willing to pay.
- Value creation is an activity by Firm to create value that increases worth of goods, service and business.
- Value creation may be in terms of creating better value for
  - customers as well as
  - stakeholders who want to see their investment in business appreciate in value.
- Value creation gives rise to competitive advantage and helps Firm to earn higher profitability than other Organization in the industry.

- Profitability of a company depends on
  - cost of creating product;
  - price charged by company for its product; and
  - value customer places on company's product i.e., utility a customer gets from the goods/ services.
- The excess amount customer wants to pay, over and above the price that business wants to charge is called value creation.
- According to Michael porter, company can generate competitive advantage in two ways: (Refer Ch 5)

a) Cost Advantage	b) Differentiation

5. 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

a) physical, such as a departmental store where people engage in person; or

b) virtual, such as an online market where buyers and sellers do not meet in person but use tools of technology to strike a deal.

It has a wide interpretation and can apply to a wide range of contexts. **For example**, it might be used to describe the stock exchange, where securities are traded.

Marketing encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.

Market activities are often categorised and explained in terms of four Ps– product, place, pricing, and promotion. These four kinds of marketing activities help marketers identify customer needs so they may meet their demands and deliver satisfaction.

Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.

a) Product	b) Production	c) Sales	d) Customer
Businesses that have product orientation think that ➢ buyers will choose those products that have the best quality, performance, design, or features.	Businesses that have production orientation believe that ➢ customers choose low price products.	Businesses that have sales orientation believe ➢ if they spend enough money on advert., sales & promotion, customers can be persuaded to make a purchase.	Businesses that have customer or market orientation believe ➢ in prioritising efforts on their customers & creating better value for them. In present times success of many business lies in customer centric approach.

5.1. Customer

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

Customers are important because they provide revenue and organisations cannot exist without them.

All businesses vie for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases.

Difference between consumer & customer

Consumer refers to Individuals or businesses that consume or utilise products and services.

Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers.

Customer Analysis	Customer Behaviour
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. It 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 best market segmentation techniques.	It moves beyond the identification of customers to explain how they purchase products. It examines elements like ➢ shopping frequency, ➢ product preferences, and the ➢ perception of your marketing, sales, and service offerings. Understanding these details allows businesses to a) communicate with customers in an effective manner and b) develop 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. These elements can be categorised into the following three conceptual domains/ factors/ elements/ influences:

a) External Influences	External influences, like advertisement, peer recommendations or social norms, have a direct impact on the decisions taken by consumers to determine ➢ which needs to satisfy and which products to use to do so. These aspects are divided into two groups – the company's marketing efforts and the numerous environmental elements.
b) Internal Influences	Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.
c) Decision Making	A rational consumer, as decision maker seek information about potential decisions and integrate this with the existing knowledge about the product. After weighing advantages and disadvantages of each option, they would make a decision. 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. The above process mostly applies when the purchase is significant to the customer, such as when the product could have a significant influence on their health or self-image. Example: The process is valid when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.
Post-decision Processes	After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome based on the satisfaction derived from the product. While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others.

6. Competitive Strategy

- Competition is a fundamental attribute of economic systems and business, and it is faced by all types of organisations. Businesses compete with each other for the same set of resources and customers.
- Competitive strategy of a business is concerned with how to compete in the business areas in which the organization operates.
- It defines how a firm expects to create and sustain a competitive advantage over competitors.
- The competitive strategy of a firm within a certain business field is analysed using two criteria:
  a) the creation of competitive advantage and
  b) protection of competitive advantage.
- Porter's five forces model is useful in understanding the competition.

- ***Objective of competitive strategy:*** It helps to
  - ➢ create competitive Advantage;
  - ➢ increase market share; and
  - ➢ beat competition.
- Examples: Cost leadership strategy, Differentiation strategy, Focus strategy.

6.1. Competitive Landscape

- Competitive landscape is a business analysis which identifies competitors, either direct or indirect.
- Patanjali and Hindustan Unilever are direct competitors, but Lodha Builders and BMW Motors are indirect competitors that are competing to attract the affluent consumer to buy their product/service.
- Competitive landscape is about
  - identifying and understanding competitors and
  - comprehension of their vision, mission, values, niche market, strengths & weaknesses.
- Understanding competitive landscape enables a Firm to develop competitive strategy to give competitive advantage.
- Understanding of competitive landscape requires an application of "competitive intelligence".

Steps to understand competitive landscape:	
a) Identify the competitors	Need to identify competitors in firm's Industry & their actual market share. This answers the question "Who are the competitors and how big are they?"
b) Understand the competitors	Once competitors are identified, Strategists need to understand them through market research reports, newspapers, social media industry reports etc. This answers the question "What are their products and services"?
c) Determine the strengths of competitors	This answers the questions ➢ What are their financial positions? ➢ What gives them cost & price advantage? ➢ How strong is their distribution network? ➢ What are their human resource strengths?
d) Determine the weaknesses of competitors	through consumer reports and reviews appearing in various media. This answers the question 'Where are they lacking'?
e) Put all information together	Strategist puts all information together to draw conclusion/inference about what competitor is not offering and how they can fill the gap. The strategist can also know the areas which need to be strengthen by the firm. This answers the questions ➢ What improvements does Firm needs to make. ➢ How can Firm exploit the weaknesses of the competitors?

6.2. Key Factors for Competitive Success

Industry's Key Success Factors (KSFs) are things like product attributes, competencies, resources etc. that most affect industry member's ability to succeed in the market.

Key success factors are the prerequisites for industry success.

KSFs are the factors that shape whether a company will be financially and competitively successful.

KSFs vary from industry to industry. Key success factors in

- Retail Industry → Location , product range, price
- Apparel Industry → Appealing design, colour combinations and price
- IT Industry → Technology, Efficiency, price

Generally, there are 3 to 4 key success factors in an Industry.
Identifying KSFs - Answer to 3 question helps identify an Org's KSF: a) On what basis customers choose between competing sellers? b) What resources & capabilities does a seller need to have to be competitive successful? c) What does it take to achieve sustainable competitive advantage?

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Yours,

CA Kishan Kumar

CHAPTER 3

STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT

1. INTRODUCTION

- Strategic Analysis is equally important when it comes to internal environment assessment.
- 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 - 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 and is very important to understand for strategic analysis.

2. UNDERSTANDING KEY STAKEHOLDERS

Stakeholders refer to any person/group of individuals, internal or external, that has an

- interest in the business or corporate strategy of the organization or can impact it.

They may be the management, employees, shareholders, investors, suppliers, customers, regulators and so on.

A firm may be viewed as a coalition of stakeholders.

Identification of Key Stakeholder: It is important to identify key stakeholders as each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.

For example, an organisation involved in healthcare innovation needs to have a long-term perspective about its return on investment (ROI) as there may be a long time between investment into research timelines and a commercial outcome.

Example of Key Stakeholders and their requirements for an OTT Platform

Shareholders	CEO & Board of Directors	Major Vendors (Production House)	Consumers (Viewers)	Employees
▪ Innovation & continuous creative content ▪ Total shareholder return (RoI) ▪ Corporate social	▪ Prestige ▪ Market share ▪ Revenue & profit growth	▪ Growth ▪ Stability of ordering ▪ Stable margins	▪ New content - Innovation ▪ Better deals - Pricing ▪ Value for	▪ Wages & benefits ▪ Stability of employment ▪ Pride of

responsibility ▪ Highest market share	▪ Market rankings		money ▪ Continuous supply	working for a reputed organisation

2.1. Mendelow's Matrix

The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage key stakeholders.

In order to manage a project, it is very critical to manage the competing interests of various stakeholders.

Mendelow suggests that one should analyse stakeholder groups based on

a) Power (the ability to influence organisation strategy or resources); and

b) Interest (how interested they are in the organisation succeeding).

Some stakeholders will hold more Power than others, & some stakeholders will have more Interest than others.

For 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

Mendelow's Matrix is based on Power & Interest. It suggests to identify which stakeholders are incredibly important.

Management needs to

- closely manage those stakeholders who have High Power and High Interest and need to invest lot of time and effort in them while
- rarely monitor those stakeholders with low power and low interest like research institutes seeking an organisation data and minimum effort expended on them in terms of time and money.

For example, the CEO is likely to have more Power to influence the work and also high interest in it being successful. Keeping them informed almost daily should be a priority.

Categorization of stakeholders into four groups by Mendelow's:	
1. KEEP SATISFIED Stakeholders:	**High power, less interested people –** Organisation should put in enough work with these people to keep them satisfied by providing them their intended information on a regular basis.

	For example, banks, government, customers, etc.
2. KEY PLAYERS Stakeholders:	**High power, highly interested people –** Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. **For example**, Shareholders, CEO, Board of Directors, etc.
3. LOW PRIORITY Stakeholders:	**Low power, less interested people –** Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. **For example**, business magazines, media houses, etc.
4. KEEP INFORMED Stakeholders:	**Low power, highly interested people –** Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. **For example**, employees, vendors, suppliers, legal experts, etc.

Since environment is highly dynamic and uncertain, things might happen that can cause stakeholders to suddenly move between quadrants.

For example, an organisation might inadvertently contravene a regulation, say GST compliance which would cause the regulatory body i.e. the Indirect Taxes Department to move from High Power, Low Interest to High Power, High Interest.

This would then require a different way of managing and communicating with this stakeholder.

Equally, the media houses would also move from Low Power, Low interest, to Low Power, High Interest.

So, it's always worth re-analysing the Mendelow's grid for one's organisation in the event of a change in the environment.

Activity: Identify and group the below stakeholders in the 4 groups as suggested by Mendelow for an Ecommerce startup.

Ms. Suhasini (CEO), Mango Partners & TRIK Group (Investors), MSME Ministry, Customers from North-East India, Sellers from Rajasthan, Jandhan Bank (Lender), & Kumar S and Sharma T (Sr. Managers in the Co.)

3. Strategic Drivers

Strategic Drivers involves analysis of the

- key markets in which the organisation operates, as well as its key customers,
- the products and services it provides,
- the channels in which the products or services are delivered, and
- the organisation's competitive advantage.

Strategic drivers consider what differentiates an organisation from its competitors.

key strategic drivers of an organisation include:

a) industry and markets	b) customers	c) products/services	d) Channels

3.1. Industry and Markets

In terms of the internal environment, it is very important for an organisation to understand it's relative position in the industry and in the market in which it operates.

Similar companies are grouped together into industries. Basically, industry grouping is based on the primary product that a company makes or sells.

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

Similarly, Zara, H&M, Marks & Spencer, Pantaloons, Westside, Uniqlo, are all selling apparels and accessories for the youth, and thus categorised under apparels industry.

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration.

The market may be a physical entity or may be virtual like e-commerce websites and applications.

It may further be local or global, depending on which all countries the business sells its products in.

The value, cost and price of items traded are as per forces of supply and demand in a market.

Is market the same for all businesses?

No. Each business has its own set of customers i.e. market and more so, each product within a business has its own market.

For 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.

3.1.1. Analysing Industry and Markets

Industry and market analysis is extremely important to identify one's position as compared to the competitors, who can be of equal size and value, or bigger in size and value or even smaller and newer.

A tool used for this is called **Strategic Group Mapping**. It reveals the competitive positions of industry participants.

Identifying the strongest & weakest companies help understand what techniques can be implemented and which ones are to be avoided.

Also, when an industry has so many competitors that it is not practical to examine each one in-depth, grouping them into categories based on various parameters can be really insightful and time saving.

For example, Smart Phone industry has numerous options to select from.

Strategic group consists of those rivals who have similar competitive approach and position in market (comparable product, price, quality etc.)

An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions.

At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

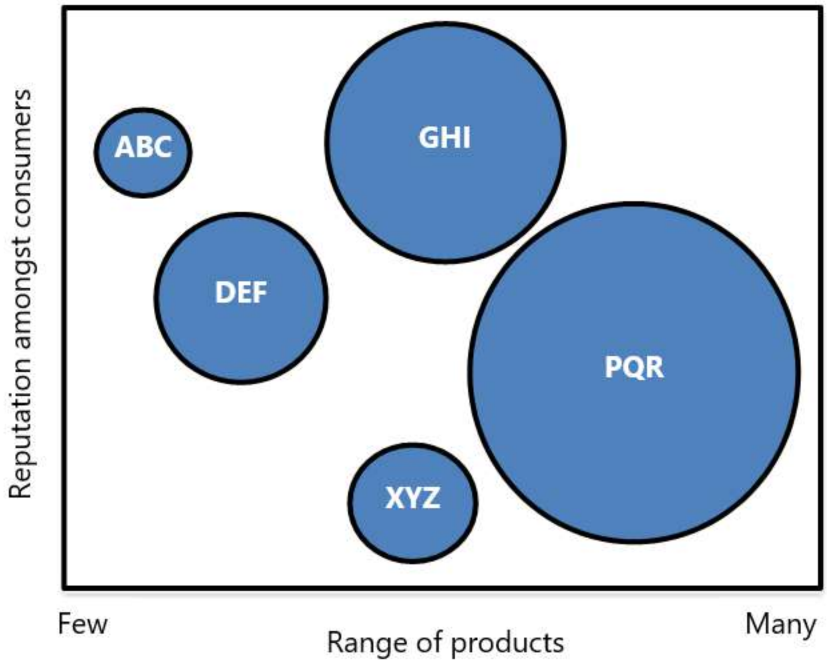
Procedure for constructing strategic group:

a) Identify competitive characteristics that differentiate Firms in the industry.
   - Price/ Quality (High, Medium, Low)
   - Geographic coverage (Local, National, Global)
   - Degree of services offered (No-frills, Limited, full)

b) Plot Firms on 2 variable map using pairs of differentiating characteristics.

c) Assign firms that fall in about same strategy space to same strategic group

Draw circle around each group where each group represents their relative market share.



A simple glance of the mapping chart shows us that even though ABC has few models, but it has great reputation in the market.

Similarly, GHI has a good range of products and is the most reputed company in laptops.

Another view is that XYZ and GHI have the same number of models as both are on the same place on X-Axis, but GHI has much greater reputation than XYZ, as it has a bigger bubble and is higher on the Y-Axis.

3.1.2. Customers

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

Since, customers are often responsible for the generation of profits obtained by an organisation, it is very important to understand different types of customers to whom the organisation's products/services are sold or provided .

Example: In case of a headphones brand - the customers can be grouped under high value buyers, medium value buyers and low value buyers based on the amount they are willing to spend on a product, thus helping the business understand their key customers and focus areas of improvement.

Customer versus Consumer

Consumers are the ones who finally use a product/service, while customers are the buyers of that product.

A customer can be a consumer and vice versa.

From a pricing perspective, customer is of more importance and from value creation and design/usability, consumer needs to be the kept at the center of decision making.

For example, baby diapers are bought by parents (customers) who are willing to pay higher price for higher quality, while the real consumers are the babies, who are more concerned about the comfort and easiness of the diaper. If babies do not accept the product i.e. if consumers aren't satisfied, it is difficult to retain the buyer i.e. customers as well.

3.1.3. Product/ Services

Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products.

The products can also be classified on the basis of industrial or consumer products, essentials or luxury

products, durables or perishables. Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others. **For example**, Shampoos with different branding namely Head & Shoulders, Olay, Old Spice, Pantene are all produced by the same company P&G.
It answer the general question: What business are we in and what should be done to win over competition in each product/service we serve.

Pricing strategies for entering a market

For new product, pricing objective should be

a) to make product acceptable to customer i.e. customer centric approach,

b) produce reasonable margin over cost and

c) develop market share.

Two common pricing strategies are:

Price skimming	Price penetration
Prices are set at very high level initially for new product. Product is directed towards customers who are ➢ insensitive to price and ➢ sensitive to brand and loyalty.	Prices are kept quite low for new product which itself is it's selling point. This enables a large no of potential customers to afford and buy new product.
Examples: Call rates of mobile telephones were set very high initially. Apple launching air pods	**Examples:** Jio launching cheap data plans and set top box

Products and services need heavy investment in reaching out to customers. Types of Marketing Strategies	
5. Social marketing	It refers to design, implementation and control of programs which aims to increase acceptability of a social idea, cause or practice among target market/society. E.g. Campaign for No smoking, No dowry, No tax evasion.
6. Augmented marketing	It means providing additional benefits to a customer along with the core product. E.g: Extra warranty, 24x7 online tech support, movies on demand etc.
7. Direct marketing	It involves using advertisement medium that interacts directly with customers. E.g. Email, SMS, catalogue marketing, electronic marketing, Tele calling etc.
8. Person marketing	People are also marketed. It involves activities to create, maintain or change attitude and behavior of target audience towards a particular person. E.g. Politicians, sports stars, film stars, etc. market themselves to get votes, or to promote their careers.
9. Organization marketing	It involves activities to create, maintain or change attitude and behavior towards a particular Organization. Both profit and non-profit organizations practice Organization marketing.

10. Place marketing	It involves activities to create, maintain or change attitude or behavior towards a particular place. E.g. Tourism marketing
11. Relationship marketing	It involves creating, maintaining and enhancing strong relationship with customers and other stakeholders. E.g: Airlines Loyalty programs or Airlines offering special lounges at major airports for frequent flyers.
12. Service marketing	It involves applying concepts of marketing to service sector.
13. Differential marketing	It is a market-coverage strategy and involves activities to target several market segments and design separate offer for each segment. E.g: HUL has Lux in popular segment and Pears in premium segment.
14. Concentrated Marketing	In this, Firm goes after large share of a target market. It can also take the form of Niche marketing.
15. Synchro marketing	When demand for a product is irregular due to season or during certain part of day, it causes overworked capacity or idle capacity. Synchro marketing is used to find ways to alter the demand pattern through flexible pricing and other incentives. E.g: Movie tickets sold at lower rate during weekdays, Happy Hours in Restaurants.
16. Demarketing	It involves activities to reduce demand temporarily or permanently. It does not aim to destroy demand but only reduce it or shift it. It is pursued when there is overflow of demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.
17. Enlightened marketing	It is a marketing philosophy that Company's marketing should support long term performance of an Organization and marketing. Five principles are : a) Value marketing b) Innovative marketing c) Customer oriented marketing d) Societal marketing e) Sense of mission marketing

3.1.4. Channels

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

Few examples of how the following companies distribute their products and services:

i) 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.

ii) Boat Headphones - only online via e-commerce platforms like Flipkart and Amazon and its own website.

iii) Coca Cola - retail shops across the nation, in each district, each town as well as online mode via Dunzo, Blinkit, etc.

Wider and stronger channel helps the business

a) to fight and win over competition and

b) help keep new players away from entering the industry, thus acting as barriers to entry.

Types of channels:		
The sales channel	**The product channel**	**The service 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? **For example**, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.	The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. **For example**, Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.	The service channel 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. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. **For example**, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Importance of Channel Analysis:

It helps business to scale up and expand beyond the current geographies and markets.

When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers.

Examples:

a) If a healthcare brand wants to reach out to elderly customers, they need to be more focused on offline mode of business where agents reach out physically to the elderly as most of their potential customers (i.e. the old aged) are not active on smartphones.

b) If a new drink brand wants to acquire customers, they need to place their products via every channel possible to get more attraction from customers like placing their drinks in stores, and shops alike, offering competitive campaigns to create awareness via online modes (social media).

c) Bottled water and cold drinks are available at hill stations. This is possible because of strong channels of distribution.

Some of the most renowned brands who have created competitive advantage in channels are Coca Cola, HUL, Patanjali, Asian Paints, Ola, to name a few.

4. Role of Resources and Capabilities: Building Core Competency

- C.K. Prahalad & Gary Hamel advocated concept of core competency & is widely used in management.
- Competency refers to combination of skills and techniques.
- Core competencies are the knowledge, skills, and facilities necessary to design and produce core products. It is created by superior integration of technological, physical and human resources.
- It is a source of competitive advantage. It simply means whatever a Firm does best.

  Example: Marketing and Sales is a core competence of Hindustan Unilever Limited while low operating costs is core competence of Wal-Mart.
- Core competency involves utilization of several individual skills and techniques like technological and managerial know-how, human resource, wisdom and experience.
- Therefore, core competencies can't be built on one capability or single know-how technique. Instead, it

has to be integration of many resources. ▪ Optimal way to define core competence is to consider it as sum of 5 to 15 developed expertise.
▪

4.1. 3 Areas where Major Core Competencies are Identified – As per CK Prahlad & Gary Hamel

Competitor Differentiation	Customer Value	Application to other markets
A company is said to have core competency if it's competency is unique & difficult for others to copy. Company should keep on improving those skills to sustain competitive position. Unique skills & resources doesn't mean that it has to be possessed by one company only. If many companies have similar skills and one company is able to perform it significantly better, that Co. has core competency. **For example,** it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.	It includes all the skills needed to provide fundamental benefits to the end customer. In order to be core competency, the Service or product has to have real impact on customers as the reason to purchase them. If the customer chooses the product without this, the competence is not core competency.	Core competency must be applicable to whole organization and not only to a particular area. A skill is considered core competency only if it is fundamental to whole organization. Core competency should be used throughout organization to open up potential new markets.
If above three conditions are met, the Company can regard a competence as core competence.		

4.2. Why to Identify and Develop Core Competency

Core competencies distinguish a company competitively and reflect its personality.

It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost-cutting environment.

Failing to identify core competencies is a kind of opportunity loss for a company.

Examples

Small retail shops have CC in the areas of	a) Personal service to customers	b) Extended working hours
	c) Easy credit	d) Free home deliveries
	e) Amicable style of the owner	f) Proximity
Big retail stores & super markets have CC in areas of	a) Merchandising	b) Securing supplies at lower cost
	c) In-house management	d) Computerized stock ordering
	e) Billing systems	f) own brand labels
Supermarkets compete with one another with CC as to	a) Locational advantage	b) Quality assurance
	c) Customer convenience in shopping	

4.3. Criteria for Building Core Competencies?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

Valuable	Rare	Costly to Imitate	Non-substitutable
Valuable capabilities are those which allow Firms to exploit opportunities or tackle threats.	Core competencies are rare capabilities possessed by very few competitors.	It means such capabilities which is not easy to copy or develop.	It means there must not be strategic equivalent which is easily available or imitable.

When a capability is 'valuable NCR', it is core competency & a source of sustainable competitive advantage.

Example: *Airtel has its marketing campaign that talks about Zero Customer Complaints. This is about creating a core competency of great customer service.*

5. Combining External and Internal Analysis (SWOT Analysis)

SWOT Analysis Example

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

It is implemented before all company actions, whether it is exploring new initiatives, revamping internal policies, considering opportunities to grow or alter a plan midway.

It is a tool which is used for both Internal and External Analysis and helps in growth.

Strength (+)	Weakness (-)	Opportunity (+)	Threat (-)
Inherent capabilities of an Organization used to gain strategic advantage.	Inherent limitations/ constraints which creates strategic disadvantage.	Favourable condition in organization's environment to strengthen its position.	Unfavourable condition in organization's environment which causes risk or damage to organization's position.
▪ Financial condition ▪ Superior skills/ cost or tech. advantages ▪ Better product quality ▪ Strong Distribution N/w ▪ Multiple Partners with varied expertise	▪ Obsolete/ outdated products or facilities ▪ High inventory/ debtors ▪ No strategy ▪ Underutilized capacity ▪ No automation of work and documentation	▪ New product/ market launch ▪ New tender/ contracts ▪ Opening of market/ Lower trade barrier ▪ Internet & e-commerce	▪ Large New entrant ▪ substitute products ▪ Increasing competition ▪ Market slowdown ▪ Scandals & New Laws ▪ Online players entering

▪ Long Term contractual service agreements ▪ 70 years of brand value ▪ Services spread across 20 states of India ▪ 400+ employee strength to deliver work ▪ Well diversified business	▪ Low employee morale	▪ Automation driven advancement ▪ Startups can be supported with experienced partners ▪ Investment in technology can multiply returns.	market ▪ AI based solutions and applications. ▪ Price point of online being very competitive ▪ Speed of work becoming faster by the day.

5.1. Purpose/ Objective of SWOT Analysis

It enables management to

- create a firm's specific business model which
- best aligns/ fits/ matches an organization's capabilities
- with demand of market/ environment.

It shows areas where an organization is performing well, as well as areas that need improvement.

SWOT Analysis provides competitive advantage to an organization.

5.2. Key Reasons/ Significance of SWOT Analysis

Logical Framework of Analysis	Comparative Account	Guide Strategists in strategy identification
It provides ~ to management to identify all issues which may impact Org. in long or short term.	It provides ~ of internal & external environment to managers to compare O&T with S&W of an Org.	It ~ in case there is any difficulty in selection of appropriate strategy.

Criticism of SWOT Analysis: It does not generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.

6. Competitive Advantage: Using Michael Porter's Generic Strategies

- Competitive Advantage is a set of unique features of a Company and its products
  - that are perceived by target market and customers
  - as significant and superior to competition.
- Competitive advantage provides edge over rivals.

  An organization is said to have competitive advantage if its profitability is higher than average profitability of Industry.
- "If you don't have a competitive advantage, don't compete"- Jack Welch
- Competitive advantage is said to be achieved if other Firm's efforts to imitate it has failed.

Resources	Capabilities
It includes a. **Tangible resources** that can be seen and quantified. E.g. plant & machinery, factory b. **Intangible resources** like goodwill, capacity for	It exists when resources are purposefully integrated / used to achieve a specific task or set of tasks. **Examples:**

innovation, HR skills, Knowledge, trust between managers and employees, patents, copyrights etc. It is developed over a period of time & difficult to imitate.	a) Effective customer service, b) Effective and efficient control of inventories, c) Product & design quality, d) Digital technology.
If a firm possesses resources and capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that utilizes these resources and capabilities effectively, it should be possible for it to establish a competitive advantage.	

6.1. Sustainability of Competitive Advantage

All competitive advantages have a limited life. The question of duplication is not if it will happen, but when.

Sustainability of competitive advantage depends on 4 major characteristics of resource and capability:

Durability	Transferability	Imitability	Appropriability
Period over which competitive adv. is sustained depends on the rate a Firm's resources & capabilities deteriorate. If rate of product innovation is fast, patents/ tech. are more likely to get obsolete. On the other hand, consumer brand names have a highly durable appeal.	Competitive advantage also depends on ability of rivals to gain access to necessary resources and capabilities. easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage	If resources and capabilities can't be purchased, rivals need to build it from scratch. If competitor is able to build resource and capabilities easily, competitive advantage is not sustainable. For example, In financial services, innovations lack legal protection and are easily copied.	Refers to ability of Firm's owner to appropriate the return on its resource base. If resources and capabilities provide competitive advantage, there is issue of who is receiving return on such resource & capabilities.

7. 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 organizations.

Cost leadership strategies	Differentiation strategies	Focus strategies
This strategy emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive.	This strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.	This strategy is aimed at producing products and services that fulfil the needs of small groups of consumers with very specific taste.

Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

COMPETITIVE SCOPE	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focussed Cost Leadership	Focussed Differentiation
		Low-Cost products/services	Differentiated products/services

7.1. Cost Leadership Strategy

Cost leadership strategy is low-cost competitive strategy that aims at broad mass market.

It involves producing

- *standard products*
- *at very low cost per unit*
- *for price sensitive market.*

It involves efforts to reduce cost in area of Procurement; Production; Storage and Distribution of goods.

Also, economies of scale and reduction in overhead is done due to large volume of sale.

Because of lower cost, cost leader is able to charge lower price than its competitors and still make satisfactory profit

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits.

But cost leadership strategy must be pursued along with differentiation.

Examples:

a) McDonald's fast-food restaurants have successfully followed low-cost leadership strategy.
b) Walmart has also successfully followed low-cost leadership strategy.
c) Decathlon Group's mega sports stores have been following low-cost leadership strategy to gain international recognition and also beat competition.

When is cost leadership strategy effective?	How to achieve cost leadership?
a) Market has many price sensitive customers. b) Buyers do not care much about differentiation or brand. c) There is little scope of differentiation. d) There are large no. of buyers with bargaining power.	a) Prompt forecasting of demand of product/ service b) Optimum utilization of resources c) Achieving economies of scale to reduce cost per unit d) Standardization of product for mass production e) Invest in cost saving techniques for smart working f) Resistance to differentiation till it becomes essential

Advantages of Cost Leadership Strategy

Cost leadership strategy enables a Firm to be profitable even with 5 forces of Porter's Five Forces Model:

Rivalry	Buyer	Supplier	New Entrants	Substitute

Competitors try to avoid price wars, since low-cost Firm will continue to earn profit even if they reduce their price.	Powerful buyers will not be able to exploit cost leader as its cost is already lowest. Hence, buyer will continue to buy from it.	Since cost leader has lowest cost in Industry, it is able to absorb greater price increase by its suppliers before it is compelled to increase the price.	Cost leader creates entry barriers for new entrants due to low cost.	Cost leader is able to lower cost to ensure that buyer continues with their product. They can also invest to develop substitutes.

DISADVANTAGES OF COST LEADERSHIP STRATEGY

a) Cost advantage may not be for long period as competitors may follow cost reduction techniques as well.
b) This strategy can be successful only if Firm can achieve higher sales volume.
c) In this strategy, expenses on advertisement, marketing, research & development etc. is minimal which may be counter-productive in long run.
d) Technological changes are great threat to cost leader.

7.2. DIFFERENTIATION STRATEGY

This strategy is aimed at broad mass market and involves creating and producing

- unique products and service
- directed at customers who are relatively price insensitive.

Because of differentiation, businesses can charge premium for its products and also gain customer loyalty as customer gets strongly attached to differentiating features.

Differentiation/ uniqueness can be in

- Product design; Brand; Features; Quality; Customer service etc.

For example, Domino's Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates it from its rivals.

Note: All Firms essentially follow differentiation strategy because only one Firm can be cost leader.

Basis/ Forms/ Types of Differentiation

Product Differentiation	Price Differentiation	Organizational Differentiation
It means innovative products which give Org. an edge over competitors New product involves higher cost due to R&D, marketing but return may be higher if it is valued by customers.	It means company can either offer lowest price or can charge highest price in the Industry.	It involves maximizing power of a brand or using specific advantage of Organization to differentiate its products. E.g.: Brand image, customer loyalty, locational advantage, R&D capability.
For example, Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.	**For example,** Apple iPhone dominates the smart phone segment by charging higher prices for its products.	**For example,** Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls"

Achieving Differentiation Strategy

a) Offer utility to customers and match the product with their taste and preference.
b) Improve/Elevate performance of product
c) Offer high-quality product/service for buyer satisfaction.
d) Rapid product innovation by investing in R&D.
e) Take steps for enhancing the brand image and brand value.
f) Fixing product prices based on the unique features of product & buying capacity of customer.

Differentiate → Charge premium → customer loyalty

Advantages of Differentiation Strategy

Differentiation strategy enables a Firm to be profitable even with 5 forces of Porter's Five Forces Model:

Rivalry	Buyer	Supplier	Entrants	Substitute
Brand loyalty gives an Organization competitive advantage over rivals as customers will be less sensitive to changes in price.	They do not negotiate for price as they get special features & they have fewer options in the market.	Since differentiation allows Org. to charge higher price, they can absorb increase in price of raw material.	Since, innovative products are expensive to make & offer, it acts as a barrier for new entrants.	Substitutes can't replace differentiated product due to high brand value & customer loyalty.

Disadvantages of Differentiation Strategy

a) It does not guarantee competitive advantage if standard product sufficiently meets customer needs.
b) If differentiation is not valued by customer, this strategy fails. In such cases, C.L. strategy is preferred.
   E.g. Home delivery of packed snacks in 30 minutes would not even be a differentiator as the consumer wouldn't value such an offer.
c) In long run, uniqueness is difficult to sustain as competitors may copy differentiating uniqueness.
   Firms must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.
   E.g. Amazon Prime offers deliver within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.
d) Charging too high price for differentiated product may cause customers to switch to different product.
   E.g. As we see a shift of iPhone users to other android flagship smart phones.

7.3. Focus Strategy

It means an organization concentrates on
- particular group of customers, geographic market or product line
- in order to serve well defined but narrow market
- better than competitors who serve broader market.

Focus strategy is successful when
a) Industry segment is of sufficient size,
b) Has good growth potential, and
c) Not crucial to success of other major competitors.

For example, Ferrari sports cars.

Strategies such as market penetration and market development offer substantial focusing advantages.

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.

Focus strategy can be pursued along with cost leadership strategy or differentiation strategy.

Focused C.L. strategy	Focused Differentiation strategy
In this, Firm competes with its competitors on price to charge in target narrow market. It does not mean that the Firm charges lowest price in industry. Rather, it charges low price as compared to its competitors in target market.	It requires offering unique products that fulfill demand of a narrow market. Some Firms using F.D. strategy concentrate their efforts on ➢ Particular sale channel likes selling over Internet, or ➢ A particular demographic group. **For example,** Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focus Strategy	Advantage	Disadvantage
a) Selecting specific niches not covered by CL or differentiator. b) Creating superior skills for catering to such niche market. c) Generating higher efficiency for catering to such niche market. d) Developing Innovative ways for catering to such niche market.	a) Premium price can be charged for such specialised product/ service. b) Rivals & new entrants find it difficult to compete due to enhanced expertise in target market.	a) Due to limited demand of product, sales may be limited & cost may not be recovered. b) Niche could disappear or be taken over by competitors by acquiring same competencies. c) Firms lacking distinctive competencies may not pursue this strategy.

7.4. Best Cost Provider Strategy

It is further development of 3 generic strategies.

It aims to provide more value to customer by emphasizing on both, lower cost & better-quality upscale differentiated products.

It can be done in following two ways: [Sub strategies]

a) By offering products at a lower price than what is being offered by rivals for same / similar quality; or

b) Charging similar price as rivals for better quality product as compared to rivals.

For 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.

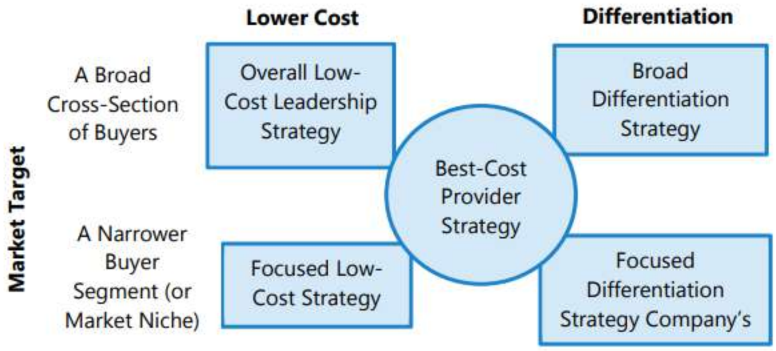


Figure: The Five Generic Competitive Strategies

ACTIVITY FOR MICHAEL PORTER'S GENERIC STRATEGIES

Business Idea	*Michael Porter's Generic Strategy*
Building the best-in-class headphones with noise cancellation and premium quality ear cushions	
Providing maximum value features in a phone which is within the spendable limits of the middle class of India	
Being in a position to dominate the glass manufacturing units across the country and thus using economies of scale to beat competition	
Targeting the below poverty line individuals and providing them nutritious meals	

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CHAPTER 4

STRATEGIC CHOICES

1. INTRODUCTION TO STRATEGIC CHOICES

Strategies are formulated at different levels of an organization.

Top management of the organization makes strategic decisions, which flows down for delegation at middle management level and finally the functional level managers execute the same with their teams.

Different types of strategies on the basis of their classification are as follows:

Basis of Classification	Types of Strategies
Level of the organisation	Corporate Level strategies are meant to provide 'direction' to the company. Business Level strategies are formulated for each product/process division known as strategic business unit. Functional Level strategies are formulated for strategic management of distinct functions like production/ operations, marketing, finance, human resources etc.
Stages of Business Life Cycle	Entry/ Introduction Stage – Market Penetration Strategy Growth Stage - Growth/ Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/ Turnaround Strategy
Competition oriented	Competitive Strategies – Cost Leadership, Differentiation, Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

Above are the various types of strategies available for an organisation to adopt. The organisation adopts either of these depending upon their needs and requirements.

For instance, a start-up or a new enterprise might follow either a

- competitive strategy i.e., entering the market where a number of rivals are already operating, or
- a collaborative strategy, i.e., enter into a joint venture with an established company.

2. BROAD CORPORATE STRATEGIES

- Corporate Level strategies occupy the highest level of strategic decision making.
- It refers to organization wide decisions taken by Corporate/ Top Level Management w.r.t

- defining vision, mission, goals and objectives of organization,
- determining what business, it should be in,
- acquiring and allocating resources among different businesses,
- formulating and implementing strategies that span individual businesses and
- providing leadership for organization.

- It is value oriented and less concrete than business or functional level strategies.
- Corporate Level strategies are also known as Grand strategies or Directional strategies which provides direction to company.
- William F. Gluek and Lawrence R Jaunch discussed 4 broad generic strategies which are as follows:

Stability	Growth/ Expansion	Retrenchment	Combination
Firm stays with its current business, product & market. It maintains existing level of efforts. In this, Firm is satisfied with incremental growth.	Firms seeks significant growth. ➢ Within current business ➢ Entering into new business that are related to existing business ➢ Entering into new business that are unrelated to existing business.	Firm retrenches some of activities in some business or exits a business through sell out or liquidation.	Firm combines above strategic alternatives in some permutation and combination so as to suit their specific requirement.

2.1. Stability Strategy

Meaning	Reasons for opting this strategy	Characteristics
It is pursued when ➢ an Org. continues to serve in same or similar market and ➢ deals in same or similar products Strategic focus is on incremental growth & improvement in functional performance.	i) Product has reached maturity stage of PLC. ii) Org. and staff is less risk taking & feels comfortable with status quo. Firm has modest growth objective. iii) Environment in which an organisation is operating is relatively stable. iv) Expansion may be perceived as threatening. v) Consolidation is preferred through stability after a period of rapid growth.	a) Firms opting for stability strategy follow ➢ Same business; Same product; Same market b) It does not involve redefinition of business of company c) It does not require significant investment d) The risk involved in this strategy is less. e) It is safe strategy that maintains status quo f) It focuses on enhancing functional efficiency and minor improvement in product.

Question: Is stability strategy a 'Do Nothing' strategy? – Incorrect

Note: Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth.

Why don't Startups aim for stability?

A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology.

For it, it needs speed and agility, because of it being in a nascent stage of operations.

Stability on the other hand is more meaningful strategy when the size of operations is expanded to full capacity and business is at a mature stage. Thereby, we rarely see startups aiming for stability.

2.2. Growth / Expansion Strategy

Meaning	Reason for opting this strategy	Characteristics
It is implemented by ➢ redefining the business, ➢ enlarging scope of business & ➢ substantially increasing investments. It is relatively risky strategy that can be equated with dynamism, vigour, promise and success. It offers greater growth potential. It includes a. Intensification b. Diversification c. Merger & Acquisition d. Strategic Alliance	i) It may be necessary if environment demands increase in speed of growth. ii) Advantage from experience curve & economies of scale may occur. iii) It is more satisfying to pursue this strategy. Chief executives take pride in presiding over growth oriented company. iv) Expansion leads to greater control over market as compared to competitors.	a) It involves redefinition of business b) It leads to growth of business c) It facilitates renewal of Firm through fresh investment & new product, market and technology. d) It is opposite of stability strategy. While rewards are limited in stability strategy, it is higher in growth strategy. e) It is highly versatile in nature. It offers various permutation & combination for growth. f) There are two major growth strategy routes: Intensification and Diversification. Difference lies in the way in which firm pursues the growth.

Types of Growth / Expansion Strategy

2.2.1. Expansion through Intensification

Organisation tries to grow internally by intensifying its operations. It tries to cash on its internal capabilities and internal resources.

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

Market Penetration	Market Development	Product Development
Highly common expansion strategy is market penetration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.	It consists of marketing present products to customers in related market areas by ➢ adding different channels of distribution; or ➢ changing the content of advertising or promotional media.	Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels.

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

Market Penetration	Product Development
▪ Increase market share ▪ Increase product usage ▪ Increase the frequency used ▪ Increase the quantity used ▪ Find new application for current users	▪ Add product features, product refinement ▪ Develop a new-generation product ▪ Develop new product for the same market
Market Development ▪ Expand geographically ▪ Target new segments	**Diversification involving new products and new markets** ▪ Related / Unrelated

2.2.2. Expansion through Diversification

Diversification an internal growth strategy. It is defined as entry into

- ➢ new product or product line, new service or new market
- ➢ involving different skills, technology and knowledge.

Reason for diversification

a) It is means of utilization of existing spare capacity in more effective and efficient manner.

b) Synergetic advantage i.e. possibility to improve sales & profits of existing product by adding new product.

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

i) **Concentric diversification:** diversification into related business to benefit from synergistic gains

ii) **Conglomerate diversification:** diversification into unrelated business to explore more opportunities beyond existing areas of expertise

iii) Expansion through **Innovation**.

i) Concentric Diversification:

It is a related diversification.

In this, new business is linked to existing business through process, technology or marketing/ customer.

New product is spin off from existing facilities and process.

New product does not fall in firm's existing vertical chain but is connected at one or more point in Firm's existing process, technology or market chain.

For example, a company producing clothes ventures into the manufacturing of shoes.

Two types of concentric Diversification

Vertically Integrated Diversification		Horizontally Integrated Diversification
In this, Firm engage in businesses that are vertically related to existing business. Firm remains vertically within same process sequence/ value chain. It just moves forward or backward in the value chain and enter into new specific product/ process that are linked with the same chain.		It involves integrating through acquisition of similar business operating at same stage of product - marketing chain. It may be ➢ competitor's product; ➢ By product; or ➢ complimentary product.
Forward integration	Backward integration	
It involves moving forward in the value chain and entering into new business that uses existing business. It also takes place when organization enter into business of distribution network. **For example,** A coffee bean manufacture may choose to merge with a coffee cafe.	It involves moving backward in value chain and entering in business of supplier of raw material. It facilitates increase in profit, decrease in cost and have greater control over manufacturing process. **For example,** A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.	

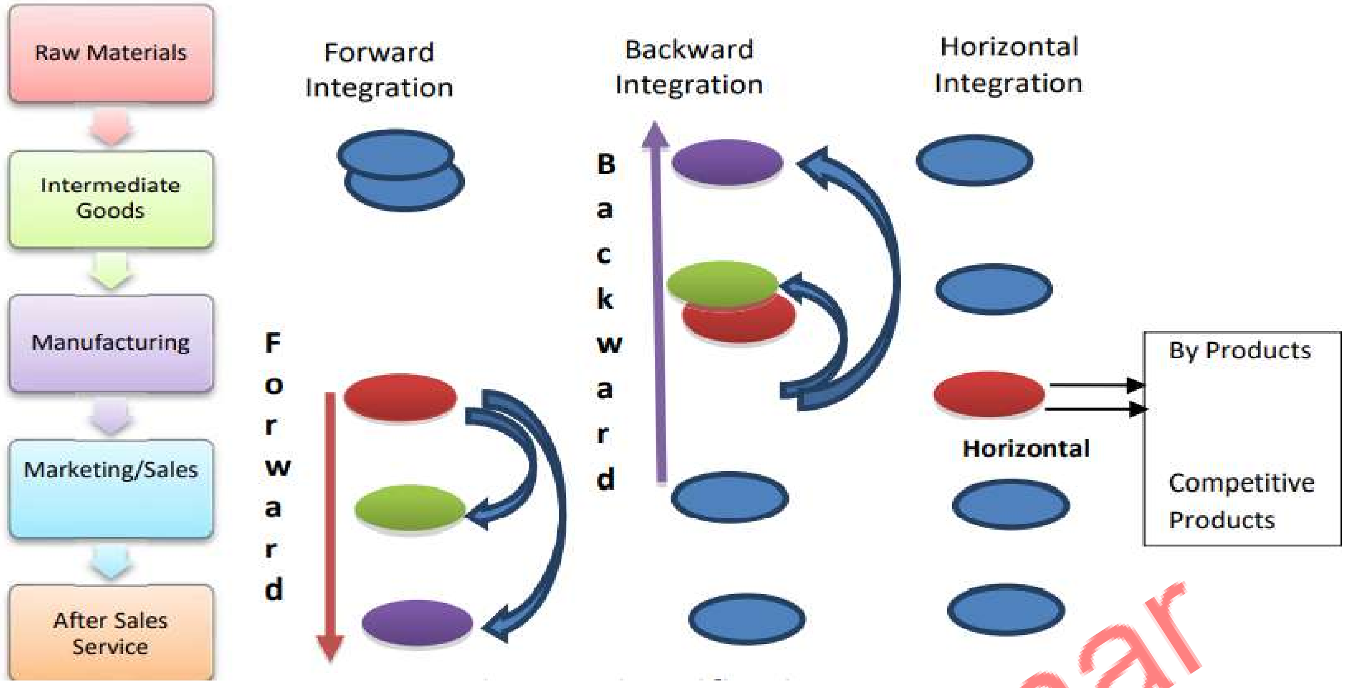
ii) Conglomerate Diversification

It is unrelated diversification.

In this, new product is completely different from Firm's existing products, technology or market.

There is no linkage between new and existing business.

For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.



2.2.3. Related vs. Unrelated Diversification

Related diversification	*Unrelated diversification*
Exchange or share assets or competencies by exploiting • *Brand name* • *Marketing skills* • *Sales and distribution capacity* • *Manufacturing skills* • *R&D and new product capability* • *Economies of scale*	• *Investment in new product portfolios.* • *Employment of new technologies.* • *Focus on multiple products.* • *Reduce risk by operating in multiple product markets.* • *Defend against takeover bids.* • *Provide executive interest.*

Is it really worth expanding so much to diversify a business into unrelated products?

Despite of its complexity, conglomerate diversification (diversification into unrelated business) financially makes a lot of sense. It creates access a new pool of customers, thereby expanding its customer base. It allows access to markets and cross-selling new products, leading to increased revenues.

Further, it eases the management of losses in a business; profits in one business can be used to keep the loss-making business afloat within the same organisation.

iii) Innovation

Innovation helps in upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction.

Innovation offers the following;

a) Helps to solve complex problems:	*A business strives to find opportunities in existing problems of the society by solving such problems through innovative solution. This guided innovation help solve complex problems by developing customer centric sustainable solutions.* ***For example,*** *the problem of environmental damage is being tackled 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 economical & environmental sustainability.*

b) Increases Productivity	Productivity is defined as a measureof final output from a task or a process. Innovation leads to simplification and in most cases automation of existing tasks. **For example,** Every finance professional uses MS Excel software to simplify and automate their manual tasks which leads to improved productivity.
c) Gives Competitive Advantage	Faster a business innovates, 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.
Is innovation an unnecessary expense?	

2.2.3. Expansion through Merger and Acquisition

Merger and Acquisition is an External Growth Strategy.

It refers to the process of combining two or more organizations together.

It is instant means of achieving the expansion.

Reason for M&A

a) It helps Organization to bypass/ avoid/ circumvent time & risk involved in initial stage of expansion.

b) To achieve synergy between parent and acquired entity in terms of physical facilities, distribution channels, general administration, research and development etc.

While Merger and Acquisition are used interchangeably, there is a thin line of difference:

Merger	Acquisition
Two or more companies come together for mutual benefit i.e., to increase their strength & resources to expand.	One financially strong organization takes over other organization and control all its business. One financially strong Org. overpowers the weaker one. Combined operation runs in name of powerful entity.
Deal is finalized on friendly terms.	Deal is often finalized on unfriendly terms. Acquisitions often happen during recession in economy or during declining profit margins.

2.2.4. Types of Mergers

Horizontal merger	Vertical merger	Co-generic merger	Conglomerate
Refers to combination of two businesses in same Industry. It is a merger with direct competitor. **Objectives/ Reasons** a) Economies of scale b) Avoiding duplication of facility & efforts c) Reduced working capital requirement	Refers to combination of two businesses that operate in same industry at different stages of production or distribution system. **Reason** - Synergy benefit & control over value chain. If organization takes over supplier of raw material, it is backward merger. If organization takes over buyer organization of the product or distribution channel, it is	Refers to combination of two businesses who are linked in some way in production process, market or technology. It facilitates a business to diversify around common resources.	Refers to combination of two business which are not connected with each other. There is no linkage w.r.t process, market or technology. In practice, however, there is some degree of

and investment in fixed assets d) Getting rid of competition.	forward merger. Vertical mergers help to create an advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.		overlap in one or more of these factors.

Examples:

a) Formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond. This is an example of __________________.

b) An organization in the white goods category such as refrigerators diversified by merging with another organization having business in kitchen appliances. This is an example of _________.

2.2.4. Expansion through Strategic Alliance

A strategic alliance is a relationship between

- two or more businesses that
- enable each to achieve certain strategic objectives
- which neither would be able to achieve on their own.

S.A. partners maintain their status as independent & separate entities. They share benefits & control over partnership.

S.A. is often formed in global market where businesses are based in different parts of world.

Advantages

Organizational	Economic	Strategic	Political
It helps Organization to learn necessary skills & capabilities from S.A. partners. S.A. partners may help to enhance production capacity or provide distribution channel. In case of new venture, having well known strategic alliance partners increases credibility.	It helps in reduction of cost & risk by distribution of cost & risk to S.A. partners. It also facilitates economies of scale resulting in lower cost of production per unit & co-specialization.	Rivals may join to co-operate rather than compete. It is used to a) Get access to tech b) Develop new product c) Generate competitive advantage d) Pursue joint research	It may be formed with local foreign business to gain entry in foreign country because of political or legal barrier to entry.

Disadvantages

a) Sharing	S.A. requires sharing of resources, skills and profits. However, sharing knowledge and skill may be problematic if they involve trade secrets.
b) Potential competitor	It may create a potential competitor if S.A. partner decides to part ways in future.

3. Strategic Exits

- Strategic Exits are followed when an organization substantially reduces its scope of activity.
- It is needed when organisation performance deteriorates to a point that it needs radical change in strategic direction. Also known as retrenchment strategies.

Common Characteristics	a) Retrenchment/ Turnaround should be viewed as an integrated part of corporate strategy without any stigma attached. b) Like expansion strategy, it also involves redefinition of business.
Steps	i) Find out the problem area. ii) Diagnose cause of problem. iii) Take steps to solve the problem. The above steps result in 3 different types of Retrenchment strategies: a) Turnaround strategy focuses on ways and means to reverse the process of decline b) Divestment strategy focuses on cutting off the loss-making units, divisions, or SBUs c) Liquidation strategy is adopted when nothing works & organization chooses to abandon the activities totally

3.1. TURNAROUND STRATEGY

It is known as internal retrenchment where emphasis is laid on improving internal efficiency of Organization.

It means taking steps to reverse decline and convert loss making company into profit making company.

Conditions/ Indicators which point out that turnaround strategy is needed for survival of Organization are:

i) Uncompetitive product or service
ii) Declining market share
iii) Mismanagement
iv) Over staffing, high employee turnover, low morale
v) Deterioration in physical facility
vi) Persistent negative cashflow from business

3.1.1. ACTION PLAN FOR TURNAROUND – FIVE STAGES

For turnaround strategies to be successful, focus should be on short term & Long term financial needs as well as Strategic issues. 5 stages of workable action plan are as follows:

Assessment of current problems	Analyse the situation & develop Strategic Plan	Implementing an Emergency Action Plan	Restructuring the Business	Return to Normal
First step involves ➢ assessing the current problems ➢ It's root cause ➢ Extent of damage it has caused.	It involves ➢ Identifying major problems & opportunities ➢ Determining chances of survival ➢ Developing a strategic plan with specific goals and action plan.	To stop bleeding & enable the Org. to survive, appropriate action plan must be developed to ➢ restructure debts, ➢ improve working capital, ➢ reducing cost, ➢ reducing loss making product line and focusing on potential growth product.	This includes ➢ Change in product mix: Core products neglected over years may be give more importance Some facilities may be closed and Org. may withdraw from some markets ➢ Change in people mix i.e. staff with required skills are hired; reward and compensation should be such that	In final stage, Organization should show signs of profitability and ROI. Emphasis is placed on no. of strategic efforts like ➢ adding new products, ➢ improving customer service ➢ increasing Market share,

		Objective is to become Org with positive cashflow as soon as possible.	it encourages & motivates employees.	➢ increasing customer base.

Important elements of Turnaround strategy

a) Change in Top Management
b) Initial credibility-building actions
c) Quick cost reduction
d) Revenue generation
e) Asset liquidation for generating cash
f) Better internal co-ordination
g) Neutralizing external pressure (from bank etc.)

3.2. Divestment Strategy

It involves sale or liquidation of a Portion of business; Major division or SBU.

It is a part of rehabilitation or restructuring strategy.

Reasons for Divestment Strategy	i) A business is acquired which proves to be mismatch and can't be integrated with company. ii) Severe competition and inability to face it. iii) Technology upgradation is required but company is in no position to invest. iv) Persistent negative cashflow. v) Better alternative business may be available for investment. vi) It is adopted when turnaround strategy is attempted but failed.

Is Turnaround strategy only relevant to loss making businesses?

Interestingly, turnaround strategy is relevant when a company is experiencing a period of poor performance. Poor performance does not always mean losses, it may also mean lower than expected growth, no future clarity, or even lesser than target profits.

3.3. Liquidation Strategy

It is most extreme and unattractive retrenchment strategy.

It involves closing down a Firm and selling its assets.

It is considered as last resort due to

a) Loss of employment
b) Loss of future opportunities
c) Stigma of failure.

Company management, Government, Banks, Trade unions etc. are extremely reluctant for this decision.

It may be considered a strategic alternative when 'Dead business is worth more than alive'

For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

Reasons	i) Turnaround & Divestment strategy has been attempted but failed. ii) Management no longer wishes to be in the business due to persistent losses. iii) Other common Reasons.

4. Combination Strategy

Meaning	Reasons
Above strategies are not mutually exclusive. A company may adopt a mix of above strategies to suit their specific requirements. A Firm may seek ➢ Stability in some business ➢ Expansion in some and ➢ Retrenchment in some.	a) Organization is large and faces complex environment. b) Organization is composed of different businesses, each of which lies in different Industry requiring different strategic response.

Example, Startup often combine all the strategies to fight competition and gain advantage from other growing companies to build a niche empire.

5. Strategic Options

- Strategic options need to be carved out from existing products and innovations that are happening in the industry. There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.
- **Portfolio** - Collection of businesses/ brands/ products offered by an Organisation.
- **Portfolio Analysis** a tool by which management identifies & analyzes various businesses that makes an Organisation.
- It is done to determine best business portfolio i.e., one which fits Company's strength & weakness to opportunities in market.
- It is used in multi-product and multi-business Firm. They may also be used in less- diversified firms, if these consist of a main business and other minor complementary interests.
- **Advantage:** It reveals business having more potential so that resources can be channelized to that business.

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

Companies which are large enough to be categorized into SBUs face challenge of allocating resources among them.

There are 4 portfolio analysis models for determining this:

a) BCG G-S Matrix	b) Ansoff PMG Matrix
c) ADL Matrix	d) GE Matrix

5.1. BCG Growth Share Matrix [Boston Consultancy Group]

BCG Matrix is simplest way to classify businesses on a 2-dimensional growth-share matrix where

➢ Vertical axis represents market growth rate; and

- Horizontal axis represents relative market share of the Firm.

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

Relative Market Share

Market Growth Rate		High	Low
	High	**Star** ▪ SBU that is growing rapidly ▪ Need heavy investment to maintain their position & finance rapid growth ▪ It represents opportunity for expansion.	**Question Mark** ▪ Known as problem child or wild cats ▪ Require a lot of cash and investment to hold their share ▪ If left unattended, they become cash trap.
	Low	**Cash cow** ▪ It generates cash and have low cost ▪ Needs less investment to maintain market share ▪ In long run, when growth slows, star becomes cash cow.	**Dogs** ▪ Have no future ▪ May need cash to survive ▪ Dogs should be minimized by means of divestment or liquidation.

Standard First line of Explanation: <u>Star</u> is a <u>**high**</u> growth, <u>**high**</u> market share product/SBU.

<u>BGG Matrix: Post Identification Strategies</u>

After a firm has been classified into SBUs, it must determine which role each will play in future.

Build	Hold	Harvest	Divest
Here objective is to increase market share even by sacrificing short term profits.	Objective is to preserve market share.	Objective is to increase short term cash flow by ignoring long term effects.	Objective is to sell/ liquidate the business because resources can be better used elsewhere.

Is BCG Matrix really helpful? / Problems & Limitations of BCG Matrix

a) BCG matrix can be difficult, time-consuming, and costly to implement.
b) Management may find it difficult to define SBUs and measure market share and growth.
c) It also focuses on classifying current businesses but provide little advice for future planning.
d) They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

Identify if the following is a Star or a Cash Cow?

SO Pharma Ltd. developed a new age medicine which cures cough in 3 hours with an investment of INR 80 crores in R&D. They named it "COUFIX". Coufix needs a lot of marketing spend to create awareness amongst the public and also needs funds to get licenses from the regulators. Interestingly, Coufix has gained 60% market share within 6 months of launch and been profitable since day 1. Is Coufix,a cash cow or a star for SO Pharma Ltd.?

Answer: It is a Star.

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.

5.2. Ansoff's Product Market Growth Matrix (PMG)

PMG matrix is future oriented P.A. tool proposed by Igor Ansoff.

Using this 2-dimensional matrix, business can get a fair idea about

- how its's growth depends on
- its existing and new products in both existing and new markets.

It suggests four distinct growth-oriented strategies as given below:

	Existing Product	New Product
Existing Market	**Market penetration** E.g. Colgate, Maggie	**Product Development** E.g. E-vehicles by BMW
New Market	**Market Development** E.g. Shampoo in sachet in rural area	**Diversification** E.g. Ola in manufacturing Electric scooter

4 components / strategies

Market penetration	Market Development	Product development	Diversification
It is a growth strategy where business focus on selling <u>existing products</u> to <u>existing market</u>. It can also be done by increasing usage by existing customers. It involves aggressive marketing, greater spending on advertising & a pricing strategy to make market unattractive for competitors.	It is a growth strategy where business focus on selling <u>existing products</u> to <u>new markets</u>. It is achieved through ➢ new geographical markets ➢ new distribution channels ➢ different pricing	It is a growth strategy where business focus on selling <u>new product</u> to <u>existing market</u>. It is achieved through development of new goods/ service which appeals to existing customers.	It is a growth strategy where business focus on selling <u>new product</u> to <u>new market</u>. It is risky strategy as company does not have much experience. It is achieved by ➢ Starting up or ➢ Acquiring other's business.
E.g. Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.	**E.g.** Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.	**E.g.** Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.	**E.g.** 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. Example, when its present market is fully saturated, a company may have no choice other than to pursue new market.

5.3. ADL Matrix

It is P.A. tool proposed by Arthur D Little and is based on product life cycle.

It is a 2-dimensional four by five matrix based on:

- **Stage of industry maturity** (represents position in industry's life cycle) namely Embryonic, Growth, Maturity, Ageing/ Decline
- **Competitive position of Firm** (measure of business strengths) namely Dominant, Strong, Favourable, Tenable, Weak

Dominant	Strong	Favourable	Tenable	Weak
It is a rare position & may arise due to ➢ monopoly or ➢ strong & protected technological leadership.	Firms in this category are strong enough to pursue their own strategy without considering its market position being unduly threatened by its competitions.	This position comes when industry is fragmented and no one leader stands out clearly.	Firms in this category perform reasonably good but are vulnerable to increased competition from stronger companies.	Firms in this category perform unsatisfactorily and are too weak to survive. However, opportunity for improvement exists.

Note: ADL Matrix is explained in class using intelligent method as there are 20 scenarios.

5.4. General Electric Matrix [Stop-Light Strategy Model]

This model was developed by General Electric company with assistance of consulting Firm Mckinsey & Co.

Also known as Business planning matrix; GE Nine cell Matrix; GE Model and Stop light strategy model.

Strategic planning tool in this model is inspired by traffic control lights where

- ➢ Green is used for Go; Yellow is used for caution and Red is used for stop.

This P.A. tool is based on two dimensions where:

- ➢ Vertical Axis indicates Market attractiveness [measured in terms of market growth rate, size, competition intensity, profitability, overall risk etc.]
- ➢ Horizontal Axis indicates Business strength [measured in terms of relative market share, brand image, innovation capability, customer relationship, management capability etc.]

Business strength

Market Attractiveness		Strong	Average	Weak
	High	Green	Green	Yellow
	Medium	Green	Yellow	Red
	Low	Yellow	Red	Red

Analysis	
Green	If a product falls in this section, it is at advantageous position. Strategy should be to invest, expand and grow.
Yellow	If a product falls in this section, it needs to be cautious. Appropriate strategy should be to hold position.
Red	If a product falls in this section, it will eventually lead to loss. Appropriate strategy should be harvest, retrenchment, divestment, liquidation.

Question – GE matrix is different from BCG Matrix. Comment.

GE matrix is different from BCG Matrix in the following manner:

a) In BCG matrix, two dimensions considered are market growth rate and relative market share.
In GE matrix, two dimensions considered are industry attractiveness and business unit strength.

b) In BCG matrix, two levels i.e. high and low are considered whereas in GE matrix, three levels i.e., High, Medium and Low are considered.

c) Hence, the scope of GE matrix is wider than BCG matrix.

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All the best!!

Yours,

CA Kishan Kumar

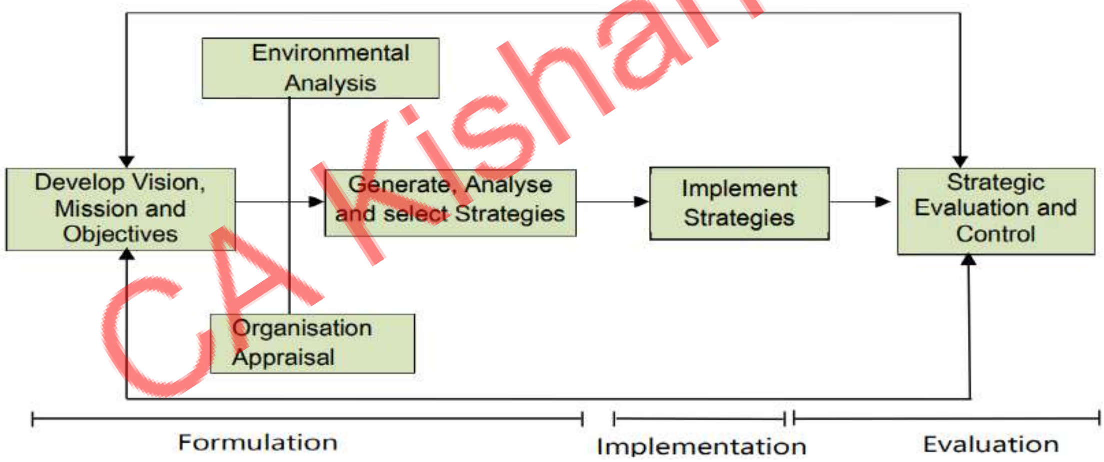
CHAPTER 5

STRATEGY IMPLEMENTATION AND EVALUATION

1. INTRODUCTION

- *Strategic Management comprises of Strategy Formulation as well as Strategy Implementation & Evaluation.*
- *In this chapter, we will be learning about Strategic Management process, inter-relation between SM Formulation & Implementation and other aspects of Strategy Implementation and Evaluation.*

2. STRATEGIC MANAGEMENT PROCESS



- *The process of developing an organisation's strategy is quite methodical.*
- *Identifying Vision, Mission, Goals and objectives is the starting point of strategic Management process.*
- *Every organization, large or small, has Vision, Mission, Goals and objective; even if these elements are not clearly written or communicated.*
- *Strategic management process is a dynamic and continuous process as any change in any component of model can result in change in other components.*

  E.g.: Change in economy may present opportunity for Organisation leading to change in long term objective & strategy. The strategic management process never really ends.

  Therefore, strategy formulation, implementation, & evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The SM process never really ends.
- *Strategic management process can be best understood using a strategic management model (Fred R David).*

- Although, this model is widely accepted and comprehensive, it does not guarantee sure shot success. However, it represents practical approach for formulation, implementation and evaluation of strategy.
- It is not necessary that strategist follow these steps strictly / lockstep fashion.
- Relationships among major components of the strategic management process are shown in above model.

2.1. Stages in Strategic Management Process

- Strategic management involves the following stages:

Stage 1: Developing Strategic Vision, Mission, Goals & Objectives	Stage 2: Environmental & Organizational Analysis	Stage 3: Formulation of Strategy	Stage 4: Implementation of Strategy	Stage 5: Strategic Evaluation and Control
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 & M. They provide a means of performance measurement at each level of management.	It is a diagnostic phase of SM. It involves: a) **Environmental scanning** - It consists of economic, social, technical & market analysis. It is dynamic and uncertain & helps in determining opportunities and threats. b) **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.	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	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	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

		business fully or partially? e) Combination of any of the above strategies Above strategies are covered under Strategic Options & Strategic Exits.	capability b) Strategy & reward structure c) Strategy & Org work culture d) Strategy & internal system	yielding desired result or there is changes in environment.

2.2. Strategy Formulation

- Planning is future oriented and it bridges gap between where we are and where we want to go.
- It means deciding what is needed to be done in future [today, next day, next week, next month, next year, next couple of years] and generating blueprint of action.
- It involves determination of course of action to attain a pre-determined objective.

Strategic Planning	Operational Planning
▪ Strategic Planning results in Corporate Strategy. ▪ It is developed by Senior Management of Org as per SWOT ▪ It is a process of determining ➢ objectives of Organization; ➢ resource required to attain the objective; and ➢ formulation of policies for acquisition, usage and disposal of resources.	▪ It is done by middle level and lower-level management. ▪ Concerned with how to use the resources efficiently for achieving objectives.
Characteristics	
a) Shapes the organisation and its resources. b) Assesses the impact of environmental variables. c) Develops overall objectives and strategies. d) It is concerned with long-term success of Organisation. e) It is a senior management responsibility.	a) Deals with current deployment of resources. b) Develops tactics rather than strategy. c) Projects current operations into the future. d) Makes modifications to the business functions but not fundamental changes. e) Is a responsibility of functional managers.
The game plan that really directs the company towards success is called "corporate strategy".	

Strategic Uncertainty

Dealing with Strategic uncertainty	Impact of uncertainty
Strategic planning is future oriented & future is uncertain. Strategic uncertainty refers to future events or trends that is unpredictable & can impact Org. strategy & goals. To manage large number of uncertainties, these need to be grouped in logical clusters & then importance of each cluster is assessed for Information gathering and	Each element of strategic uncertainty i.e., event or trend can have impact on present, proposed or potential business. E.g. Manufactures of aerated drinks now moving to manufacture juices. Impact of uncertainty depends on importance of the SBU.

Dealing with Strategic uncertainty	Impact of uncertainty
analysis.	Some SBUs are more important than others.

Following points need to be considered for managing uncertainty:	
a) Flexibility	Strategies should be flexible to quickly adapt to changes in the environment.
b) Diversification	Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
c) Monitoring & Scenario Planning	Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
d) 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.
e) Collaboration and Partnerships	Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets & technologies.

2.3. Strategy Implementation

- Strategic management process involves Strategy Formulation as well as strategy implementation.
- Strategic management process does not end with Firm selecting/ developing a strategy to pursue.
- It must be translated into strategic action. Even the most technically perfect plan will not be useful if not implemented effectively.
- Change in an Organization comes through implementation and evaluation and not through plan.

- Strategy implementation refers to managerial exercise of putting a freshly chosen strategy into action.
- It translates strategic decisions into action, make it work.
- It involves making necessary changes in
  - organizational structure
  - corporate culture and policies
  - allocation of resources and
  - training of personnel.
- Strategy implementation requires actions such as –
  i) Building new facilities
  ii) Adding new departments
  iii) Hiring and training new employees
  iv) Building better information system
  v) Allocating of Resources
  vi) Closing Facilities
  vii) Establishing cost control measures
  viii) Changing pricing structure.

2.3.1. Distinguish between Strategy Formulation and Strategy Implementation

Strategy Formulation	Strategy Implementation
An Entrepreneurial Activity based on strategic decision-making.	An Administrative Task based on strategic and operational decisions.
It is primarily an intellectual & rational process.	It is primarily an operational process.
It requires conceptual and analytical skills.	It requires motivation & leadership skills.
It requires co-ordination among few employees at top level.	It requires co-ordination among many individuals at middle and lower level.
It focuses on effectiveness.	It focuses on efficiency.
It precedes Strategy Implementation.	It follows Strategy Formulation.
Generally, strategy formulation concepts do not differ greatly for smaller, large, profit or non-profit organizations.	It varies substantially for different types of Organizations.

2.3.2. Relationship between Strategy Formulation and Strategy Implementation

Organization success is a function of good strategy & proper implementation.

As seen above, both processes are different and require very different skills.

The matrix below represents various combinations of strategy formulation and implementation:

Strategy Implementation

Strategy Formulation	Weak	Excellent
Sound	**A** ▪ Square A represents a situation where strategy formulation is <u>sound</u> and strategy implementation is <u>weak.</u> ▪ It may be due to lack of resources, experience, leadership etc. ▪ Company should try to move from square A to B.	**B** ▪ Square B represents a situation where strategy formulation is <u>sound</u> and strategy implementation is <u>excellent.</u> ▪ Ideal situation which every Firm wants to achieve.
Flawed	**C** ▪ Square C represents a situation where strategy formulation is <u>flawed</u> and strategy implementation is <u>weak.</u> ▪ In this case, company needs to first redesign their strategy & then readjust their implementation skills.	**D** ▪ Square D represents a situation where strategy formulation is <u>flawed</u> and strategy implementation is <u>excellent.</u> ▪ In this case, company needs to first redesign their strategy & then readjust their implementation skills.

S. No.	Effectiveness	Efficiency
1.	Concerned about "doing the right thing."	Concerned about "doing the thing right."
2.	Focuses on attainment of objectives & org. goals & achieving competitive position.	Focuses on relationship between output and input, usually for short period.
3.	Externally focused and represents relationship between organization & environment.	It is internally focused.

S. No.	Effectiveness	Efficiency
4.	Responsibility of top management.	Responsibility of operational management.
Which is more crucial? → Effectiveness. An emphasis on efficiency rather than effectiveness is clearly wrong.		

Strategy Formulation

Operational Management		Effective	Ineffective
	Efficient	**1 - Thrive/ Grow** ▪ Cell 1 represents a situation where strategy formulation is <u>effective</u> and operational management is <u>efficient</u>. ▪ Such company is well placed and thrives as it is achieving what it wants to achieve with efficient input-output ratio.	**2 - Die slowly** ▪ Cell 2 represents a situation where strategy formulation is <u>ineffective</u> and operational management is <u>efficient</u>. ▪ Such company is doomed to fail unless there is change in strategic direction.
	Inefficient	**3 - Survive** ▪ Cell 3 represents a situation where strategy formulation is <u>effective</u> and operational management is <u>inefficient</u>. ▪ Such company will survive as strategic direction to ensure effectiveness is there even if too much input is used to generate output.	**4 - Die quickly** ▪ Cell 4 represents a situation where strategy formulation is <u>ineffective</u> and operational management is <u>inefficient</u>. ▪ Such company is doomed to fail unless there is change in strategic direction.

2.3.3. Linkages between Strategy Formulation & Strategy Implementation

Strategy being formulated at present is influenced by past strategic actions and it affects future.

Strategy formulation & Implementation are interlinked/ intertwined. Two types of linkages between them:

Forward Linkage	Backward Linkage
Formulation of strategy determines future of organization. With formulation of new strategy, we may need to mak changes in organization to ensure its implementation. Changes may be made in organizational structure, corporate cultures, policies etc. Thus, strategy formulation has forward linkage with its implementation.	Strategy formulation process is also affected by factors related to implementation. While deciding strategic choices, past strategic actions also affect our decision of selecting the strategic choice. Organizations tend to adopt those strategies which can be implemented with existing resources with some additional effort.

2.3.4. Issues in Strategy Implementation

Strategies do not lead to action by itself. It is a statement of intent.

To realize the intent, implementation tasks are undertaken.

Strategies lead to various kinds of programmes. Programme refers to a broad term which includes goals, policies, rules and steps to implement strategies.

Programmes are supported by funds.

Programmes lead to formation of projects which is highly specific. Time & costs are pre-determined.

It requires allocation of resources, designing of organizational structures, formulation of policies & needs to be completed within prescribed time.

Issues in strategy implementation to be considered are

a) Project implementation
b) Procedure implementation
c) Resource allocation
d) Structural implementation
e) Functional implementation
f) Behavioural implementation

The above activities need not be performed one after other. They can be done simultaneously as well.

Strategy implementation requires shift in responsibility from Strategist to divisional and functional managers/ employees.

This shift in responsibility may create implementation problem if new strategy comes as surprise to them.

Hence, divisional & functional managers should be involved as much as possible in strategy formulation process.

Similarly, strategists should also be involved in strategy implementation process.

Strategist's genuine personal commitment to implementation is necessary and powerful motivation for managers and employees and their lack of interest can be detrimental to organizational success.

Management issues w.r.t strategic implementation

a) Establishing Annual objectives
b) Devising policies
c) Change in organizational structure
d) Allocating resources
e) Hiring employees and training them
f) Building strategy supportive culture
g) Minimizing resistance to change.

3. Strategic Change Through Digital Transformation

In order to stay competitive in the dynamic environment, Organizations need to shift digitally.

Digital transformation is often a difficult and complicated process. To guarantee that projects for digital transformation are effective, change management is crucial.

3.1. Strategic Change

Changes in business environment requires business to make modification in their existing strategy and develop new strategy.

Strategic change is a complex process that involves a corporate strategy which focuses on new product/ services, new market and new way of doing things.

Steps to initiate strategic change:

i) Recognize the need for change	ii) Create a shared vision to manage Change	iii) Institutionalize the change
First step is to diagnose which aspects of current corporate	Objective of both organization & individual should coincide and there	It is action stage that requires implementation of change strategy.

culture & capabilities are strategy supportive & which are not. This involves SWOT analysis.	should not be any conflict. This needs creation of shared vision b/w organization & management which needs to be communicated.	Change process should be monitored & in case of any deviation, corrective action should be taken. It takes time for the changed culture to prevail.

3.1.1. 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 are explained below:

Unfreezing the situation	Changing to new situation	Refreezing
Lewin proposed that change should not come as surprise to organization members as it lowers their morale. Process of unfreezing makes individual aware of necessity for change & help prepare for such change. It involves breaking down old attitude & behavior, 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.	Once unfreezing process is complete & members are prepared to change, their behavior pattern needs to be redefined. H.C. Kellman proposed 3 methods for redefining new behavior pattern: a) **Compliance** – It is achieved by strictly enforcing reward & punishment for good or bad behavior. Fear of punishment, actual punishment or reward helps in changing behavior pattern. b) **Identification** – In this, organization members are influenced psychologically to identify themselves with some role model whose behavior they like to adopt & become like them. c) **Internalization** – It involves internal changing in individual's thought process in order to adjust to new circumstances.	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.

3.2. How does Digital Transformation Work?

Digital transformation refers to the

➢ use of digital technologies to develop improved or entirely new company procedures, goods or services.

It helps organization to use technology to create new value for customers, employees, & other stakeholders.

It is part of organisational change & Organizations can plan, prepare for, and carry out digital transformations, with the help of change management.

Change management is a process of planning, implementing & monitoring of changes in an organization.

It helps in managing & making changes in a safe and regulated manner and can be used by any type of organisation.

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

a) Defining the goals & objectives of the transformation
b) Assessing the current state of the organization and identifying gaps
c) Creating a roadmap for change that outlines the required steps
d) Implementing and managing the change at every level of the organization

Role of change management in digital transformation

Define Digital Transformation & change management.

A good change management strategy is necessary for a successful digital transformation.

A properly implemented change management strategy can help an organization to:

a) Specify the parameters and goals of the digital transformation
b) Determine which procedures and tools need to be modified.
c) Make a plan for implementing the improvements.
d) Involve staff members and parties involved in the transformation process.
e) Track progress and make required course corrections

3.3. Change Management Strategies for Digital Transformation

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

a) **Begin at the top**	Change should begin at the top of the organisation by a focused & united leadership. This is the only way to motivate the rest of the organisation to accept change.
b) **Ensure that the change is both necessary and desired**	Organisation needs to ensure that change is both necessary and desired. Decision-makers should be aware of how to properly handle digital transformation and the effects it will have on their firm. Introducing too much too fast can frequently become a major issue.
c) **Reduce disruption**	Digital Transformation causes disruption in an organisation. It's crucial to lessen how changes affect staff. 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.
d) **Encourage communication**	Create channels so that workers may contact you with queries or complaints. Communication promotes efficiency and has the power to influence culture. 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.
e) **Recognize that change is the norm, not the exception**	Change is not a project but rather an ongoing process. Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage and minimize risk." In order to keep up with the customers, businesses must also adapt their operations. They must prepare for change in advance and expect them.

3.4. How to Manage Change during Digital Transformation

To ensure that a digital transition is effective, change management is essential.

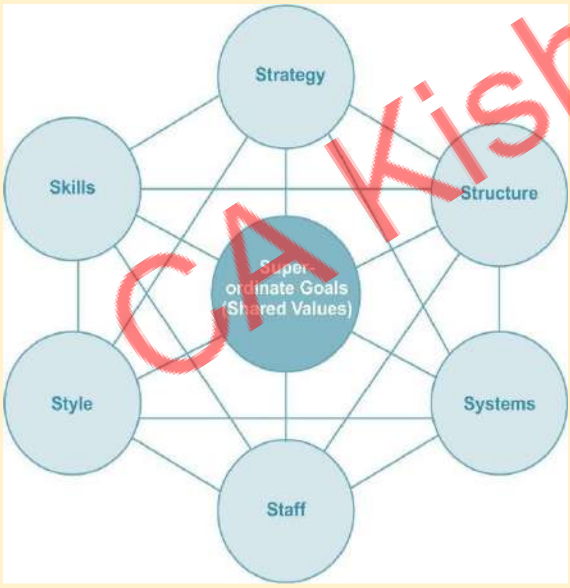
a) Specify the digital transformation's aims and objectives	What is the intended outcome? What are the precise objectives that must be accomplished? It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.
b) Always, always, always communicate	It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly discuss the objectives of the digital transformation and how they will affect stakeholders.
c) Be ready for resistance	Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.
d) Implement changes gradually	Changes should ideally be implemented gradually rather than all at once. Organisations should avoid overwhelming individuals with too much change at once & give people time to become used to the new way of doing things.
e) Offer assistance and training	Workers will need guidance in the new procedures, software applications, etc.

4. Organisational Framework

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

The goal of the model is to depict how effectiveness can be achieved in an organization through interactions of hard and soft elements.

The McKinsey 7s Model focuses on how the "Soft Ss" and "Hard Ss" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements.



Hard elements are:
Strategy: What steps does the company intend to take to address current and futures challenges?
Structure: How is work divided, how do different departments work and collaborate?
Systems: Which formal and informal processes is the company's structure based on?
Soft elements are:
Shared Values: What is the idea the organization subscribes to? Is this idea communicated credibly to others?
Staff: This element refers to employee's development and relevant processes, performances & feedback programs etc.
Skill: What is the company's base of skills and competencies?
Style: This depicts the leadership style and how it influences the strategic decisions of the organization.

The Hard elements are directly controlled by the management. Following elements are the hard elements in an organization.

a) **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

b) Structure	depending on the availability of resources and the degree of centralisation or decentralization that the management desires, it choses from the available alternatives of organizational structures.
c) Systems	the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.
Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success. Following are the soft elements in this model:	
a) Shared Values	The core values which get reflected within the organizational culture or influence the code of ethics of the management.
b) 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.
c) Staff	The talent pool of the organisation.
d) Skills	The core competencies or the key skills of the employees play a vital role in defining the organizational success.

Limitations McKinsey 7s Model:

a) It ignores the importance of the external environment and depicts only the most crucial elements within the organization.

b) It does not clearly explain the concept of organizational effectiveness or performance.

c) It is considered to be more static and less flexible for decision making.

d) It misses out the real gaps in conceptualization and execution of strategy.

4.1. Organisation Structure

- Refers to company's formal configuration /arrangement of employees that
  - links authority, communication, rights and duties of an Organization.
- It determines decision making process and how roles, power and responsibilities are assigned, co-ordinated and how information flows between different levels of an Organization.
- **Most Imp:** Organizational structure must fit with company's strategy and facilitate its implementation. Ineffective organization structure match may result in rigidity and lead to un-achievement of objectives.
- Thus, strategist leader seeks to develop an organization structure that matches strategy and is superior to competition. This strategy-structure match gives competitive advantage to an organization.

- When a new strategy is implemented, an organization is structured for two major reasons:
  a) Structure decides how operational objectives & policies are established to achieve strategic objectives.
  b) Structure decides how resources will be allocated to achieve strategic objectives.
- There is no single optimal organization structure for a given strategy. What is appropriate for one Organization may not be appropriate for another.
- However, successful Firms in a given Industry tend to organize themselves in a similar way.
  - Consumer goods companies tend to emulate the divisional structure-by-product.
  - Small Firms are generally functionally structured. [centralized]
  - Medium sized Firms are generally divisionally structured. [decentralized]
  - Large Firms use SBU or Matrix structure.

- As organizations grow, their structures generally change from simple to complex as a result of linking together of several basic strategies.

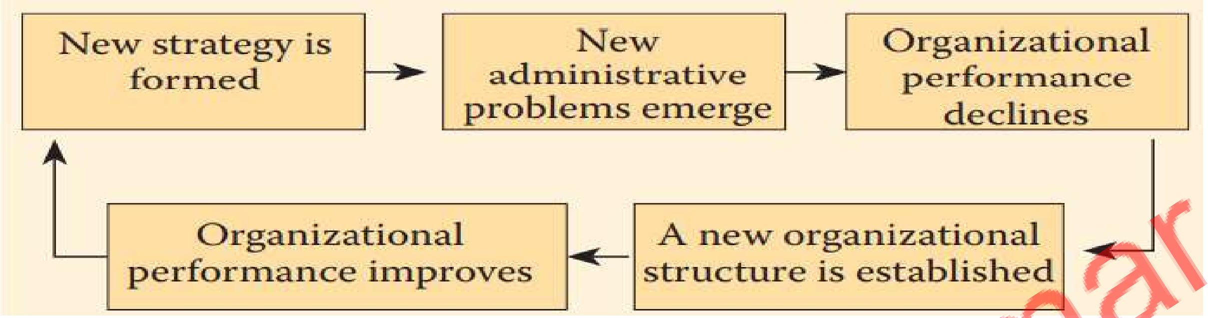
Chandler's Strategy – Structure Relationship

According to Chandler, change in corporate strategies leads to change in organization structure.

Structure should be designed or redesigned to facilitate strategy implementation.

Thus, organization structure follows strategy.

Chandler's strategy-structure relationship is depicted below.



Should structure be changed in response to each change in environment?

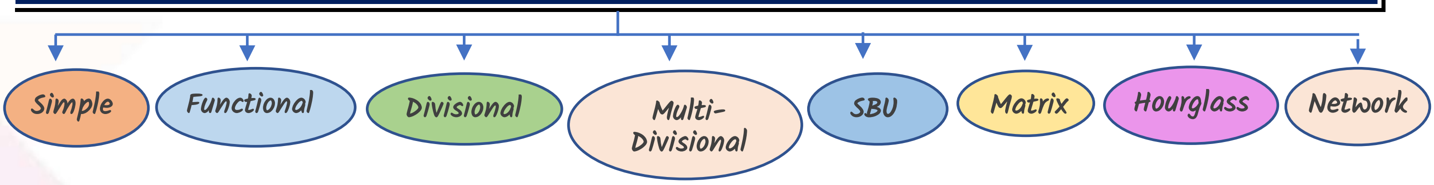
Structure can also influence strategy. If a proposed strategy required massive structural changes, it would not be an attractive choice. In this way, structure can shape the choice of strategy. But a more important concern is determining what types of structural changes are needed to implement new strategies

Symptoms of Ineffective Organization Structure

Symptoms of an ineffective organizational structure include

- too many levels of management,
- too many meetings attended by too many people,
- too much attention being directed towards solving inter-departmental conflicts,
- too large a span of control and
- too many unachieved objectives.

Types of Organizational Structure



4.1.1. Simple structure

It is most appropriate for Organizations that follow

- single business strategy and
- offer line of product in single geographic market or
- focused cost leadership or
- focused differentiation strategy.

In this structure, owner-manager make all major decisions directly and monitors all activities while other staffs merely execute functions.

Characteristics of simple structure

a) Little Specialization of task
b) Few rules and little formal environment
c) Unsophisticated information system
d) Direct involvement of owner-manager in day-to-day operations.

Due to above characteristics, co-ordination problems that exist in larger organizations are few.

How can Simple Organization Structure help to get Competitive Advantage?

Since communication / information flow in simple organization structure is frequent and direct, new products can be launched into market quickly which gives rise to competitive advantage.

Other potential competitive advantages

a) Openness to innovation
b) Greater structural flexibility
c) Ability to respond more rapidly to changes in environment.

4.1.2. Functional Organization Structure

To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure.

The functional structure is used by larger companies and by companies with low levels of diversification.

Functional organization structure is a hierarchical type of organization structure.

In this

- people/ employees are grouped as per their area of specialization; and
- supervised by a functional manager with expertise in same field.

Functional organizational structure consists of

- CEO or MD, and
- supported by functional managers and functional workforce in the field of finance, marketing, production, R&D, HRM, etc.

Advantages & Disadvantages of Functional Organization Structure

Advantages	a) It is simple and inexpensive.

	b) It promotes specialization of workforce. c) Encourages efficiency. d) Minimizes need for elaborate control system. e) Allows rapid decision making.
Disadvantages	a) Difference in functional specialization hampers communication and co-ordination. b) Functional specialists may develop narrow/ myopic perspective and may lose focus of strategic vision and mission. c) Low employee morale due to repetitive work. d) It creates line-staff conflict. Thus, CEO must integrate functional decision making and co-ordinate actions of various functions across organisation.

4.1.3. Divisional Structure

As a Firm grows, it faces difficulty in managing different products/services in different markets.

Hence, Divisional structure is preferred to motivate employees, control operations, & compete successfully.

It is suited to large enterprise which deals in

- multiple products
- to serve more than one distinctive market.

In this organization structure, people are organized in one of 4 ways:

Divisional structure by Geographic Area	Divisional structure by Product or Service	Divisional structure by Customer	Divisional structure by Process
It is appropriate for organizations which formulate strategies to cater to specific needs in different geographic areas. It allows local participation in decision making & improved coordination within a region.	Appropriate when specific product or service need special emphasis. It is used in organization which offer few products or services that differ significantly. **E.g.** General Motors, Procter & Gamble, HUL	Appropriate when there are few major customers of high importance. It allows an organization to cater effectively to requirements of clearly defined customer group. **Examples:** Airline companies have passengers and freight customer divisions. Banks have personal banking and corporate	Similar to functional organization structure. However, there is one difference that while functional department is not accountable for profit, divisional process department is responsible for its profit.

		banking divisions Book-publishing companies	

In this, independent divisions are created under overall control of Head office and functional activities are performed both centrally and, in each division, separately.

Each divisional manager is given autonomy to run all functions of the division and is responsible for functioning and profitability of the division.

Advantages & Disadvantages of Divisional Organization Structure

Advantages	a) Promotes accountability since division managers can be held responsible for sales and profitability of the division. b) Higher career development for managers. c) Employee morale is comparatively higher as there is extensive delegation of work. d) Allows better control of local situation. e) Allows new business and products to be added easily.
Disadvantages	a) It is costly structure as it requires functional specialists for each division who are highly paid. b) There is duplication of functions across organization. c) It requires elaborate HQ driven control system which may be costly. d) Certain regions, products or customers may receive special treatment and it may be difficult to maintain consistency in Company.

4.1.4. Multi- Divisional Structure (M-form)

Multi divisional structure was developed in 1920s in response to co-ordination and control related problems in larger firms.

This structure is composed of

- operating divisions where each division represents separate business.

Top corporate manager delegate responsibility and authority

- for day-to-day operations and business unit strategies to divisional managers.

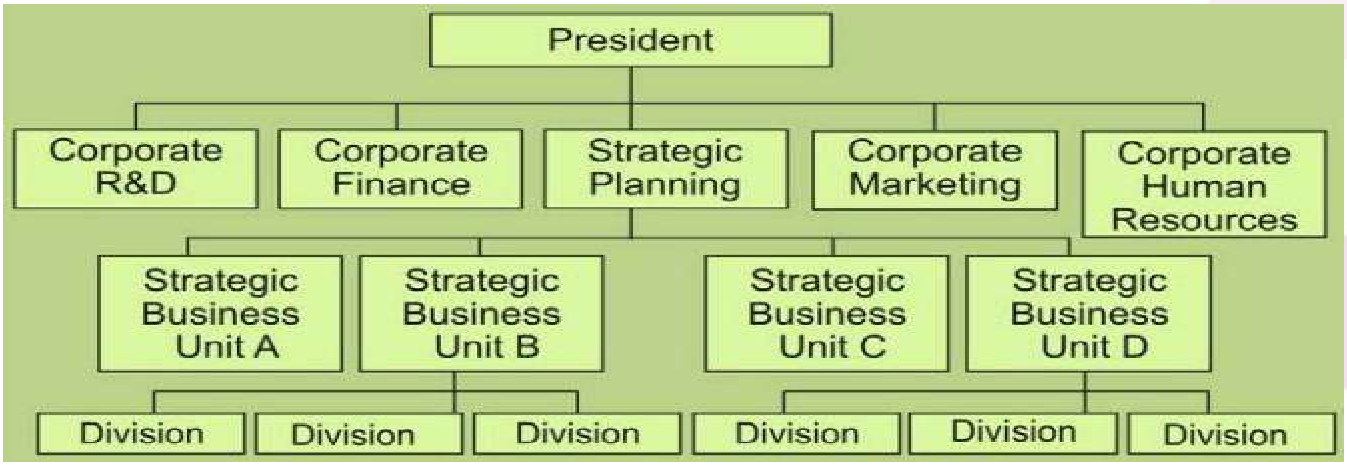
It calls for

a) Creating separate divisions where each division represents a business. [semi- autonomous]
b) Each division, has its own functional hierarchy/ department.
c) Divisional managers are given responsibility for day-to-day operations of divisional level strategies.
d) Corporate office determines long term strategies and exercise overall financial control.

How are divisions managed?

When firms are less diversified	When firm is highly diversified
Strategic control is used to manage divisions. Strategic control refers to operational understanding by corporate officers of strategies being implemented by division.	It is not possible for corporate officers (strategic Business Managers) to fully understand operations of all business units. Financial control is used to manage divisions which enables corporate business managers to manage cashflow of division through budgets and emphasize profits from distinct businesses.

4.1.5. Strategic Business Unit (SBU)



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

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.

When number of products become huge, it is not practical to provide separate strategic treatment to each product.

It is necessary to group product/ businesses into manageable number of strategically related businesses.

How to group products/ businesses?

Historically, large organizations make SBUs on territorial basis and strategic planning was made on the basis of territory.

Two difficulties:

a) A given territorial SBU may have unrelated products due to which product with dissimilar characteristics gets some strategic planning.
b) Since a number of territorial SBUs handle same product, same product gets different strategic planning treatment.

Ideally, grouping of divisions may be done on the basis of -

- Similar product; or
- Similar customer; or
- Similar technology.

The principle underlying the grouping is that all related products-related from the standpoint of "function"- should fall under one SBU.

It is extension of divisional structure where similar divisions are grouped into SBUs. Divisions within a SBU are related but SBUs are not related to each other.

Thus, SBU is composed of operating units where each unit represents separate independent business.

Top management delegates authority and responsibility for day-to-day operations and business unit strategies to SBU managers.

SBU manager reports to CEO of organization and is accountable for profit and sale of SBU. Thus, SBU is a profit center.

By such delegation, corporate officers are responsible for formulating and implementing overall corporate strategy. They manage SBUs through financial and strategic control. Identification of SBU is starting point for strategic planning.
Characteristics a) It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly standalone from the rest of the organization. b) It has its own set of competitors. c) It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Attributes, Advantages & Disadvantages of SBU Structure

Attributes	i) A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning. ii) An improvement over the territorial grouping of businesses and strategic planning based on territorial units. iii) Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities. iv) Each SBU will have its own distinct set of competitors and its own distinct strategy. v) The CEO of SBU will be responsible for strategic planning for SBU and its profit performance. vi) Products/businesses that are related from the stand point of function are assembled together as a distinct SBU. vii) Unrelated products/ businesses in any group are separated into separate SBUs. viii) Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion. ix) Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.
Advantages	a) Scientific grouping of businesses helps corporate headquarters to concentrate on strategic planning rather than operational control. b) In a SBU, similar divisions are grouped which may give rise to synergy benefit i.e. advantage of doing work together. c) Each SBU is treated as profit center. They react quickly to environmental changes. d) It promotes accountability & enables Company to monitor performance of each SBU. e) It helps in improved co-ordination within SBUs and organization. f) It facilitates comparison between two or more SBUs leading to healthy competition.
Disadvantages	a) It requires additional level of management, hence its costly. b) Needs elaborate control mechanism. c) It may result in unhealthy competition among SBUs for corporate resource.

4.1.6. Matrix Structure

	Manufacturing	Sales & Marketing	Finance	Personnel
Project 1				
Project 2				
Project 3				

Matrix structure is an O.S. where functional and projects/ products are combined simultaneously.

It aims at combining advantages of vertical and horizontal flow of authority and communication.

In matrix structure, there are functional departments with permanent employees who are assigned to work in different projects.

So, employees have two superiors i.e., a product/ project manager and functional manager.

The "home" department - that is, engineering, manufacturing, or marketing - is usually functional & is reasonably permanent. People from these functional units are assigned temporarily to one or more product units or projects.

Matrix structure is the most complex structure since there is both vertical & horizontal flow of authority.

It is appropriate when management concludes that other forms of Organisation Structure is not right for implementation of strategy.

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.

It is widely used in many industries, including construction, healthcare, research and defence.

Phases of Matrix Structure

Davis and Lawrence have proposed 3 distinct phases for construction of matrix structure:

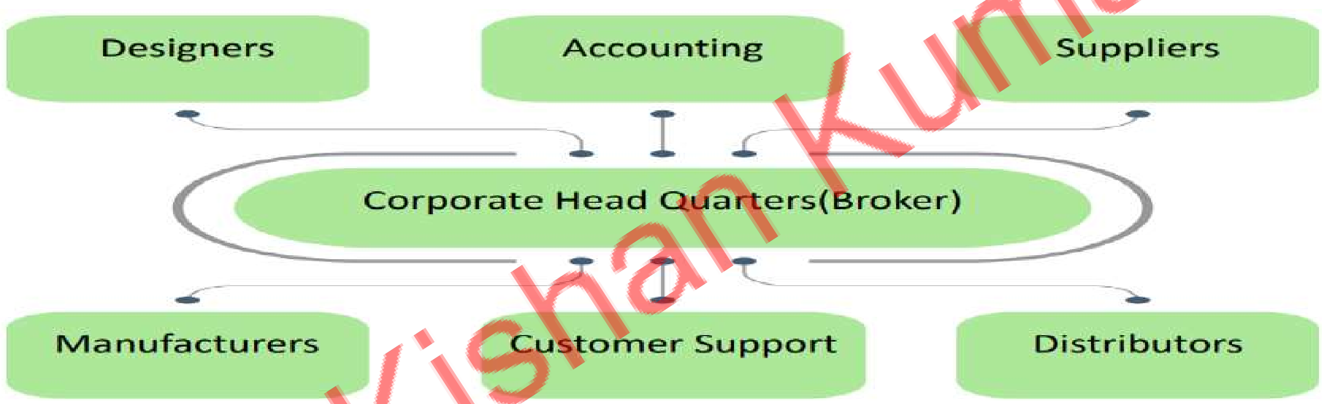
1. Cross functional task forces	▪ It is temporary and is created when a new project is introduced. ▪ A project manager is in charge of the project as key horizontal link.
2. Product/ Brand management	▪ If cross functional task force becomes more permanent, project manager becomes product/ brand manager. ▪ Functional is still primary organizational structure but brand manager acts as integrator.
3. Mature Matrix	▪ It is final phase of matrix development and involves dual authority. ▪ Both functional and product structure is permanent. ▪ All employees are connected to both vertical function superior and horizontal product manager. ▪ Functional and product manager have equal authority and must work together to resolve disagreements over resources.

Characteristics, Advantages & Disadvantages of Matrix Structure

Characteristics	a) Dual line of authority (violation of principle of unity of command)

	b) Dual source of reward and punishment. c) Shared authority by functional and product manager. d) Need for efficient and effective communication.
Advantages	a) Project objects are clear. b) Many channels of communication and worker can see visible result of their work. (Better feedback) c) Shutting down a project is relatively easier. (Employee can be shifted, no loss of job) d) It combines stability of functional structure and flexibility of divisional structure.
Disadvantages	a) Complexity due to horizontal and vertical flow of authority and command. b) Dual chain of authority and command violates principle of unity of command. c) Dual reporting channel leads to chaos and confusion. d) Higher employee cost due to more management positions. e) There may be conflict in allocation of resource to various projects.

4.1.7. Network Structure



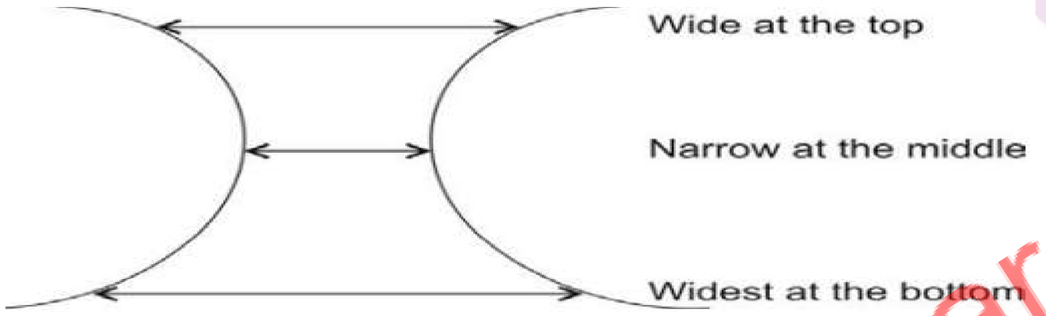
- Network structure is an example of 'non-structure' due to elimination of in-house business functions .
- It is a series of independent businesses linked together by common information system/ Head Quarter.
- It is a radical structure where many activities are outsourced.
- It is also known as virtual organization.
- This structure is most useful when environment is uncertain & unstable and is expected to remain so.
- Basically, organization is only a shell with small head quarter, acting as broker and connected to
  - completely owned businesses,
  - partially owned businesses, and
  - other independent companies.

Advantages & Disadvantages of Network Structure

Advantages	a) Allows a company to concentrate on its own competencies & outsourcing of other functions to experts in their field. b) It provides more flexibility and adaptability to meet/face rapid change in technology, taste and preferences. c) Most useful when environment of a Firm is unstable.

Disadvantages	a) Availability of numerous partners can be a source of trouble. b) Outsourcing of functions may keep the Firm away from discovering any synergies. c) If a Firm overspecializes in only few functions, there is a risk of choosing the wrong function and thus becoming non- competitive. d) Low employee morale.

4.1.8. Hourglass Structure



- Hourglass structure consists of 3 layers with narrow/ constricted middle layer.
- It has short or narrow middle management layer.
- In recent years, IT has significantly altered the functioning of organizations.
- It links top and bottom level management, thus taking away many tasks that were earlier performed by middle managers.
- A shrunken middle layer co-ordinates diverse lower-level activities.
- Earlier, traditional middle level managers were often specialists. However, in hourglass structure, they are generalists who handle variety of tasks.

Advantages & Disadvantages of Hourglass Structure

Advantages	a) Reduced cost due to reduction of middle level management posts. b) Enhanced responsiveness by simplifying decision making. c) Decision making authority is close to source of information, so it's faster.
Disadvantages	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.

4.2. Organisation Culture

It is known as personality of Organization and distinguishes one organization from other.

It refers to company's

- philosophy, history, values,
- Way of approaching problem and making decisions,
- Own work culture,
- Own way of doing work,
- Own belief, thoughts and practices/ behavioural norms.

Where Does Corporate Culture Come From?

It is reflected/ manifested / comes from

a) Official policies and practices
b) Ethical standards
c) Management practices
d) Dealing with stakeholders i.e. relationship with employees, shareholders, vendors, trade union, Govt. etc.
e) Employee's attitude and behavior
f) Legends people repeat about in organization
g) Peer pressure that exists in organization.

All the above sociological factors combine to form corporate culture.

4.2.1. Culture: Ally or Obstacle to Strategy Execution?

An organization's culture is either an important contributor or an obstacle to successful strategy execution.

When the vision, mission, strategy or business approach and the culture are compatible, the culture becomes a valuable ally in strategy implementation and execution.

However, When the culture is in conflict with some aspect of the company's vision, mission, strategy or business approach, the culture becomes an obstacle/stumbling block that impedes successful strategy implementation and execution.

4.2.2. Role of Culture in Strategy Execution/ Impact of Culture on an Organization

Every company has a culture that has powerful influence on behavior of managers. Culture dictates not only the way managers behave within the organization but also decisions they take.

Strong culture promotes good strategy execution when there is fit and obstructs / hinders/ impedes execution if there is misfit.

For example, a culture where frugality and thrift are values strongly shared by organizational members is very conducive to successful execution of a low-cost leadership strategy. A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy.

A culture built around business principles like

- listening to employees and
- encouraging them to take pride in their work
- is conducive for successful execution of strategy.

A strong strategy supporting culture makes employee feel genuinely about their job and need of what company is trying to achieve.

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

4.2.3. Culture is Strength or Weakness?

Culture as a strength	Culture as a weakness
As a strength, culture can facilitate ➢ Communication among functions and employees, ➢ Commitment towards Org. goals,	As a weakness, culture may obstruct smooth implementation of strategy by creating resistance to change. An organization culture could be characterized as weak when ➢ many sub cultures exist;

➢ Control over operations and ➢ Decision making.	➢ few value and behavior norms are shared; ➢ traditions are rare. In such Organization, employees do not have sense of commitment and loyalty with the organization.

4.2.4. Perils/ Dangers of Strategy-Culture Conflict

In such cases, culture must be changed as rapidly as possible.

Correcting strategy-culture conflict can occasionally mean changing strategy to produce culture fit.

However, usually culture is changed to produce strategy fit.

Creating a strong fit between strategy and culture

a) In case of unchangeable/ sacred aspects of prevailing corporate culture,
   - ➢ it is strategy maker's responsibility to select a strategy compatible with unchangeable aspects.

b) It is strategy implementor's task that once strategy is chosen,
   - ➢ they change any part of culture that obstructs strategy execution.

4.2.5. Changing a Problematic Culture

Changing a problematic culture is very difficult due to deeply held values and habits.

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 instill those which are more supportive.

First step	Diagnose which aspects of present culture are strategy supportive and which are not.
Second step	Managers have to talk openly and truthfully to all concerned employees about the aspects of culture that needs 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.

The culture changing actions include

a) Revising policies and procedures.
b) Altering incentive compensation. (to reward employee who follow new culture)
c) Visibly praise and recognize such employees who display new culture habits.
d) Recruiting new managers and employees.
e) Replacing employees who are strongly associated with old culture.
f) Communicate the need and benefits to employees.

5. Strategic Leadership

Leadership is ability of

- ➢ influencing others to voluntarily make decisions that
- ➢ enhance long term success while maintaining short term financial stability.

Strategic leadership helps in

- ➢ 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.

Role played by a strategic manager (General)

Visionary	Chief strategist	Chief administrator
Resource acquirer and allocator	Culture builder	Crisis manager
Motivator	Policy maker and enforcer.	

5.1. Five Leadership Roles played by Strategic Manager for Good Strategy Execution

Strategic leader is a change agent who ensure that the changes are successfully implemented.

Managers have five leadership roles to play in pushing for good strategy execution:

a) Staying on top of what is happening, monitoring progress, solving issues and removing obstacles from the path of strategy execution.

b) Keeping the Organization responsive to changing situation.

c) Promoting culture of espirit de corps in organization.

d) Exercising ethical leadership and ensuring that company acts as a model corporate citizen.

e) Pushing corrective actions to improve strategy execution and performance.

Examples:

- N. R. Narayan Murthy, is known as a celebrated business leader because of the values he had institutionalised over his tenure as CEO of Infosys. One of the great legacies he left with Infosys is a strong management development program that builds management talent and strategic leader with ethical values.
- Dhirubhai Ambani, pioneer of Reliance Group, was an icon in himself because of his ability to conceptualize and create sweeping strategies, to reach corporate goals, and proficiency in implementing his strategic vision.

5.2. Responsibilities of Strategic Leader Manager

Strategic manager develops & communicates vision of future & inspires Org. members to achieve objectives.

Responsibilities of strategic leader manager are:

a) Making strategic decisions

b) Formulating policies and action plan for implementing strategic decisions.

c) Ensuring effective communication within organization.

d) Managing human capital.

e) Managing changes in organization.

f) Creating and sustaining strong corporate culture.

Note: Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

5.3. Two Approaches to Strategic Leadership

Transformational Leadership style	Transactional Leadership style
It uses charisma and enthusiasm to ➢ inspire people to work for good of Organization.	It uses the authority of its office to exchange rewards such as pay, status symbols etc.
It is appropriate ➢ in turbulent/ unsafe environment or ➢ in industries at start or end of PLC or ➢ In poorly performing organization.	It is more appropriate in ➢ static environment, or ➢ in mature industry; or ➢ in organizations that are performing well.
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.	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.

6. Strategic Control

Controlling is one of important functions of Management & often regarded as core of management process.

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.

Elements of process of control: The process of control has the following elements:

a) Objective of organization which can be expressed in measurable & comparable standard.
b) A mechanism for monitoring & measuring performance.
c) A mechanism for
   - comparing Actual Result w.r.t standard,
   - detecting deviation from standard &
   - learning new insights.
d) A mechanism for feeding back information for taking corrective actions in order to ensure the strategy is relevant & goals are achieved.

6.1. Three Types of Organizational Control

Operational Control	Management Control	Strategic 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 b/w input & output. It ensures that processes are regulated within certain 'tolerances' limit. Examples: a) Stock control (maintaining stocks between set limits), b) Production control (manufacturing to set programmes), c) Quality control (keeping product quality between agreed limits), d) Cost control (maintaining expenditure as per standards), e) budgetary control (keeping performance to budget)	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	It is a process of evaluating strategy as it is formulated & implemented and making necessary adjustments. It focuses on dual question of whether a) Strategy is implemented as planned or not b) Result produced by strategy is effective & intended or not. It is directed towards identifying problems and changes in premises and making necessary adjustments.

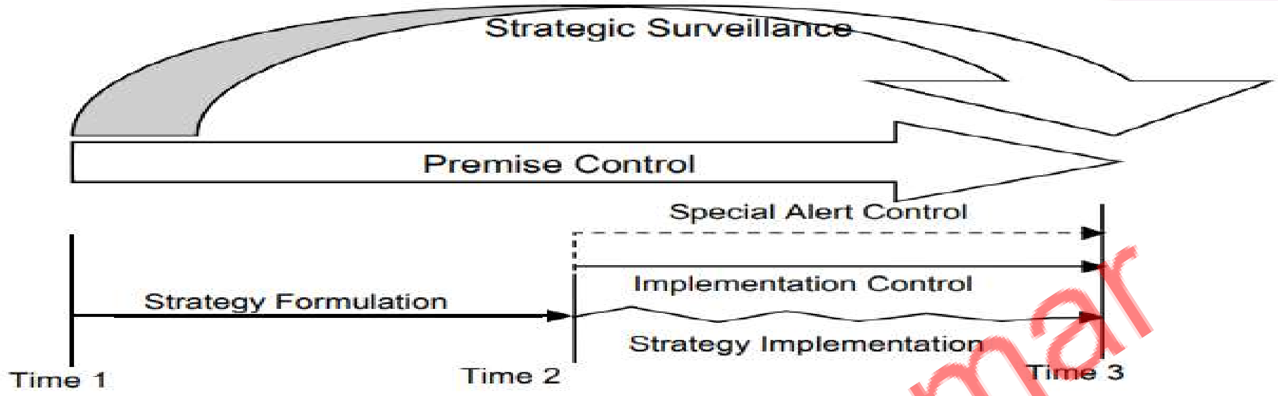
6.2. Types of Strategic Control

Premise Control	Strategic surveillance	Special Alert Control	Implementation Control
Strategies are based on certain assumptions & premises w.r.t environment in which they operate. Such premises may not remain valid over a period of time. Premise control is a tool for systematically & continuously monitoring a) **environmental factors** such as economic (interest rate, ex rate), technology, social and legal; and b) **industry factors** such as competitors, suppliers etc. to verify the validity & accuracy of the premise based on which strategy was formed.	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.	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.	It assesses need for change in overall strategy as per ➢ unfolding events & ➢ results of strategy It is not replacement of operational controls. Two basic forms of implementational controls are: a) **Monitoring strategic thrusts** - It helps managers to determine whether overall strategy is progressing/ implemented in desired direction or not & whether there is need for adjustment, b) **Milestone review** - It involves segregating activities required for strategy implementation

Premise Control	Strategic surveillance	Special Alert Control	Implementation Control
It is neither feasible nor desirable to control all types of premises in same manner.			in terms of time & resources in order to review whether mile stone is achieved or not.

Question: Is Strategic implementation control is not a replacement to operational control?

No; Unlike operational control, Implementation control continuously monitors the basic direction of strategy.



7. 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 goals using clear-cut performance measurements.

It refers to key indicators that organizations use to track the effectiveness of their strategies, organizational performance and make informed decisions about resource allocation.

Things to be considered while selecting Key Performance Indicators are:

a) there needs to be a clear cause & effect relationship between the indicators and strategic outcomes.

b) KPIs need to be carefully chosen as they will influence the behaviour of people within the organisation.

However, managers should be aware of paralysis by over analysis.

7.1. Types of Strategic Performance Measures

i) Financial Measures	Financial measures such as revenue growth, return on investment (ROI), & profit margins, provide an understanding of the ➢ organization's financial performance and its ability to generate profit.
ii) 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.
iii) 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.
iv) 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.
v) 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.
vi) 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.

Toward More Holistic Measures of Strategic Performance

Development of management thought and practice has persistently pushed the boundaries of strategic performance beyond financial metrics.

Thus, the Triple Bottom Line framework (TBL) emphasises People and Planetary Concerns besides profitability or Economic Prosperity alone.

The Quadruple Bottomline adds the 4^{th} P to add a spiritual dimension named 'Purpose.'

7.2. Importance of Strategic Performance Measures

a) Goal Alignment	SPM help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.
b) Resource Allocation	SPM provide organizations with the information they need to make informed decisions about resource allocation, resulting in most effective and efficient performance.
c) Continuous Improvement	SPM helps in continuous improvement as it enables Organisations to track their progress and make adjustments to improve their performance over time.
d) External Accountability	SPM help organizations demonstrate accountability to stakeholders including shareholders, customers & regulatory bodies, by providing a clear & transparent picture of their performance.

7.3. Choosing the Right Strategic Performance Measures

Organizations should choose SPM that are aligned with their goals and objectives and that provide relevant actionable information.

In selecting the right SPM, organizations should consider the following factors:

a) Relevance	The measure should be relevant to the organization's goals and objectives and provide information that is actionable and meaningful.
b) Data Availability	The measure should be based on data that is readily available and can be collected and analyzed in a timely manner.
c) Data Quality	The measure should be based on high-quality data that is accurate and reliable.
d) 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.

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